

State of California  
***Comprehensive Annual  
Financial Report***

For the Fiscal Year Ended June 30, 2014



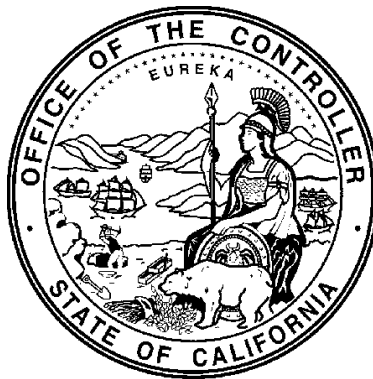
**BETTY T. YEE**

California State Controller's Office

STATE OF CALIFORNIA

**COMPREHENSIVE  
ANNUAL  
FINANCIAL REPORT**

For the Fiscal Year Ended  
June 30, 2014



*Prepared by  
The Office of the State Controller*

**BETTY T. YEE**  
California State Controller

# Contents

## INTRODUCTORY SECTION

California State Controller’s Transmittal Letter .....	iii
Certificate of Achievement for Excellence in Financial Reporting .....	ix
Principal Officials of the State of California .....	x
Organization Chart of the State of California .....	xi

## FINANCIAL SECTION

Independent Auditor’s Report .....	2
Management’s Discussion and Analysis .....	5

### BASIC FINANCIAL STATEMENTS

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Position .....	28
Statement of Activities .....	32

#### FUND FINANCIAL STATEMENTS

Balance Sheet – Governmental Funds .....	36
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	38
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	40
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	42
Statement of Net Position – Proprietary Funds .....	44
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds ....	48
Statement of Cash Flows – Proprietary Funds .....	50
Statement of Fiduciary Net Position – Fiduciary Funds and Similar Component Units .....	54
Statement of Changes in Fiduciary Net Position – Fiduciary Funds and Similar Component Units .....	55

#### DISCRETELY PRESENTED COMPONENT UNITS

##### FINANCIAL STATEMENTS

Statement of Net Position – Discretely Presented Component Units Enterprise Activity .....	58
Statement of Activities – Discretely Presented Component Units – Enterprise Activity .....	62

**NOTES TO THE FINANCIAL STATEMENTS**

Notes to the Financial Statements – Index ..... 65  
 Notes to the Financial Statements ..... 69

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress ..... 142  
 Infrastructure Assets Using the Modified Approach ..... 143  
 Budgetary Comparison Schedule –  
     General Fund and Major Special Revenue Funds ..... 146  
 Reconciliation of Budgetary Basis Fund Balances of the General Fund and the  
     Major Special Revenue Funds to GAAP Basis Fund Balances ..... 149  
 Notes to the Required Supplementary Information ..... 149

**COMBINING FINANCIAL STATEMENTS AND SCHEDULES –  
 NONMAJOR AND OTHER FUNDS**

**Nonmajor Governmental Funds** ..... 155  
 Combining Balance Sheet ..... 158  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances ..... 162  
 Budgetary Comparison Schedule – Budgetary Basis ..... 166  
**Internal Service Funds** ..... 167  
 Combining Statement of Net Position ..... 168  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Position ..... 172  
 Combining Statement of Cash Flows ..... 174  
**Nonmajor Enterprise Funds** ..... 179  
 Combining Statement of Net Position ..... 180  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Position ..... 184  
 Combining Statement of Cash Flows ..... 186  
**Private Purpose Trust Funds** ..... 191  
 Combining Statement of Fiduciary Net Position ..... 192  
 Combining Statement of Changes in Fiduciary Net Position ..... 193  
**Fiduciary Funds and Similar Component Units – Pension and Other**  
     **Employee Benefit Trust Funds** ..... 195  
 Combining Statement of Fiduciary Net Position ..... 198  
 Combining Statement of Changes in Fiduciary Net Position ..... 200

<b>Agency Funds</b> .....	203
Combining Statement of Fiduciary Assets and Liabilities .....	204
Combining Statement of Changes in Fiduciary Assets and Liabilities .....	206
<b>Nonmajor Component Units</b> .....	209
Combining Statement of Net Position .....	210
Combining Statement of Activities .....	214

## STATISTICAL SECTION

<b>Financial Trends</b> .....	219
Schedule of Net Position by Component .....	220
Schedule of Changes in Net Position .....	222
Schedule of Fund Balances – Governmental Funds .....	226
Schedule of Changes in Fund Balances – Governmental Funds .....	228
<b>Revenue Capacity</b> .....	231
Schedule of Revenue Base .....	232
Schedule of Revenue Payers by Industry/Income Level .....	236
Schedule of Personal Income Tax Rates .....	238
<b>Debt Capacity</b> .....	241
Schedule of Ratios of Outstanding Debt by Type .....	242
Schedule of Ratios of General Bonded Debt Outstanding .....	244
Schedule of General Obligation Bonds Outstanding .....	246
Schedule of Pledged Revenue Coverage .....	247
<b>Demographic and Economic Information</b> .....	251
Schedule of Demographic and Economic Indicators .....	252
Schedule of Employment by Industry .....	254
<b>Operating Information</b> .....	255
Schedule of Full-Time Equivalent State Employees by Function .....	256
Schedule of Operating Indicators by Function .....	258
Schedule of Capital Asset Statistics by Function .....	262
Acknowledgements .....	266

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# Introductory Section





**BETTY T. YEE**  
California State Controller





**BETTY T. YEE**  
**California State Controller**

March 26, 2015

**To the Citizens, Governor, and Members of the Legislature of the State of California:**

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This report meets the requirements of Government Code section 12460 for an annual report prepared strictly in accordance with accounting principles generally accepted in the United States and contains information to help readers gain a reasonable understanding of the State's financial activities.

For the first time in five years, the State's fiscal year ended with a positive net position of \$7.3 billion for the primary government. Overall, revenues exceeded expenses by \$9.7 billion. On a cash basis, the State also ended the fiscal year with a strong positive cash balance of \$1.9 billion in the General Fund and \$1.1 billion in the Special Fund for Economic Uncertainties to meet General Fund cash needs.

California experienced a firm rebound in economic activity and success in efforts to rein in government spending. The 2014-15 Budget, enacted on June 20, 2014, advances a multiyear plan that is balanced, pays down budgetary debt from past years, saves for a rainy day, and makes wise investments in education, the environment, public safety, infrastructure, and California's extensive safety net.

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the State Controller's Office. I thank them and all government departments for their assistance in providing the data necessary to prepare this report. Credit is also due to the California State Auditor and her audit staff for their continued support for maintaining the highest standards of professionalism in the management of the State's finances.

The State Controller's Office will continue to ensure the proper accounting and reporting of the State's fiscal resources, offer fiscal guidance to local governments, and uncover fraud and abuse of taxpayer dollars.

Sincerely,

Original signed by:

**BETTY T. YEE**  
California State Controller

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## Report Overview

The State's management assumes responsibility for the accuracy, completeness, and fairness of information presented in the CAFR, including all disclosures, based upon a comprehensive framework of internal controls established for this purpose. The internal control structure is designed to provide reasonable, but not absolute, assurance that the financial statements are free of material misstatements. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

The California State Auditor has issued an unmodified opinion on the financial statements for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

The State of California also is required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. This report is issued separately.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and contains an introduction, overview, and analysis of the financial statements. The MD&A also contains information regarding California's economy for the year ending June 30, 2014, and its economic performance as of January 31, 2015, for the 2014-15 fiscal year. The MD&A complements this transmittal letter and should be read in conjunction with it.

## Profile of the State of California

The State of California was admitted to the Union on September 9, 1850. The State's population is estimated for 2014 to be nearly 39 million residents. The State's government is divided into three branches: Executive, Legislative, and Judicial. Executive power is vested in the Governor. Other members of the executive branch include the Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Controller, Insurance Commissioner, and the State Superintendent of Public Instruction. All officers of the executive branch are elected to a four-year term. The Legislative branch of government is the State's law-making authority and is made up of two houses: the Senate and the Assembly. The Judicial branch is charged with interpreting the laws of the State of California. It provides settlement of disputes between parties in controversy, determines the guilt or innocence of those accused of violating laws, and protects the rights of Californians.

California's government includes control agencies that help to regulate internal governmental operations. The State Controller's Office, the State's independent fiscal watchdog, ensures that the State's budget is spent properly, offers fiscal guidance to local governments, and uncovers fraud and abuse of taxpayer dollars. The Department of Finance, part of the Executive branch of government, establishes fiscal policies to carry out the State's programs and serves as the Governor's chief fiscal policy advisor. The California State Auditor promotes the efficient and effective management of public funds through independent evaluations of state and local governments.

The State of California provides a wide range of services to its citizens, including social, health, and human services; kindergarten through 12th grades (K-12) and higher education; and business and transportation, consumer services, general government, and correctional programs. The State is also financially accountable for legally separate entities (component units) that provide post-secondary education programs, promote agricultural activities and financial assistance to small business, and finance coastal and inland urban waterfront restoration projects. These component units are

separately reported in the State's financial statements. The State, through its related organizations (organizations for which the primary government is not financially accountable), provides services such as the operation of the statewide energy transmission grid; earthquake insurance for homeowners and renters; workers' compensation insurance; health insurance for individuals, families, and employees of small businesses; financing for pollution control facilities, and for acquiring, constructing, and equipping health facilities; and loans to students attending public and private nonprofit colleges and universities. The financial information of these institutions is not included in the State's financial statements.

The State Legislature approves an annual budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the Legislature. The State Controller's Office is statutorily responsible for controlling revenues due to the primary government and for expenditures of each appropriation contained in the budget. The State's annual budget is submitted no later than January 10 preceding the beginning of the fiscal year on July 1, and must be approved by the Legislature by June 15 each year. This annual budget serves as the foundation for the State's financial planning and control. Additional information on the budgetary basis of accounting can be found in Note 2, Budgetary and Legal Compliance, and in the Required Supplementary Information section of the CAFR that follows the Notes to the Financial Statements.

## Overview of the State's Economy

The State of California is ranked first in population and third in land area in the U.S., and contains some of the most renowned resources and riches in the world. It is home to the most productive agricultural counties in the nation, with more than 80,000 farms and ranches contributing more than \$44 billion annually to its agricultural industry. California has the largest and most diverse natural and cultural heritage of any state in the nation. In 2012, California's national parks generated nearly \$1.5 billion in economic benefit to the State from visitor spending. California's Gross Domestic Product (GDP) makes up more than 13% of the United States' total GDP and ranks eighth in the top ten in the world economy. The five largest sectors of California's economy in terms of jobs are retail and wholesale trade; government; professional and business services; health care and social assistance; and food services and hotels.

## Budget Outlook

### 2014-15 Fiscal Year

The 2014-15 Budget presents a multi-year balanced budget plan, maintains a \$1.6 billion "rainy day" reserve, pays down budgetary debt, and shores up the teachers' pension system. Total resources available, including General Fund revenues and transfers, are estimated to be \$109.4 billion, with estimated expenditures of \$108 billion, resulting in a General Fund balance of \$1.4 billion at the end of the 2014-15 fiscal year.

### 2015-16 Fiscal Year

The Governor released his proposed 2015-16 Budget on January 9, 2015, and sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The Budget proposes to end the fiscal year with \$3.4 billion in total reserves, which includes \$2.8 billion in the Budget Stabilization Account and \$534 million in the General Fund's traditional budget reserve. The Budget commits over \$60 billion for K-12 and higher education, and

an additional \$1.2 billion for adult education, career technical education, workforce investment, and apprenticeships. \$1.1 billion is appropriated for the State's flood protection, with an additional \$115 million for drought response. The Budget commits an additional \$1.2 billion to pay off loans and liabilities from Proposition 98; repays \$1 billion in deferrals to schools and community colleges; makes the final payment on \$15 billion in Economic Recovery Bonds; and repays \$533 million in mandated reimbursements to local governments. The Budget begins to address \$66 billion in deferred maintenance needs related to the State's infrastructure by appropriating \$478 million for critical deferred maintenance at universities and community colleges, state parks, prisons, hospitals, and other state facilities.

## Long-term Financial Planning

The following are some of the long-term financial planning initiatives that will impact the State's long-term financial goals.

- Proposition 98, approved by voters in November 1988, funds preschools, K-12 education, community colleges, and other state education programs. The Proposition 98 guarantee experienced volatility during the recent economic downturn, which led to significant and damaging budget reductions. On November 4, 2014, voters approved Proposition 2—the budget reserve and debt payment measure—which requires a deposit in the State Proposition 98 Rainy Day Fund under specified future conditions. The Governor's 2015-16 Budget provides \$65.7 billion in total Proposition 98 funding, an increase of 4% from the revised 2014-15 Budget. This will increase the ongoing K-12 funding to \$9,571 per student.
- The California Department of Transportation's upcoming five-year Infrastructure Plan estimates \$26.6 billion, which includes investments in state transportation systems for maintenance, preservation, and safety; and State Transportation Improvement Program projects, which include expansion of capacity on highways and rail, both of which are vital to moving passengers and freight.
- Proposition 1, approved by voters in November 2014 as the Water Quality, Supply, and Infrastructure Improvement Act of 2014, provides \$7.5 billion in general obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects. The Bay Delta Conservation Plan (BDCP) estimates a total cost of \$24.8 billion over a 50-year term to help secure California's water supply, by building new water delivery infrastructure and operating systems to improve the ecological health of the Delta. The BDCP includes conservation measures to restore or protect approximately 145,000 acres of habitat, provide more reliable water operations, and secure water supplies for 25 million Californians and the agricultural industry.
- The California High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim, with extensions to San Diego, Sacramento, and points in-between. In addition to 800 miles of rail line, the system will include up to 24 stations, 150 miles of bridges, viaducts, and elevated structures, 35 miles of tunnels, 610 grade separations, and 510,000 square yards of retaining walls. When fully completed, the service will be accessible to more than 90% of the State's residents. The Authority assumes that \$25.4 billion from various funds, including federal, Cap and Trade, Proposition 1A bond, and other sources will be available to help accomplish its goals over the next five years.

- In 2014, the Governor signed a new funding plan to close a \$74 billion shortfall in teachers' pensions over the next three decades. The 2015-16 Budget includes \$1.4 billion to implement the second year of the plan.
- The Governor is proposing a plan to address unfunded state retiree health care benefits. The most recent valuation estimates an unfunded liability of \$72 billion exists as of June 30, 2014. Paying down the retiree health care unfunded liability is a shared responsibility between employer and employees. The administration has indicated that, as collective bargaining contracts expire, it will negotiate, with each bargaining unit, a plan to jointly fund retiree health care benefits in the future.

## Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of California for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**State of California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2013**

Executive Director/CEO

## Principal Officials of the State of California

### Executive Branch

Edmund G. Brown, Jr.  
Governor

Gavin Newsom  
Lieutenant Governor

Betty T. Yee  
State Controller

Kamala D. Harris  
Attorney General

John Chiang  
State Treasurer

Alex Padilla  
Secretary of State

Tom Torlakson  
Superintendent of Public Instruction

Dave Jones  
Insurance Commissioner

Board of Equalization  
George Runner, Member, First District  
Fiona Ma, Member, Second District  
Jerome E. Horton, Member, Third District  
Diane L. Harkey, Member, Fourth District

### Legislative Branch

Kevin de León  
President pro Tempore, Senate

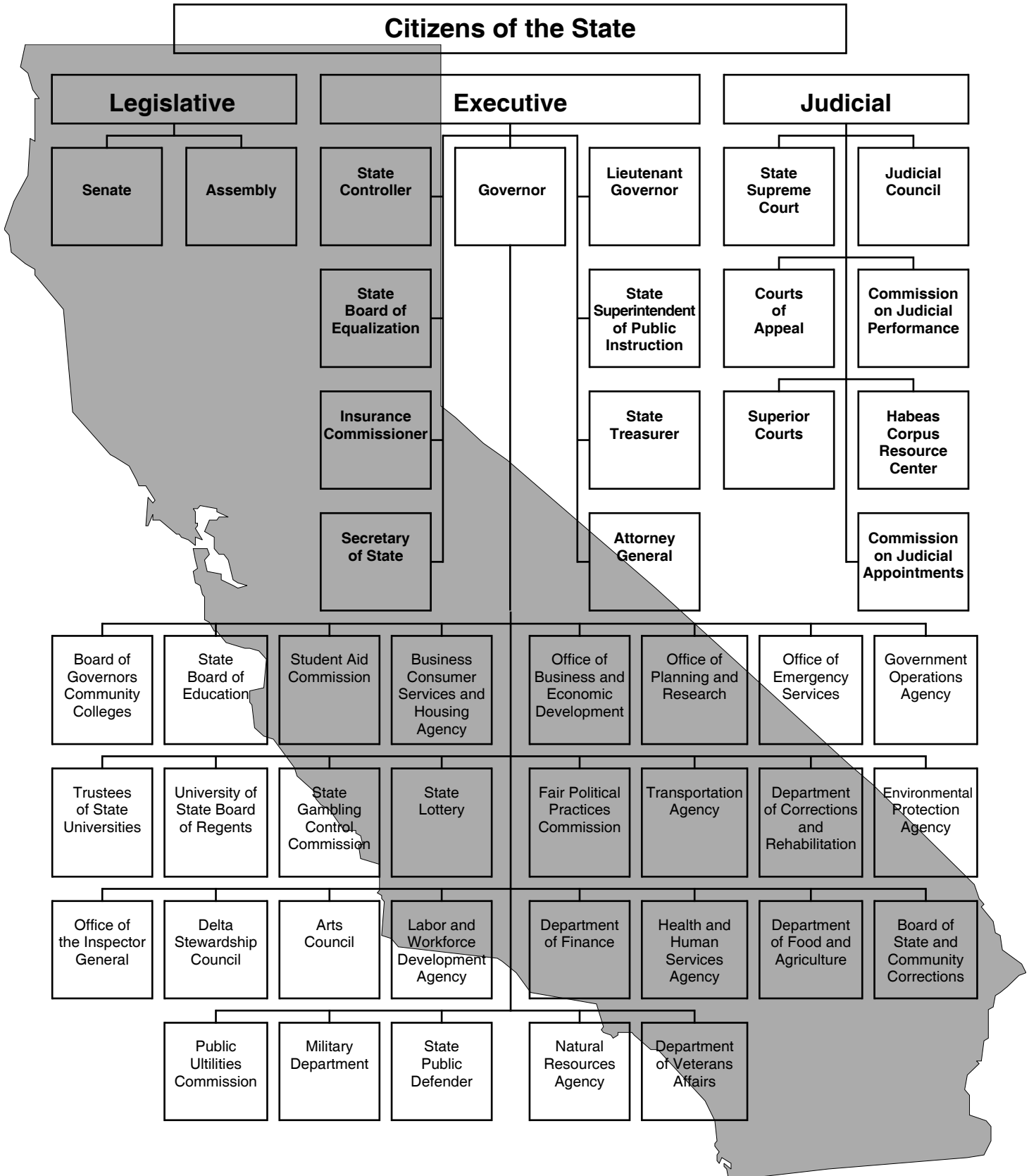
Toni G. Atkins  
Speaker of the Assembly

### Judicial Branch

Tani Cantil-Sakauye  
Chief Justice, State Supreme Court



# Organization Chart of the State of California



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# Financial Section



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## *Independent Auditor's Report*

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THE GOVERNOR AND THE LEGISLATURE OF THE  
STATE OF CALIFORNIA

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following:

#### *Government-wide Financial Statements*

- Certain enterprise funds that, in the aggregate, represent 79 percent of the assets and deferred outflows, and 30 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 93 percent of the revenues of the discretely presented component units.

#### *Fund Financial Statements*

- The Safe Drinking Water State Revolving fund, that represents 15 percent of the assets and deferred outflows, and 6 percent of the additions, revenues, and other financing sources of the Environmental and Natural Resources fund, a major governmental fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.
- The Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 85 percent of the assets and deferred outflows, and 58 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

The related financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those funds and entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Lottery, the Water Resources, and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United State of America require that a discussion and analysis by management, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from, and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2015 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA  
Deputy State Auditor

March 19, 2015

# Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2014. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's letter of transmittal at the front of this report and in the State's financial statements and notes, which follow this section.

## Financial Highlights – Primary Government

### Government-wide Highlights

California experienced a solid rebound in economic activity during the 2013-14 fiscal year and its financial health is clearly on the mend. The State's general revenues increased by \$7.1 billion (6.0%) over the prior year. Expenses for the State's governmental activities also increased but were less than revenues received, resulting in a \$7.8 billion increase in the governmental activities' net position and yielding the first positive net position since the 2008-09 fiscal year. Total revenues and transfers for the State's business-type activities also surpassed expenses by \$1.9 billion in fiscal year 2013-14.

*Net Position* – The primary government's net position as of June 30, 2014, was \$7.3 billion. The total net position is reduced by \$96.1 billion for net investment in capital assets and by \$29.8 billion for restricted net position, yielding a negative unrestricted net position of \$118.6 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities. More than half of the negative \$118.6 billion consists of \$66.7 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net position; however, local governments, not the State, own the capital assets that would offset this reduction.

### Fund Highlights

*Governmental Funds* – As of June 30, 2014, the primary government's governmental funds reported a combined ending fund balance of \$19.8 billion, an increase of \$8.1 billion over the prior fiscal year, as restated. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative \$5.1 billion. The nonspendable and restricted fund balances were \$156 million and \$24.7 billion, respectively.

*Proprietary Funds* – As of June 30, 2014, the primary government's proprietary funds reported a combined ending net position of \$5.9 billion, an increase of \$1.7 billion over the prior fiscal year, as restated. The total net position is reduced by \$2.3 billion for net investment in capital assets, expendable restrictions of \$5.2 billion, and nonexpendable restrictions of \$16 million, yielding a negative unrestricted net position of \$1.6 billion.

## Noncurrent Assets and Liabilities

As of June 30, 2014, the primary government's noncurrent assets totaled \$145.4 billion, of which \$125.1 billion is related to capital assets. State highway infrastructure assets of \$65.3 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled \$161.0 billion, which consists of \$79.9 billion in general obligation bonds, \$30.3 billion in revenue bonds, and \$50.8 billion in remaining noncurrent liabilities. During the 2013-14 fiscal year, the primary government's noncurrent liabilities decreased by \$3.3 billion (2.0%) from the prior fiscal year. This decrease was primarily the result of a \$4.4 billion decrease in capital lease obligations, an increase of \$3.2 billion in net other postemployment benefits obligations, a decrease of \$1.3 billion in revenue bonds payable, and a \$952 million decrease in loans payable.

## Overview of the Financial Statements

This discussion and analysis is an introduction to the section presenting the State's basic financial statements, which includes four components: (1) government-wide financial statements, (2) fund financial statements, (3) discretely presented component units financial statements, and (4) notes to the financial statements. This report also contains required supplementary information and combining financial statements and schedules.

## Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the State's finances. The government-wide financial statements do not include fiduciary programs and activities of the primary government and component units because fiduciary resources are not available to support state programs.

To help readers assess the State's economic condition at the end of the fiscal year, the statements provide both short-term and long-term information about the State's financial position. These statements are prepared using the economic resources measurement focus and the accrual basis of accounting, similar to methods used by most businesses. These statements take into account all revenues and expenses connected with the fiscal year, regardless of when the State received or paid the cash. The government-wide financial statements include two statements: the Statement of Net Position and the Statement of Activities.

- The *Statement of Net Position* presents all of the State's financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.
- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.



The government-wide financial statements separate into different columns the three types of state programs and activities: governmental activities, business-type activities, and component units.

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including general government, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education), health and human services, resources, state and consumer services, business and transportation, correctional programs, and interest on long-term debt.
- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing services to California State University students, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.
- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. The State's financial statements include the information for blended, fiduciary, and discretely presented component units.
  - *Blended component units*, although legally separate entities, are in substance a part of the primary government's operations. Therefore, for reporting purposes, the State integrates data from blended component units into the appropriate funds. The Golden State Tobacco Securitization Corporation and certain building authorities are blended component units of the State and are included in governmental activities.
  - *Fiduciary component units* are legally separate from the primary government but, due to their fiduciary nature, are included with the primary government's fiduciary funds. The California Public Employees' Retirement System and the California State Teachers' Retirement System are fiduciary component units that are included with the State's pension and other employee benefit trust funds, which are not included in the government-wide financial statements.
  - *Discretely presented component units* are legally separate from the primary government and provide services to entities and individuals outside the primary government. The activities of discretely presented component units are presented in a single column in the government-wide financial statements.

Most component units prepare their own separately issued financial statements. For information regarding obtaining the financial statements of the individual component units, refer to Note 1A, Reporting Entity.

## Fund Financial Statements

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of California, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three types of funds:

- *Governmental funds* are used to account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's short-term financing requirements. This approach is known as the *flow of current financial resources measurement* focus and the *modified accrual basis of accounting*. These governmental fund statements provide a detailed short-term view of the State's finances, enabling readers to determine whether adequate financial resources exist to meet the State's current needs.

Because governmental fund financial statements provide a narrower focus than do government-wide financial statements, it is useful to compare governmental fund statements to the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Reconciliations located on the pages immediately following the fund statements show the differences between the government-wide statements and the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

- *Proprietary funds* show activities that operate more like those found in the private sector. The State of California has two proprietary fund types: enterprise funds and internal service funds.
  - *Enterprise funds* record activities for which a fee is charged to external users; they are presented as business-type activities in the government-wide financial statements.
  - *Internal service funds* accumulate and allocate costs internally among the State of California's various functions. For example, internal service funds provide public building construction, information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.
- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support State of California programs. The accounting used for fiduciary funds and similar component units is similar to that used for proprietary funds.

## **Discretely Presented Component Units Financial Statements**

The State has financial accountability for discretely presented component units, which have certain independent qualities and operate in a similar manner as private-sector businesses. The activities of the discretely presented component units are classified as enterprise activities.

## **Notes to the Financial Statements**

The notes to the financial statements in this publication provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which describe particular accounts in more detail, are located immediately following the discretely presented component units' financial statements.

## **Required Supplementary Information**

A section of required supplementary information follows the notes to the basic financial statements in this publication. This section includes a schedule of funding progress for certain pension and other postemployment benefit trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

## **Combining Financial Statements and Schedules**

The Combining Financial Statements and Schedules – Nonmajor and Other Funds section presents combining statements that provide separate financial statements for nonmajor governmental funds, nonmajor proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these activities.

## **Government-wide Financial Analysis**

### **Net Position**

The primary government's combined net position (governmental and business-type activities) increased by more than 409%, from a negative \$2.4 billion, as restated at June 30, 2013, to a positive \$7.3 billion a year later.

The primary government's \$96.1 billion net investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net position. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets to pay off the liabilities.

Another \$29.8 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2014, governmental activities reported an unrestricted net deficit of \$116.9 billion and business-type activities showed an unrestricted net deficit of \$1.7 billion.

A large portion of the unrestricted net deficit of governmental activities consists of \$66.7 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as “net investment in capital assets.” Instead, the bonded debt is reported as a noncurrent liability that increases the State’s unrestricted net position deficit. The State can expect continued deficits in the unrestricted net position of governmental activities as long as it has significant outstanding obligations for school districts and other local governmental entities.

Table 1 presents condensed financial information derived from the Statement of Net Position for the primary government.

**Table 1**

**Net Position – Primary Government**

June 30, 2014 and 2013

(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
Current and other assets .....	\$ 70,798	\$ 55,358	\$ 24,345	\$ 34,996	\$ 95,143	\$ 90,354
Capital assets .....	116,369	108,668	8,735	9,959	125,104	118,627
<b>Total assets .....</b>	<b>187,167</b>	<b>164,026</b>	<b>33,080</b>	<b>44,955</b>	<b>220,247</b>	<b>208,981</b>
<b>DEFERRED OUTFLOWS</b>						
<b>OF RESOURCES .....</b>	<b>986</b>	<b>911</b>	<b>242</b>	<b>480</b>	<b>1,228</b>	<b>1,391</b>
<b>Total assets and deferred outflows of resources .....</b>	<b>\$ 188,153</b>	<b>\$ 164,937</b>	<b>\$ 33,322</b>	<b>\$ 45,435</b>	<b>\$ 221,475</b>	<b>\$ 210,372</b>
<b>LIABILITIES</b>						
Noncurrent liabilities .....	\$ 137,522	\$ 128,052	\$ 23,506	\$ 36,282	\$ 161,028	\$ 164,334
Other liabilities .....	48,456	44,863	3,676	4,616	52,132	49,479
<b>Total liabilities .....</b>	<b>185,978</b>	<b>172,915</b>	<b>27,182</b>	<b>40,898</b>	<b>213,160</b>	<b>213,813</b>
<b>DEFERRED INFLOWS</b>						
<b>OF RESOURCES .....</b>	<b>171</b>	<b>159</b>	<b>823</b>	<b>471</b>	<b>994</b>	<b>630</b>
<b>Total liabilities and deferred inflows of resources .....</b>	<b>186,149</b>	<b>173,074</b>	<b>28,005</b>	<b>41,369</b>	<b>214,154</b>	<b>214,443</b>
<b>NET POSITION</b>						
Net investment in capital assets .....	94,001	84,931	2,066	1,719	96,067	86,650
Restricted .....	24,951	24,316	4,913	5,172	29,864	29,488
Unrestricted .....	(116,948)	(117,384)	(1,662)	(2,825)	(118,610)	(120,209)
<b>Total net position (deficit) .....</b>	<b>2,004</b>	<b>(8,137)</b>	<b>5,317</b>	<b>4,066</b>	<b>7,321</b>	<b>(4,071)</b>
<b>Total liabilities, deferred inflows of resources, and net position .....</b>	<b>\$ 188,153</b>	<b>\$ 164,937</b>	<b>\$ 33,322</b>	<b>\$ 45,435</b>	<b>\$ 221,475</b>	<b>\$ 210,372</b>

**Changes in Net Position**

The expenses of the primary government totaled \$237.1 billion for the year ended June 30, 2014. Of this amount, \$120.5 billion (50.8%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving \$116.6 billion to be funded with general revenues (mainly taxes). The primary government’s general revenues of \$126.3 billion exceeded net unfunded expenses by \$9.7 billion, resulting in a positive net position for the first time in five years.

Table 2 presents condensed financial information derived from the Statement of Activities for the primary government.

**Table 2****Changes in Net Position – Primary Government**

Years ended June 30, 2014 and 2013

(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>REVENUES</b>						
Program Revenues:						
Charges for services .....	\$ 22,274	\$ 23,102	\$ 25,284	\$ 28,379	\$ 47,558	\$ 51,481
Operating grants and contributions .....	69,861	60,944	1,491	1,323	71,352	62,267
Capital grants and contributions .....	1,516	1,669	81	142	1,597	1,811
General Revenues:						
Taxes .....	125,812	118,645	—	—	125,812	118,645
Investment and interest .....	81	57	—	—	81	57
Miscellaneous .....	488	552	—	—	488	552
<b>Total revenues .....</b>	<b>220,032</b>	<b>204,969</b>	<b>26,856</b>	<b>29,844</b>	<b>246,888</b>	<b>234,813</b>
<b>EXPENSES</b>						
Program Expenses:						
General government .....	14,292	15,390	—	—	14,292	15,390
Education .....	54,720	50,586	—	—	54,720	50,586
Health and human services .....	105,037	94,070	—	—	105,037	94,070
Resources .....	5,855	5,671	—	—	5,855	5,671
State and consumer services .....	590	1,475	—	—	590	1,475
Business and transportation .....	13,427	12,836	—	—	13,427	12,836
Correctional programs .....	11,235	10,082	—	—	11,235	10,082
Interest on long-term debt .....	4,699	4,350	—	—	4,699	4,350
Electric Power .....	—	—	835	488	835	488
Water Resources .....	—	—	983	1,127	983	1,127
Public Buildings Construction .....	—	—	—	410	—	410
State Lottery .....	—	—	5,079	4,499	5,079	4,499
Unemployment Programs .....	—	—	13,673	17,599	13,673	17,599
California State University .....	—	—	6,545	6,197	6,545	6,197
Other enterprise programs .....	—	—	143	140	143	140
<b>Total expenses .....</b>	<b>209,855</b>	<b>194,460</b>	<b>27,258</b>	<b>30,460</b>	<b>237,113</b>	<b>224,920</b>
<b>Excess (deficiency) before transfers ....</b>	<b>10,177</b>	<b>10,509</b>	<b>(402)</b>	<b>(616)</b>	<b>9,775</b>	<b>9,893</b>
Transfers .....	(2,296)	(1,998)	2,296	1,998	—	—
Special item .....	(55)	—	(27)	—	(82)	—
Change in net position .....	7,826	8,511	1,867	1,382	9,693	9,893
<b>Net position, beginning (restated) .....</b>	<b>(5,822)</b>	<b>(16,648)</b>	<b>3,450</b>	<b>2,684</b>	<b>(2,372)</b>	<b>(13,964)</b>
<b>Net position (deficits), ending .....</b>	<b>\$ 2,004</b>	<b>\$ (8,137)</b>	<b>\$ 5,317</b>	<b>\$ 4,066</b>	<b>\$ 7,321</b>	<b>\$ (4,071)</b>

**Governmental Activities**

Governmental activities' expenses, transfers, and a special item totaled \$212.2 billion. Program revenues totaling \$93.7 billion, including \$71.4 billion received in federal grants, funded 44.1% of expenses and transfers, leaving \$118.5 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled \$126.3 billion, and the governmental activities' total restated net deficit

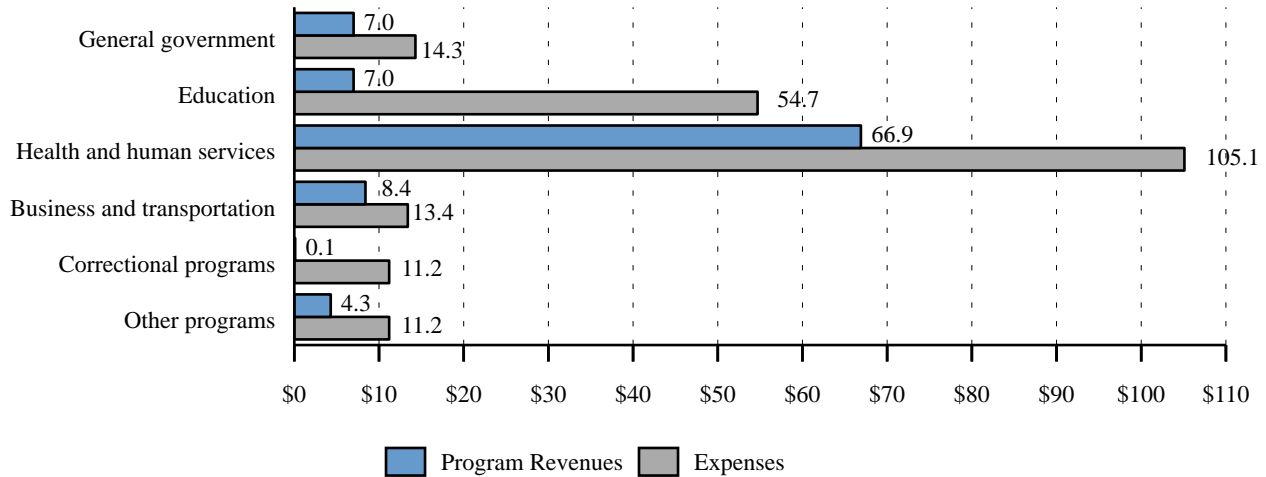
position of \$5.8 billion at the end of fiscal year 2012-13 improved to a positive net position of \$2.0 billion for the year ended June 30, 2014, an increase of \$7.8 billion (134.4%).

Chart 1 presents a comparison of governmental activities' expenses by program, with related revenues.

**Chart 1**

**Expenses and Program Revenues – Governmental Activities**

Year ended June 30, 2014  
(amounts in billions)



For the year ended June 30, 2014, total state tax revenues collected for governmental activities increased by \$6.6 billion (5.8%) over the prior year. Personal income taxes increased by \$1.3 billion (1.9%) as a result of California’s stronger job market; the continued effect of Proposition 30, which increased personal income tax on earnings above \$250,000; increased capital gains taxes from a strong stock market; and increasing home prices. Sales and use tax revenue increased by \$2.6 billion (7.8%) due to the 0.25% increase in the State’s sales tax effective on January 1, 2013, and increased consumer spending caused by increased consumer confidence in the improving economy and a reduction in the unemployment rate. Corporate taxes increased by \$1.8 billion (24.9%) due to the State’s ongoing economic recovery as well as the passage of Proposition 39, which required multistate corporations to calculate their California income tax liability on the percentage of their sales in California.

Overall expenses for governmental activities increased by \$15.4 billion (7.9%) over the prior year. The largest increase of expenditures, \$11.0 billion (11.7%), occurred in health and human services programs, the majority of which is attributable to the Department of Health Care Services, which administers the State’s Medi-Cal program. The growth in spending for health and humans services was due to an increased Medi-Cal caseload, the increased utilization of health care services, the rising costs of those services, and the added costs associated with implementing the Patient Protection and Affordable Care Act—also known as federal health care reform. State and consumer services expenses decreased by \$886 million (60.0%) largely due to the shift of certain state and consumer services expenses to general government as a result of the Governor’s Reorganization Plan No. 2.

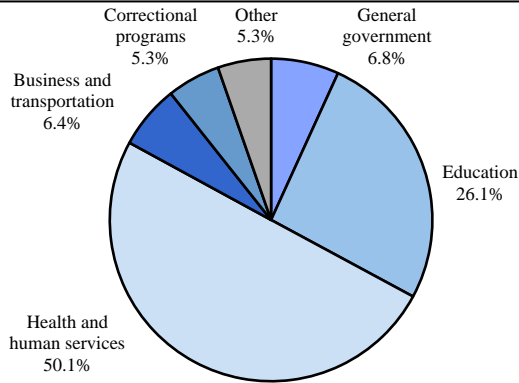
Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

**Chart 2**

**Expenses by Program**

Year ended June 30, 2014

(as a percent)

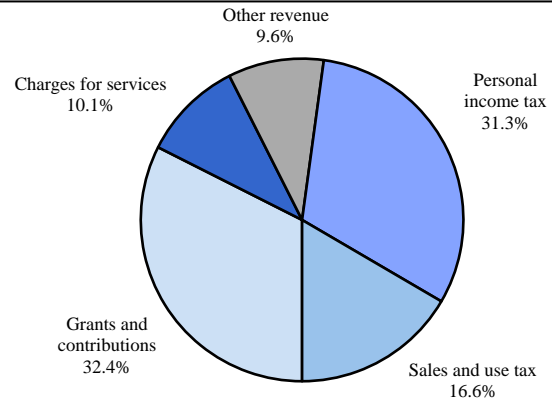


**Chart 3**

**Revenues by Source**

Year ended June 30, 2014

(as a percent)



**Business-type Activities**

Business-type activities' expenses totaled \$27.3 billion. Program revenues of \$26.9 billion, primarily generated from charges for services, and \$2.3 billion in transfers were sufficient to cover these expenses. Consequently, the business-type activities' total net position increased by \$1.9 billion, or 54.1%, during the year ended June 30, 2014.

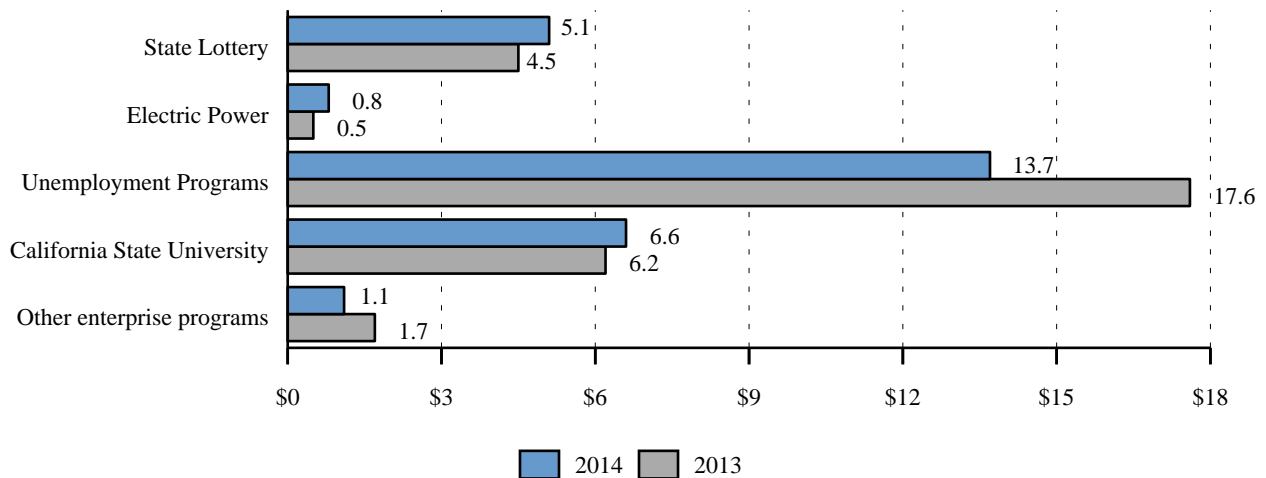
Chart 4 presents a two-year comparison of the expenses of the State's business-type activities.

**Chart 4**

**Expenses – Business-type Activities – Two-year Comparison**

Year ended June 30, 2014 and 2013

(amounts in billions)



## Fund Financial Analysis

The State's governmental funds had an \$8.1 billion increase in fund balance over the prior year's restated ending fund balance. Proprietary funds' net position increased by \$1.9 billion for the fiscal year 2013-14, of which \$1.5 billion was in the Unemployment Programs Fund, reducing its net position deficit to \$2.7 billion.

### Governmental Funds

The governmental funds' Balance Sheet reported \$74.3 billion in assets, \$54.6 billion in liabilities and deferred inflows of resources, and \$19.8 billion in fund balance as of June 30, 2014. Total assets of governmental funds increased by 15.8%, while total liabilities increased by 5.1%, resulting in a total fund balance increase of \$8.1 billion (69.2%) over the prior fiscal year.

Within the governmental funds' total fund balance, \$156 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, \$24.7 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, of the total fund balance, \$3.0 billion is classified as committed for specific purposes and \$19 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative \$8.1 billion.

The Statement of Revenues, Expenditures and Changes in Fund Balances of the governmental funds reported \$219.9 billion in revenues, \$218.3 billion in expenditures, and a net \$6.6 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2014, was \$19.8 billion, an \$8.1 billion increase over the prior year's restated ending fund balance of \$11.7 billion. The primary reason for the increase in fund balance was an increase in the year-end balances of cash reserves and receivables, primarily from tax revenue and federal grants.

Personal income taxes, which account for 54.6% of tax revenues and 31.3% of total governmental fund revenues, increased by \$1.3 billion over the prior fiscal year. Sales and use taxes, which account for 28.9% of tax revenues and 16.6% of total governmental fund revenues, increased by \$2.5 billion over the prior fiscal year. Corporation taxes, which account for 7.3% of tax revenues and 4.2% of total governmental fund revenues, increased by \$2.0 billion over the prior fiscal year. Governmental fund expenditures increased by \$16.2 billion over the prior fiscal year, primarily for education and health and human services. General obligation bonds and commercial paper of \$5.1 billion were issued during the 2013-14 fiscal year, an increase of \$1.0 billion over the prior fiscal year.

The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund deficit of \$7.4 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of \$212 million, \$7.5 billion, and \$7.6 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of \$11.9 billion.

*General Fund:* As shown on the Balance Sheet, the General Fund (the State's main operating fund) ended the fiscal year with assets of \$19.4 billion; liabilities and deferred inflows of resources of \$26.9 billion; and nonspendable, restricted, and committed fund balances of \$129 million, \$394 million, and \$125 million, respectively, leaving the General Fund with a negative unassigned fund balance of \$8.1 billion. Total assets of the General Fund increased by \$3.8 billion (24.1%) over the prior fiscal year, while the total liabilities and deferred inflows of resources of the General Fund decreased by \$3.0 billion (10.2%). Total net fund deficit balance decreased by \$7.6 billion (50.6%).



As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of \$8.9 billion (\$104.2 billion in revenues and \$95.3 billion in expenditures). Approximately 95.1% of General Fund revenue (\$99.1 billion) is derived from the State's largest three taxes—personal income taxes (\$67.6 billion), sales and use taxes (\$22.3 billion), and corporation taxes (\$9.2 billion). As a result of fund classifications made to comply with governmental accounting standards, a total of \$244 million in revenue, essentially all from unemployment programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During the 2013-14 fiscal year, total General Fund revenue increased by \$4.8 billion (4.8%). The increase is a result of increases in corporation taxes of \$2.0 billion (27.3%), sales and use taxes of \$1.9 billion (9.1%), and personal income taxes of \$1.4 billion (2.1%).

General Fund expenditures increased by \$5.2 billion (5.8%). The largest increases were in education and health and human services expenditures, which were up \$3.9 billion and \$961 million, respectively. The General Fund's deficit for the year ended June 30, 2014, was \$7.4 billion, a decrease of \$7.6 billion from the prior year's restated ending fund deficit of \$15.1 billion.

*Federal Fund:* This fund reports federal grant revenues and related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for \$58.1 billion (82.4%) of the total \$70.5 billion in Federal Fund expenditures. The Medical Assistance program and the Temporary Assistance for Needy Families program are included in this program area. Education programs also constituted a large part of the Federal Fund expenditures, amounting to \$6.9 billion (9.8%). The Federal Fund's revenue increased by \$8.8 billion, which was approximately the same amount of the increase in combined expenditures and transfers, resulting in only a \$14 million fund balance increase from the prior year's ending fund balance of \$198 million.

*Transportation Fund:* This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail maintenance and construction. The Transportation Fund's revenues increased by 7.0% and expenditures increased by 10.4%. Other financing sources provided net receipts of \$2.2 billion. The Transportation Fund ended the fiscal year with a \$7.5 billion fund balance, an increase of \$236 million over the prior year.

*Environmental and Natural Resources Fund:* This fund accounts for fees, bond proceeds, and other revenues that are used for maintaining the State's natural resources and improving the environmental quality of its air, land, and water. Other financing sources provided net receipts of \$640 million. The Environmental and Natural Resources Fund ended the fiscal year with a \$7.6 billion fund balance, a decrease of \$187 million (2.4%) from the prior year.

## **Proprietary Funds**

During the fiscal year, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund, causing restated beginning net positions and large differences in lease receivables, revenue bonds payable, and related revenues and expenses for both fund types.

*Enterprise Funds:* The total net position of the enterprise funds at June 30, 2014, was \$5.3 billion—\$1.9 billion greater than the prior year's restated ending net position of \$3.4 billion. The Unemployment Programs Fund had a decrease in its deficit net position of \$1.5 billion, while the California State University Fund and nonmajor enterprise funds increased their net positions by \$264 million and \$111 million, respectively.

As shown on the Statement of Net Position of proprietary funds, total assets and deferred outflows of resources of the enterprise funds was \$33.7 billion as of June 30, 2014. Of this amount, current assets totaled \$11.2 billion, noncurrent assets totaled \$22.3 billion, and deferred outflows of resources totaled \$242 million. The total liabilities and deferred inflows of resources of the enterprise funds was \$28.4 billion. The largest liabilities of the enterprise funds are \$13.0 billion of revenue bonds payable and \$7.6 billion of noncurrent loans payable. During the 2013-14 fiscal year, the State reduced the balance of the loans from the U.S Department of Labor that covered prior year deficits in the Unemployment Programs Fund, by \$952 million, leaving a balance of \$7.6 billion as of June 30, 2014.

Total net position consisted of four segments: net investment in capital assets of \$2.1 billion, a nonexpendable restricted net position of \$16 million, a restricted expendable net position of \$4.9 billion, and an unrestricted net deficit of \$1.7 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of proprietary funds, the enterprise funds ended the year with operating revenues of \$24.2 billion, operating expenses of \$24.7 billion, and net revenues from other transactions of \$49 million. The largest sources of operating revenue were unemployment and disability insurance receipts of \$15.2 billion in the Unemployment Programs Fund, and lottery ticket sales of \$5.0 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by \$3.4 billion from \$18.6 billion in the prior fiscal year. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions of \$13.4 billion to beneficiaries by the Unemployment Programs Fund, and personal services of \$4.0 billion by the California State University Fund.

*Internal Service Funds:* The total net position of the internal service funds was \$547 million as of June 30, 2014. The net position consists of three segments: net investment in capital assets of \$245 million, restricted net position of \$287 million, and unrestricted net position of \$15 million.

## **Fiduciary Funds**

The State of California has four types of fiduciary funds: private purpose trust funds, pension and other employee benefit trust funds, investment trust funds, and agency funds. The private purpose trust funds ended the fiscal year with net position of \$6.1 billion. The pension and other employee benefit trust funds ended the fiscal year with net position of \$510.2 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net position of \$21.1 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2014, the fiduciary funds' combined net position was \$537.5 billion, a \$67.9 billion increase over the prior year net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants.

## **General Fund Budget Highlights**

The original General Fund budget of \$95.3 billion was increased by \$4.1 billion. This increase is mainly comprised of funding augmentations for health and human services, education, and correctional programs. The increase in health and human services program funding is primarily due to the implementation of the Patient Protection and Affordable Care Act, as well as caseload increases and augmentations for program contingencies. The Proposition 98 minimum guarantee increased education funding as the result of increased General Fund revenue in the 2013-14 fiscal year. The augmentation of correctional programs was authorized by the California Community Corrections Performance Incentive Act for the purpose of providing

probation-failure-reduction incentive payments and high-performance grants. During fiscal year 2013-14, the General Fund actual budgetary basis expenditures were \$98.0 billion, or \$1.4 billion less than the final budgeted amount of \$99.4 billion.

Table 3 presents a summary of the General Fund original and final budgets.

**Table 3**

**General Fund Original and Final Budgets**

Year ended June 30, 2014

(amounts in millions)

	<u>Original</u>	<u>Final</u>	<u>Increase</u>
<b>Budgeted amounts</b>			
State and consumer services .....	\$ 14	\$ 14	\$ —
Business and transportation .....	91	91	—
Resources .....	1,109	1,263	154
Health and human services .....	27,518	29,390	1,872
Correctional programs .....	8,610	9,349	739
Education .....	48,409	49,570	1,161
General government:			
Tax relief .....	422	425	3
Debt service .....	4,801	4,801	—
Other general government .....	4,328	4,478	150
<b>Total</b> .....	<b>\$ 95,302</b>	<b>\$ 99,381</b>	<b>\$ 4,079</b>

## Capital Assets and Debt Administration

### Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounted to \$125.1 billion (net of accumulated depreciation/amortization). The State's capital assets include land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. Infrastructure assets are items that normally are immovable, such as roads and bridges, and can be preserved for a greater number of years than can most capital assets.

As of June 30, 2014, the State's capital assets increased \$6.5 billion over the prior fiscal year. The majority of this increase occurred in buildings and other depreciable property, and construction in progress. Included in the capital assets increase is a \$2.2 billion beginning balance restatement, primarily for understated state highway infrastructure construction in progress.

Note 7, Capital Assets, includes additional information on the State's capital assets.

Table 4 presents a summary of the primary government’s capital assets for governmental and business-type activities.

**Table 4**

**Capital Assets**

June 30, 2014

(amounts in millions)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land .....	\$ 18,258	\$ 222	\$ 18,480
State highway infrastructure .....	65,269	—	65,269
Collections – nondepreciable .....	23	7	30
Buildings and other depreciable property .....	27,554	11,738	39,292
Intangible assets – amortizable .....	1,091	336	1,427
Less: accumulated depreciation/amortization .....	(12,150)	(4,581)	(16,731)
Construction in progress .....	14,858	764	15,622
Intangible assets – nonamortizable .....	1,466	249	1,715
<b>Total .....</b>	<b>\$ 116,369</b>	<b>\$ 8,735</b>	<b>\$ 125,104</b>

**Modified Approach for Infrastructure Assets**

The State has elected to use the modified approach for capitalizing infrastructure assets of the state highway system (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During the 2013-14 fiscal year, the actual amount spent on preservation was 29.6% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State’s bridges and roadways is better than the established condition baselines. The State is responsible for maintaining 49,718 lane miles and 13,120 bridges.

The Required Supplementary Information includes additional information on how the State uses the modified approach for infrastructure assets; it also presents the established condition standards, condition assessments, and preservation costs.

**Debt Administration**

The State’s largest long-term obligations are its bonded debt. At June 30, 2014, the primary government had total bonded debt outstanding of \$115.9 billion. Of this amount, \$84.0 billion (72.5%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the \$84.0 billion of general obligation bonds is \$4.6 billion of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes. The current portion of general obligation bonds outstanding is \$4.0 billion and the long-term portion is \$80.0 billion. The remaining \$31.9 billion (27.5%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is \$1.6 billion and the long-term portion is \$30.3 billion. During the fiscal year, the State issued \$5.9 billion in new general obligation bonds for transportation projects, housing

and emergency shelters, stem cell research, children's hospitals, various water and flood control projects, and to refund previously outstanding general obligation bonds and commercial paper.

Table 5 presents a summary of all the primary government's long-term obligations for governmental and business-type activities.

**Table 5**

**Long-term Obligations**

June 30, 2014

(amounts in millions)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Government-wide noncurrent liabilities</b>			
General obligation bonds .....	\$ 79,287	\$ 617	\$ 79,904
Revenue bonds payable.....	18,270	12,070	30,340
Net other postemployment benefits obligation .....	18,617	628	19,245
Mandated cost claims payable .....	7,715	—	7,715
Loans payable .....	—	7,633	7,633
Compensated absences payable .....	3,751	183	3,934
Workers compensation benefits payable .....	3,291	3	3,294
Net pension obligation .....	3,238	—	3,238
Capital lease obligations .....	200	1,180	1,380
Certificates of participation and commercial paper .....	589	51	640
Other noncurrent liabilities .....	2,563	1,141	3,704
<b>Total noncurrent liabilities .....</b>	<b>137,521</b>	<b>23,506</b>	<b>161,027</b>
Current portion of long-term obligations .....	5,807	1,931	7,738
<b>Total long-term obligations .....</b>	<b>\$ 143,328</b>	<b>\$ 25,437</b>	<b>\$ 168,765</b>

During the year ended June 30, 2014, the primary government's total long-term obligations increased by \$2.9 billion over the prior year's restated balance. The prior year balance was restated primarily for the elimination of the governmental activities' capital lease obligation for lease-purchase agreements between the State Public Works Board, and governmental funds when the Public Buildings Construction Fund was reclassified from an enterprise fund (business-type activity) to an internal service fund (governmental activity). Net other postemployment benefits obligation increased the most (\$3.2 billion) during the fiscal year, but other notable increases occurred in state-mandated cost claims payable (\$1.1 billion) and general obligation bonds payable (\$717 million). The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits. The largest decreases were in revenue bonds payable (\$1.4 billion) and loans payable to the U.S. Department of Labor for prior year shortfalls in the unemployment program (\$952 million).

Note 10, Long-term Obligations, and Notes 11 through 16 include additional information on the State's long-term obligations.

In August 2013, Fitch raised the State's general obligation rating to "A" from "A-", citing the State's institutional changes to fiscal management and its ongoing economic and revenue recovery. In June 2014, Moody's raised the State's general obligation rating to "Aa3" from "A1", citing the State's rapidly improving financial position, high but declining debt metrics, adjusted net pension liability ratios that are close to the state median, strong liquidity, and robust employment growth. During the 2013-14 fiscal year, the rating from Standard and Poor's remained unchanged at "A".

## Economic Condition and Future Budgets

### The Economy for the Year Ending June 30, 2014

The U.S. economy completed its fifth year of recovery as California ended its fiscal year on June 30, 2014. National economic growth was somewhat erratic, with a difficult winter quarter followed by a solid spring rebound. The U.S. real gross domestic product (GDP) had a moderate 2.5% increase over the 12 months spanning the State's fiscal year.

California's income growth outperformed the nation in the 2013-14 fiscal year. The State's total personal income increased 3.5% during the fiscal year versus the 2.6% increase the nation experienced. As personal income grew, consumer spending increased, as substantiated by the 6.6% increase in auto registrations, for a total of 1.7 million registered vehicles for the 12 months ended June 30, 2014.

The State's real estate market showed signs of stabilizing at the end of the fiscal year compared to the market a year earlier, in which it was common for multiple offers to be made on a property and for it to be sold for more than its list price. As of June 2014, prices were significantly higher, 6.6% over the prior year, but sales were down by about 5%. Homebuilding in California picked up substantially, as permits issued during the fiscal year increased approximately 12%, to more than 82,000 units. Similarly, nonresidential building rebounded during the fiscal year; the value of nonresidential permits increased 44% to \$23 billion. Retail stores, hotels, amusement parks, offices, and renovations contributed to the large increase.

California's job market both illustrated the State's recovery and contributed to it during the fiscal year. In June 2014, nonfarm employment surpassed its pre-recession high. With a 12-month gain of 347,500 jobs, employment was 2.3% higher than in June 2013. Job growth was widespread, with notable increases in construction, trade, leisure and hospitality, health care, and business and public services. Financial services, nondurable goods manufacturing, and the federal government were the only areas that experienced job losses. The improvement in the labor market was demonstrated by the drop in the State's unemployment rate from 9.0% in June 2013 to 7.4% in June 2014.

California ended the 2013-14 fiscal year with impressive economic gains. Consumers benefited from gains in jobs, personal income, home prices, and the stock market. California's economic and financial health was clearly on the mend even though the unemployment rate remained relatively high at the end of the fiscal year.

### Economic Performance for the 2014-15 Fiscal Year as of January 31, 2015

California's economy continued to improve during the first several months of fiscal year 2014-15. Job gains, falling unemployment, increases in personal income, higher auto sales, and rising construction in both the residential and nonresidential markets demonstrate the continuing economic recovery.

Employment gains averaged 30,000 jobs per month during the first six months of the fiscal year, and as of December 2014, nonfarm employment increased 2.3% over its June 2014 level. Job increases were spread across a wide array of industries and sectors, and by December 2014, 11 of California's major metropolitan areas (representing 36% of the State's total labor market) had returned to their pre-recession job peaks. California's unemployment rate continued to fall during the first six months of the 2014-15 fiscal year; by December 2014, it had receded to 7.0% from 7.4% in June 2014.

The State began the first quarter of the new fiscal year with a solid gain of 3.9% in total personal income compared with the prior quarter. Job gains, personal income increases, and low interest rates, spurred a 9%

increase in new auto registrations during the first four months of the fiscal year over the same period in the prior fiscal year.

The housing market returned to a more normal and sustainable pace as of December 2014. The stabilizing of home prices in recent months put home prices a moderate 3% above their prior year level as of December 2014. Although December's year-over-year rise in home sales was just 0.6%, it was the first increase in nearly a year and a half.

New construction activity continued to advance. On the housing front, building permits during the first six months of the 2014-15 fiscal year increased 5.7% over the total recorded during the first half of the prior fiscal year. The value of nonresidential permits gained 8.3%, with solid increases in industrial, office, retail, hotel, and building improvements.

California continues to make particular strides in technology, as evidenced by the advances of California businesses in web applications, biotech, mobile devices, alternative energy, and environmental science. During the first few months of the 2014-15 fiscal year, the State attracted \$12.9 billion of venture capital, representing more than half of the national total.

As California moves into the remaining months of the 2014-15 fiscal year, it appears well positioned for further economic gains. Although challenged by an ongoing drought, economic and other instabilities abroad, and continuing budget pressures, the State's economy is clearly making progress on many fronts. The expected further growth in technology, health care, tourism, business and professional services, and construction all promise to deepen and broaden the State's economic expansion.

### **California's 2014-15 Budget**

California's 2014-15 Budget Act was enacted on June 20, 2014. The Budget Act appropriated \$156.3 billion: \$108.0 billion from the General Fund, \$44.3 billion from special funds, and \$4.0 billion from bond funds. The General Fund's budgeted expenditures increased \$7.3 billion (7.2%) over last year's General Fund budget and included a \$1.6 billion supplemental payment to pay off the remaining balance of the State's prior deficit financing bonds, known as Economic Recovery bonds. The General Fund's available resources were projected to be \$105.5 billion, after a projected \$1.6 billion transfer to the Budget Stabilization Account (Rainy Day Fund). General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 65.6% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 96.2% of the General Fund's resources in the 2014-15 fiscal year.

The 2014-15 budget continued the Governor's multi-year financial plan for the State of California, and for the third consecutive year, it projected a surplus in the General Fund. The 2014-15 fiscal year is projected to end with \$2.1 billion in total reserves—\$1.6 billion in the Budget Stabilization Account and \$449 million reserved for economic uncertainties. The 2014-15 budget made targeted augmentations in a few key areas while paying down several billion dollars of existing liabilities, including the Economic Recovery bonds mentioned above.

Budget-related legislation was enacted to erase the California State Teachers' Retirement System' (CalSTRS) \$74 billion unfunded liability in 32 years by increasing contributions from the State, school and community college districts, and teachers. The State is responsible for approximately \$20 billion of the unfunded liability. The 2014-15 budget provided \$1.5 billion in state contributions to CalSTRS, of which \$59 million will be used toward reducing the State's share of the unfunded liability.

The 2014-15 budget included an increase of \$2.6 billion over the prior year revised estimate, to \$60.9 billion, for the minimum annual funding guarantee for schools and community colleges (Proposition 98 funding). The budget also provided \$5.2 billion to reduce the Proposition 98 funding deferrals accumulated in prior years, leaving a balance of \$992 million by the end of the 2014-15 fiscal year. However, this balance may be fully eliminated if, in the May 2015 budget revision, the minimum guarantee for fiscal years 2013-14 and 2014-15 is higher than assumed in the 2014-15 budget package.

The spending plan for fiscal year 2014-15 includes General Fund money for health programs of \$19.3 billion, which is an increase of almost \$700 million, or 3.7%, over the 2013-14 funding level. This increase primarily addresses increased Medi-Cal program costs due to the implementation of the Patient Protection and Affordable Care Act, as well as increases in caseload and the need for health care services. It is estimated that approximately 825,000 additional people who were previously eligible for Medi-Cal, but who were unenrolled, will receive benefits during the 2014-15 fiscal year under the current 50-50 state-federal cost sharing arrangement.

General Fund revenues and expenditures tend to peak in different months, and the State typically experiences spending in excess of revenues during the first several months of the fiscal year. During the 2014-15 fiscal year, this gap has been significantly smaller than projected in the 2014-15 budget. As of December 1, 2014, revenues were \$1.3 billion more than forecasted, while total disbursements were \$1.3 billion below estimates. As a result, the General Fund's increase in temporary borrowing was \$2.7 billion less than projected, leaving a balance of \$18.5 billion in short-term borrowing—\$15.7 billion of internal borrowing from other state funds and \$2.8 billion from revenue anticipation notes issued in September 2014.

## **California's 2015-16 Budget**

The Governor released his proposed 2015-16 budget on January 9, 2015; he sees maintaining a balanced budget as an ongoing challenge for the long term, requiring both fiscal restraint and prudence. The budget assumes the continued moderate expansion of the economy, and continues with the Governor's multi-year plan to build reserves and pay down outstanding debt. Proposition 2 was approved by voters in November 2014 and affects the budget for the first time in fiscal year 2015-16. Proposition 2 gives the State an opportunity to avoid budget shortfalls that are driven by ongoing spending commitments based on temporary spikes in revenues from capital gains. Under Proposition 2, spikes in capital gains will instead be used to save money for the next recession and to pay down the State's debts and unfunded liabilities. The budget proposes total reserves of \$3.4 billion by the end of the 2015-16 fiscal year—\$2.8 billion in the Budget Stabilization Account required under Proposition 2 and \$534 million in the General Fund's reserve for economic uncertainties. In addition to the required reserve, Proposition 2 requires an equivalent amount be used to pay down existing debts. During the 2015-16 fiscal year, the Governor proposes to pay down the General Fund's loans from special funds and Proposition 98 obligations by a total of \$1.2 billion.

The 2015-16 Governor's Budget projects that General Fund revenues and transfers will be \$113.4 billion and expenditures will be \$113.3 billion, with an estimated \$1.5 billion year-end balance, which includes the \$534 million reserve. In the proposed budget, the General Fund began fiscal year 2014-15 with a surplus balance of \$5.1 billion; it is projected to begin fiscal year 2015-16 with a surplus of approximately \$1.4 billion. Estimated General Fund revenues and transfers are 4.9% more than the revised 2014-15 estimate of \$108.0 billion, while the 2014-15 expenditures are 1.4% greater than the revised 2014-15 estimate of \$111.7 billion.

Personal income tax is projected to increase by \$3.5 billion (4.9%) over the prior year revised estimate. This represents a major component of the \$5.0 billion General Fund revenue increase. Sales and use taxes are also projected to increase by \$1.7 billion (7.4%) and corporation tax by \$0.6 billion (5.8%). The budget's projected increases in General Fund revenue trigger higher education spending through the Proposition 98 minimum



funding guarantees for both the 2014-15 and 2015-16 fiscal years. The Governor's budget includes \$7.8 billion in Proposition 98 funding increases, with a large portion of new funding (\$5.0 billion) dedicated to implementation of the Local Control Funding Formula (LCFF), a package of workforce education and training initiatives, and various community college augmentations. The Governor's budget package also provides \$2.8 billion to significantly reduce the State's outstanding Proposition 98 obligations (including eliminating all remaining school and community college payment deferrals and reducing the backlog of education mandate claims).

The Governor's budget for fiscal year 2014-15 assumes increased spending for health and human services of \$1.4 billion, or 4.7%, mainly within the Medi-Cal program. The increase will ensure continued implementation of federal health care reform, which will enable millions of Californians to obtain health care coverage. Numerous recent federal actions in the health and human services area have increased State costs or created substantial fiscal uncertainty. Therefore, assumptions made in the 2014-15 budget could ultimately turn out differently and result in either additional costs or budget savings. The 2014-15 proposed budget provides additional funding to resources and environmental protection programs for flood prevention, water projects, drought-related activities, and greenhouse-gas-emissions reduction. The budget also proposes a small one-time allocation to address some of the State's \$66 billion infrastructure deferred maintenance backlog.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the Governor's plan is reasonable—dedicating most new ongoing funding to the State's high-priority program needs and most one-time funding to paying off outstanding obligations. The LAO indicates that there is a strong possibility that revenues for the 2014-15 fiscal year will be significantly above the Governor's projections, which will result in even more funding in fiscal year 2014-15 for schools and community colleges under the Proposition 98 minimum funding guarantee, and could result in higher ongoing payments to schools. As further evidence of the improvement in the State's finances in recent years, the Governor's cash flow projections assume that the State will not need to issue a revenue anticipation note (RAN) to meet cash flow needs during 2015-16. If the projections hold, fiscal year 2015-16 would be only the second year since the mid-1980s that the State has not issued a RAN. However, LAO cautions that this level of peak revenue will likely not last, and that the higher current-year revenue and resulting increase in ongoing school spending, present a potential challenge for the State's 2015-16 budget and beyond.

### **Future Changes in Pension Plan Reporting**

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 67, No. 68, and No. 71 amending accounting and financial reporting standards for defined benefit and defined contribution pension plans for employers and pension plan sponsors nationwide. The initial phase of the implementation was completed by the State's pension plan sponsors—the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS). Both CalPERS and CalSTRS prepared financial statements for the fiscal year ended June 30, 2014, in conformity with GASB Statement No. 67. The next phase of implementation requires additional actuarial and accounting information to be reported in the State of California's Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2015, in conformity with GASB Statements No. 68 and No. 71; this one-year lag is allowable in the new standards. Therefore, the disclosure in Note 24, Pension Trusts and the Schedule of Funding Progress included in the required supplementary information in this year's CAFR is largely the same as the previous years' information, but next year it will be significantly different.

The effect of the new standards' implementation is arguably the largest accounting and financial reporting change to state and local governments nationwide in over a decade. However, the economic and budgetary impact of the change is expected to be minimal. The State will be presenting new accounting information, note disclosures, and required supplementary information as a result of the implementation.

There are four major changes that will occur in the State's CAFR for the fiscal year ending June 30, 2015:

- The State's net pension liability (NPL) will be presented in the government-wide Statement of Net Position. The NPL consists of the fair value of the State's investments in CalPERS' pension plans, less current payables and the total pension liability attributable to the State's workforce for services rendered to the date of valuation. An additional liability will be reported for the State's obligations to CalSTRS' pension plans in accordance with the provisions of the California Education Code.
- The State's pension expense reported in the government-wide Statement of Activities will reflect the change in the pension obligation that occurred during the fiscal year. Pension expense will be comprised of the pensionable service cost of current employees, as adjusted for investment return and amortization of various prior gains and losses, as well as other demographic and plan changes.
- The notes to the financial statements related to pension trusts will be revised to include new required disclosures including information from the pension plans' actuarial valuations and from other sources. In most instances, the information will be from the previous year as recommended by the new standards.
- The required supplementary information related to pension plans will dramatically change. The Schedule of Funding Progress will be discontinued and the information required by the new standards will grow to include sets of ten-year schedules.

The accounting changes needed to implement GASB Statement No. 68 and No. 71 will require the restatement of the beginning net position in the government-wide financial statements as of July 1, 2014. The amount of this restatement is currently being calculated.

The State's timely and successful implementation of GASB's new pension plan standards is the result of an intensive and collaborative effort by officials of the State's pension plan sponsors (CalPERS and CalSTRS), the State Controller's Office, and the California State Auditor's Office.

## **Requests for Information**

The State Controller's Office designed this financial report to provide interested parties with a general overview of the State of California's finances. Address questions concerning the information provided in this report or requests for additional information through email to the State Controller's Office, Division of Accounting and Reporting at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov). This report is also available on the State Controller's Office website at [www.sco.ca.gov](http://www.sco.ca.gov).

# Basic Financial Statements



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# **Government-wide Financial Statements**



## Statement of Net Position

June 30, 2014

(amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets:				
Cash and pooled investments .....	\$ 26,565,130	\$ 5,433,555	\$ 31,998,685	\$ 2,353,088
Amount on deposit with U.S. Treasury .....	—	25,215	25,215	—
Investments .....	634,223	2,530,307	3,164,530	5,222,524
Restricted assets:				
Cash and pooled investments .....	3,339,603	676,975	4,016,578	128,517
Investments .....	—	—	—	15,929
Due from other governments .....	—	20,182	20,182	—
Net investment in direct financing leases .....	100,829	11,442	112,271	—
Receivables (net) .....	16,404,305	1,970,482	18,374,787	3,787,272
Internal balances .....	(329,500)	329,500	—	—
Due from primary government .....	—	—	—	206,341
Due from other governments .....	16,372,910	285,990	16,658,900	97,342
Prepaid items .....	124,378	48,396	172,774	1,276
Inventories .....	76,700	15,813	92,513	194,615
Recoverable power costs (net) .....	—	156,000	156,000	—
Other current assets .....	98,740	5,304	104,044	255,168
Total current assets .....	63,387,318	11,509,161	74,896,479	12,262,072
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments .....	402,394	711,814	1,114,208	26,725
Investments .....	—	372,388	372,388	14,286
Loans receivable .....	—	305,278	305,278	—
Investments .....	—	1,178,561	1,178,561	27,930,558
Net investment in direct financing leases .....	851,240	358,915	1,210,155	—
Receivables (net) .....	2,058,389	286,011	2,344,400	2,741,342
Loans receivable .....	4,076,416	3,879,070	7,955,486	4,067,009
Recoverable power costs (net) .....	—	4,490,000	4,490,000	—
Long-term prepaid charges .....	21,885	1,230,632	1,252,517	—
Capital assets:				
Land .....	18,258,395	222,138	18,480,533	1,002,521
State highway infrastructure .....	65,268,686	—	65,268,686	—
Collections – nondepreciable .....	22,630	7,711	30,341	390,678
Buildings and other depreciable property .....	27,553,863	11,738,198	39,292,061	43,499,890
Intangible assets – amortizable .....	1,090,970	336,051	1,427,021	835,971
Less: accumulated depreciation/amortization .....	(12,150,010)	(4,581,349)	(16,731,359)	(20,542,756)
Construction in progress .....	14,857,774	764,065	15,621,839	3,661,522
Intangible assets – nonamortizable .....	1,466,407	248,601	1,715,008	5,082
Other noncurrent assets .....	—	23,173	23,173	353,936
Total noncurrent assets .....	123,779,039	21,571,257	145,350,296	63,986,764
<b>Total assets .....</b>	<b>187,166,357</b>	<b>33,080,418</b>	<b>220,246,775</b>	<b>76,248,836</b>
<b>DEFERRED OUTFLOWS OF RESOURCES .....</b>	<b>986,477</b>	<b>242,167</b>	<b>1,228,644</b>	<b>3,737,238</b>
<b>Total assets and deferred outflows of resources .....</b>	<b>\$ 188,152,834</b>	<b>\$ 33,322,585</b>	<b>\$ 221,475,419</b>	<b>\$ 79,986,074</b>

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable .....	\$ 25,731,972	\$ 313,160	\$ 26,045,132	\$ 1,838,598
Due to component units .....	206,341	—	206,341	—
Due to other governments .....	7,111,861	129,160	7,241,021	54,967
Revenues received in advance .....	1,395,296	322,669	1,717,965	1,127,716
Tax overpayments .....	4,872,567	—	4,872,567	—
Deposits .....	396,868	—	396,868	790,051
Contracts and notes payable .....	615	—	615	16,326
Unclaimed property liability .....	730,564	—	730,564	—
Interest payable .....	1,292,513	72,632	1,365,145	60,934
Securities lending obligations .....	—	—	—	1,269,083
Benefits payable .....	—	482,396	482,396	—
Current portion of long-term obligations .....	5,807,107	1,930,899	7,738,006	3,805,538
Other current liabilities .....	910,628	424,932	1,335,560	1,821,788
<b>Total current liabilities .....</b>	<b>48,456,332</b>	<b>3,675,848</b>	<b>52,132,180</b>	<b>10,785,001</b>
Noncurrent liabilities:				
Loans payable .....	—	7,633,391	7,633,391	—
Lottery prizes and annuities .....	—	683,180	683,180	—
Compensated absences payable .....	3,750,543	182,859	3,933,402	275,284
Workers compensation benefits payable .....	3,290,898	2,538	3,293,436	321,338
Certificates of participation, commercial paper, and other borrowings .....	589,575	51,106	640,681	20,255
Capital lease obligations .....	200,192	1,180,232	1,380,424	448,648
General obligation bonds payable .....	79,287,287	617,317	79,904,604	—
Revenue bonds payable .....	18,270,478	12,069,907	30,340,385	19,187,901
Mandated cost claims payable .....	7,715,179	—	7,715,179	—
Net other postemployment benefits obligation .....	18,616,859	628,422	19,245,281	8,580,247
Net pension obligation .....	3,237,785	—	3,237,785	7,725,075
Revenues received in advance .....	—	11,460	11,460	—
Other noncurrent liabilities .....	2,562,633	446,048	3,008,681	1,924,267
<b>Total noncurrent liabilities .....</b>	<b>137,521,429</b>	<b>23,506,460</b>	<b>161,027,889</b>	<b>38,483,015</b>
<b>Total liabilities .....</b>	<b>185,977,761</b>	<b>27,182,308</b>	<b>213,160,069</b>	<b>49,268,016</b>
<b>DEFERRED INFLOWS OF RESOURCES .....</b>	<b>170,802</b>	<b>822,886</b>	<b>993,688</b>	<b>7,110,123</b>
<b>Total liabilities and deferred inflows of resources .....</b>	<b>\$ 186,148,563</b>	<b>\$ 28,005,194</b>	<b>\$ 214,153,757</b>	<b>\$ 56,378,139</b>

(continued)

## Statement of Net Position (continued)

June 30, 2014

(amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>NET POSITION</b>				
Net investment in capital assets .....	\$ 94,001,659	\$ 2,065,550	\$ 96,067,209	\$ 12,682,963
Restricted:				
Nonexpendable – endowments.....	—	16,219	16,219	5,289,548
Expendable:				
Endowments and gifts .....	—	—	—	9,912,926
Business and transportation .....	10,350,504	6,683	10,357,187	—
Resources .....	4,946,088	569,826	5,515,914	—
Health and human services .....	3,762,680	146,192	3,908,872	—
Education .....	1,141,458	79,018	1,220,476	1,708,757
General government .....	3,946,835	251,141	4,197,976	—
Unemployment programs .....	—	3,800,470	3,800,470	—
State and consumer services .....	801,248	32,133	833,381	—
Correctional programs .....	1,927	11,851	13,778	—
Indenture .....	—	—	—	491,187
Statute .....	—	—	—	1,268,261
Other purposes .....	—	—	—	25,769
Total expendable .....	24,950,740	4,897,314	29,848,054	13,406,900
Unrestricted .....	(116,948,128)	(1,661,692)	(118,609,820)	(7,771,476)
<b>Total net position .....</b>	<b>2,004,271</b>	<b>5,317,391</b>	<b>7,321,662</b>	<b>23,607,935</b>
<b>Total liabilities, deferred inflows of resources, and net position .....</b>	<b>\$ 188,152,834</b>	<b>\$ 33,322,585</b>	<b>\$ 221,475,419</b>	<b>\$ 79,986,074</b>

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## Statement of Activities

Year Ended June 30, 2014

(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government</b>				
Governmental activities:				
General government .....	\$ 14,292,179	\$ 5,994,608	\$ 1,011,594	\$ —
Education .....	54,719,677	67,165	6,943,619	—
Health and human services .....	105,037,102	7,961,897	58,943,872	—
Resources .....	5,854,685	3,403,524	261,832	—
State and consumer services .....	589,715	586,055	5,358	—
Business and transportation .....	13,427,229	4,247,258	2,606,718	1,515,890
Correctional programs .....	11,234,705	13,645	88,137	—
Interest on long-term debt .....	4,699,265	—	—	—
Total governmental activities .....	<u>209,854,557</u>	<u>22,274,152</u>	<u>69,861,130</u>	<u>1,515,890</u>
Business-type activities:				
Electric Power .....	835,000	835,000	—	—
Water Resources .....	983,048	983,048	—	—
State Lottery .....	5,078,935	5,077,976	—	—
Unemployment Programs .....	13,673,403	15,167,258	—	—
California State University .....	6,544,936	3,014,030	1,491,559	—
High Technology Education .....	847	424	—	—
State Water Pollution Control Revolving .....	5,072	62,985	—	80,903
Housing Loan .....	57,206	65,247	—	—
Other enterprise programs .....	79,641	77,671	—	—
Total business-type activities .....	<u>27,258,088</u>	<u>25,283,639</u>	<u>1,491,559</u>	<u>80,903</u>
<b>Total primary government .....</b>	<b><u>\$ 237,112,645</u></b>	<b><u>\$ 47,557,791</u></b>	<b><u>\$ 71,352,689</u></b>	<b><u>\$ 1,596,793</u></b>
<b>Component Units</b>				
University of California .....	28,714,112	16,945,088	8,051,387	473,464
California Housing Finance Agency .....	235,164	38,783	53,462	—
Nonmajor component units .....	2,017,379	1,069,909	564,519	9,147
<b>Total component units .....</b>	<b><u>\$ 30,966,655</u></b>	<b><u>\$ 18,053,780</u></b>	<b><u>\$ 8,669,368</u></b>	<b><u>\$ 482,611</u></b>
General revenues:				
Personal income taxes .....				
Sales and use taxes .....				
Corporation taxes .....				
Motor vehicle excise tax .....				
Insurance taxes .....				
Other taxes .....				
Investment and interest .....				
Escheat .....				
Other .....				
Transfers .....				
Special item - Loss on early extinguishment of debt .....				
<b>Total general revenues and transfers .....</b>				
Change in net position .....				
<b>Net position (deficit) - beginning, restated .....</b>				
<b>Net position - ending .....</b>				

<b>Net (Expenses) Revenues and Changes in Net Position</b>			
<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (7,285,977)		\$ (7,285,977)	
(47,708,893)		(47,708,893)	
(38,131,333)		(38,131,333)	
(2,189,329)		(2,189,329)	
1,698		1,698	
(5,057,363)		(5,057,363)	
(11,132,923)		(11,132,923)	
(4,699,265)		(4,699,265)	
<u>(116,203,385)</u>		<u>(116,203,385)</u>	
	\$ —	—	
	—	—	
	(959)	(959)	
	1,493,855	1,493,855	
	(2,039,347)	(2,039,347)	
	(423)	(423)	
	138,816	138,816	
	8,041	8,041	
	<u>(1,970)</u>	<u>(1,970)</u>	
	<u>(401,987)</u>	<u>(401,987)</u>	
<b>\$ (116,203,385)</b>	<b>\$ (401,987)</b>	<b>\$ (116,605,372)</b>	
			\$ (3,244,173)
			(142,919)
			<u>(373,804)</u>
			<b>\$ (3,760,896)</b>
\$ 68,793,292	\$ —	\$ 68,793,292	\$ —
36,477,724	—	36,477,724	—
9,102,128	—	9,102,128	—
5,777,167	—	5,777,167	—
3,359,043	—	3,359,043	—
2,302,231	—	2,302,231	—
80,969	—	80,969	3,397,201
487,937	—	487,937	—
—	—	—	2,959,253
(2,296,010)	2,296,010	—	—
(54,537)	(26,913)	(81,450)	—
<u>124,029,944</u>	<u>2,269,097</u>	<u>126,299,041</u>	<u>6,356,454</u>
7,826,559	1,867,110	9,693,669	2,595,558
<u>(5,822,288)</u>	<u>3,450,281</u>	<u>(2,372,007)</u>	<u>21,012,377</u>
<b>\$ 2,004,271</b>	<b>\$ 5,317,391</b>	<b>\$ 7,321,662</b>	<b>\$ 23,607,935</b>

The notes to the financial statements are an integral part of this statement.

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# Fund Financial Statements



# Balance Sheet

## Governmental Funds

**June 30, 2014**

(amounts in thousands)

	<u>General</u>	<u>Federal</u>
<b>ASSETS</b>		
Cash and pooled investments .....	\$ 4,246,074	\$ 458,076
Investments .....	—	—
Receivables (net) .....	13,165,951	12,520
Due from other funds .....	1,510,895	—
Due from other governments .....	305,388	15,569,689
Interfund receivables .....	49,234	—
Loans receivable .....	126,121	201,804
Other assets .....	11,816	—
<b>Total assets.....</b>	<b>\$ 19,415,479</b>	<b>\$ 16,242,089</b>
<b>LIABILITIES</b>		
Accounts payable .....	\$ 1,358,333	\$ 808,321
Due to other funds .....	9,273,689	12,837,772
Due to component units .....	206,341	—
Due to other governments .....	1,501,160	2,250,533
Interfund payables .....	6,123,537	—
Revenues received in advance .....	718,477	101,103
Tax overpayments .....	4,872,567	—
Deposits .....	1,683	—
Interest payable .....	—	2,583
Unclaimed property liability .....	730,564	—
General obligation bonds payable .....	—	—
Other liabilities .....	573,453	18,136
<b>Total liabilities .....</b>	<b>25,359,804</b>	<b>16,018,448</b>
<b>DEFERRED INFLOWS OF RESOURCES .....</b>	<b>1,500,271</b>	<b>12,067</b>
<b>Total liabilities and deferred inflows of resources .....</b>	<b>26,860,075</b>	<b>16,030,515</b>
<b>FUND BALANCES</b>		
Nonspendable .....	128,609	—
Restricted .....	394,246	211,574
Committed .....	125,120	—
Assigned .....	—	—
Unassigned .....	(8,092,571)	—
<b>Total fund balances (deficit) .....</b>	<b>(7,444,596)</b>	<b>211,574</b>
<b>Total liabilities, deferred inflows of resources, and fund balances .....</b>	<b>\$ 19,415,479</b>	<b>\$ 16,242,089</b>

<u>Transportation</u>	<u>Environmental and Natural Resources</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
\$ 3,567,889	\$ 5,709,974	\$ 11,588,042	\$ 25,570,055
—	—	634,223	634,223
1,129,154	523,853	3,456,906	18,288,384
970,675	48,240	1,206,195	3,736,005
4,647	60,380	411,764	16,351,868
3,362,281	829,227	1,332,720	5,573,462
—	1,113,482	2,635,009	4,076,416
56,443	—	30,481	98,740
<b>\$ 9,091,089</b>	<b>\$ 8,285,156</b>	<b>\$ 21,295,340</b>	<b>\$ 74,329,153</b>
\$ 421,430	\$ 358,736	\$ 934,782	\$ 3,881,602
120,638	47,238	2,765,819	25,045,156
—	—	—	206,341
359,446	30,013	3,514,917	7,656,069
2,316	25,000	8,584	6,159,437
19,810	147,753	93,131	1,080,274
—	—	—	4,872,567
2,243	349	392,164	396,439
—	—	113,669	116,252
—	—	—	730,564
—	—	1,164,630	1,164,630
522,340	6,270	140,394	1,260,593
<b>1,448,223</b>	<b>615,359</b>	<b>9,128,090</b>	<b>52,569,924</b>
<b>176,642</b>	<b>39,243</b>	<b>265,790</b>	<b>1,994,013</b>
<b>1,624,865</b>	<b>654,602</b>	<b>9,393,880</b>	<b>54,563,937</b>
—	—	27,260	155,869
7,398,858	6,321,107	10,337,554	24,663,339
67,366	1,321,111	1,526,270	3,039,867
—	—	18,857	18,857
—	(11,664)	(8,481)	(8,112,716)
<b>7,466,224</b>	<b>7,630,554</b>	<b>11,901,460</b>	<b>19,765,216</b>
<b>\$ 9,091,089</b>	<b>\$ 8,285,156</b>	<b>\$ 21,295,340</b>	<b>\$ 74,329,153</b>

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

(amounts in thousands)

**Total fund balances – governmental funds** **\$ 19,765,216**

Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:

- The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Land	18,256,083	
State highway infrastructure	65,268,686	
Collections – nondepreciable	22,630	
Buildings and other depreciable property	26,893,376	
Intangible assets – amortizable	1,027,753	
Less: accumulated depreciation/amortization	(11,604,161)	
Construction in progress	13,916,388	
Intangible assets – nonamortizable	1,375,240	
		115,155,995

- State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds. 1,994,013
- Internal service funds are used by management to charge the costs of certain activities, such as building construction, architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds. (5,483,510)
- Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position. (3,521,677)
- Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds. 761,882
- General obligation bonds and related accrued interest totaling \$80,162,120, revenue bonds totaling \$7,065,437, and certificates of participation and commercial paper totaling \$598,094 are not due and payable in the current period and are not reported in the funds. (87,825,651)
- The following liabilities are not due and payable in the current period and are not reported in the funds:

Compensated absences	(3,588,310)	
Capital leases	(260,088)	
Net other postemployment benefits obligation	(18,172,547)	
Mandated costs	(7,715,179)	
Workers’ compensation	(3,247,861)	
Proposition 98 funding guarantee	(1,519,468)	
Net pension obligation	(3,237,785)	
Pollution remediation obligations	(1,081,966)	
Other noncurrent liabilities	(18,793)	
		(38,841,997)

**Net position of governmental activities** **\$ 2,004,271**



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# Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds

### Year Ended June 30, 2014

(amounts in thousands)

	<u>General</u>	<u>Federal</u>
<b>REVENUES</b>		
Personal income taxes .....	\$ 67,584,256	\$ —
Sales and use taxes .....	22,287,696	—
Corporation taxes .....	9,242,454	—
Motor vehicle excise taxes .....	—	—
Insurance taxes .....	2,372,326	—
Other taxes .....	720,206	—
Intergovernmental .....	—	71,364,926
Licenses and permits .....	9,278	—
Charges for services .....	271,117	—
Fees .....	12,015	—
Penalties .....	226,493	26
Investment and interest .....	22,578	—
Escheat .....	487,869	—
Other .....	945,837	—
<b>Total revenues .....</b>	<b><u>104,182,125</u></b>	<b><u>71,364,952</u></b>
<b>EXPENDITURES</b>		
Current:		
General government .....	4,209,653	1,051,312
Education .....	45,443,261	6,931,926
Health and human services .....	29,126,074	58,139,464
Resources .....	1,144,226	259,857
State and consumer services .....	13,494	5,358
Business and transportation .....	6,735	3,968,256
Correctional programs .....	8,958,251	88,137
Capital outlay .....	1,486,204	—
Debt service:		
Bond and commercial paper retirement .....	1,995,536	74,400
Interest and fiscal charges .....	2,953,651	9,889
<b>Total expenditures .....</b>	<b><u>95,337,085</u></b>	<b><u>70,528,599</u></b>
Excess (deficiency) of revenues over (under) expenditures .....	8,845,040	836,353
<b>OTHER FINANCING SOURCES (USES)</b>		
General obligation bonds and commercial paper issued .....	—	—
Refunding debt issued .....	—	—
Payment to refund long-term debt .....	—	—
Premium on bonds issued .....	199,162	—
Capital leases .....	1,486,204	—
Transfers in .....	996,459	—
Transfers out .....	(3,915,547)	(822,732)
<b>Total other financing sources (uses) .....</b>	<b><u>(1,233,722)</u></b>	<b><u>(822,732)</u></b>
Net change in fund balances .....	7,611,318	13,621
<b>Fund balances (deficit) – beginning .....</b>	<b><u>(15,055,914) *</u></b>	<b><u>197,953</u></b>
<b>Fund balances (deficit) – ending .....</b>	<b><u>\$ (7,444,596)</u></b>	<b><u>\$ 211,574</u></b>

\* Restated

<u>Transportation</u>	<u>Environmental and Natural Resources</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
\$ —	\$ —	\$ 1,187,411	\$ 68,771,667
638,691	—	13,482,924	36,409,311
—	—	—	9,242,454
5,777,167	—	—	5,777,167
—	—	986,717	3,359,043
5,755	135,662	1,435,402	2,297,025
—	—	1,635,674	73,000,600
4,050,999	367,484	2,529,356	6,957,117
123,437	116,427	258,321	769,302
18,686	2,282,398	6,306,159	8,619,258
39,261	56,252	816,186	1,138,218
10,433	48,219	56,524	137,754
2	—	1,074	488,945
69,078	658,946	1,229,474	2,903,335
<b>10,733,509</b>	<b>3,665,388</b>	<b>29,925,222</b>	<b>219,871,196</b>
199,058	97,949	9,220,242	14,778,214
2,222	3,194	928,833	53,309,436
2,620	153,680	17,359,656	104,781,494
244,712	3,625,155	234,910	5,508,860
101,221	62,587	438,377	621,037
11,462,522	8,329	275,690	15,721,532
—	—	1,348,846	10,395,234
—	253,153	169,653	1,909,010
712,871	280,502	3,939,632	7,002,941
4,303	8,436	1,344,761	4,321,040
<b>12,729,529</b>	<b>4,492,985</b>	<b>35,260,600</b>	<b>218,348,798</b>
(1,996,020)	(827,597)	(5,335,378)	1,522,398
3,211,565	182,365	1,688,375	5,082,305
95,830	351,155	1,630,345	2,077,330
—	(154,651)	(173,373)	(328,024)
83,282	43,970	178,612	505,026
—	—	—	1,486,204
25	240,099	2,804,667	4,041,250
(1,159,155)	(22,663)	(383,950)	(6,304,047)
<b>2,231,547</b>	<b>640,275</b>	<b>5,744,676</b>	<b>6,560,044</b>
235,527	(187,322)	409,298	8,082,442
<b>7,230,697</b>	<b>7,817,876</b>	<b>11,492,162</b> *	<b>11,682,774</b>
<b>\$ 7,466,224</b>	<b>\$ 7,630,554</b>	<b>\$ 11,901,460</b>	<b>\$ 19,765,216</b>

The notes to the financial statements are an integral part of this statement.

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

**Net change in fund balances – total governmental funds** **\$ 8,082,442**

Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:

- Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:

Depreciation expense, net of asset disposal	(666,151)	
Disposal of assets	(1,797,155)	
Purchase of assets	<u>5,739,067</u>	
		3,275,761

- Some revenues in the Statement of Activities do not provide current financial resources, and therefore are unavailable in governmental funds. 95,078

- Internal service funds are used by management to charge the costs of certain activities, such as architectural, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities, excluding amounts for activity between the internal service funds and governmental funds. (124,281)

- Bonds and other noncurrent financing instruments provide current financial resources to governmental funds in the form of debt, which increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. The following amounts represent the difference between proceeds and repayments:

General obligation bonds	(304,472)	
Revenue bonds	94,211	
Certificates of participation and commercial paper	<u>(59,568)</u>	
		(269,829)

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	368,404	
Capital leases	(23,783)	
Net other postemployment benefits obligation	(2,978,601)	
Mandated costs	(1,018,589)	
Workers' compensation	(188,809)	
Proposition 98 funding guarantee	394,596	
Net pension obligation	40,990	
Pollution remediation obligations	(72,750)	
Other noncurrent liabilities	<u>245,930</u>	
		(3,232,612)

**Change in net position of governmental activities** **\$ 7,826,559**

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# Statement of Net Position

## Proprietary Funds

**June 30, 2014**

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments .....	\$ —	\$ 466,978
Amount on deposit with U.S. Treasury .....	—	—
Investments .....	—	—
Restricted assets:		
Cash and pooled investments .....	651,000	—
Due from other governments .....	—	—
Net investment in direct financing leases .....	—	—
Receivables (net) .....	—	35,068
Due from other funds .....	3,000	1,129
Due from other governments .....	—	39,429
Prepaid items .....	—	—
Inventories .....	—	5,203
Recoverable power costs (net) .....	156,000	—
Other current assets .....	—	—
Total current assets .....	<u>810,000</u>	<u>547,807</u>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments .....	629,000	82,728
Investments .....	300,000	72,388
Loans receivable .....	—	—
Investments .....	—	—
Net investment in direct financing leases .....	—	—
Receivables (net) .....	—	—
Interfund receivables .....	—	91,517
Loans receivable .....	—	15,232
Recoverable power costs (net) .....	4,490,000	—
Long-term prepaid charges .....	—	1,214,450
Capital assets:		
Land .....	—	137,033
Collections – nondepreciable .....	—	—
Buildings and other depreciable property .....	—	4,736,960
Intangible assets – amortizable .....	—	36,796
Less: accumulated depreciation/amortization .....	—	(1,994,695)
Construction in progress .....	—	402,520
Intangible assets – non-amortizable .....	—	151,047
Other noncurrent assets .....	—	—
Total noncurrent assets .....	<u>5,419,000</u>	<u>4,945,976</u>
<b>Total assets</b> .....	<b><u>6,229,000</u></b>	<b><u>5,493,783</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b><u>80,000</u></b>	<b><u>116,741</u></b>
<b>Total assets and deferred outflows of resources</b> .....	<b><u>\$ 6,309,000</u></b>	<b><u>\$ 5,610,524</u></b>

<b>Business-type Activities – Enterprise Funds</b>					<b>Governmental</b>
<b>State</b>	<b>Unemployment</b>	<b>California State</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Internal</b>
<b>Lottery</b>	<b>Programs</b>	<b>University</b>	<b>Enterprise</b>		<b>Service Funds</b>
\$ 316,261	\$ 3,540,926	\$ 445,974	\$ 663,416	\$ 5,433,555	\$ 995,075
—	25,215	—	—	25,215	—
116,629	—	2,413,678	—	2,530,307	—
—	—	—	25,975	676,975	3,339,603
—	—	—	20,182	20,182	—
—	—	11,442	—	11,442	406,075
404,239	1,307,800	191,054	32,321	1,970,482	109,934
295	38,516	1,105	672	44,717	441,922
—	40,063	—	206,498	285,990	21,042
—	5,223	43,146	27	48,396	124,378
7,486	—	—	3,124	15,813	76,700
—	—	—	—	156,000	—
5,304	—	—	—	5,304	—
<u>850,214</u>	<u>4,957,743</u>	<u>3,106,399</u>	<u>952,215</u>	<u>11,224,378</u>	<u>5,514,729</u>
—	—	86	—	711,814	402,394
—	—	—	—	372,388	—
—	—	—	305,278	305,278	—
796,206	—	357,153	25,202	1,178,561	—
—	—	358,915	—	358,915	6,576,903
—	32,109	253,902	—	286,011	—
—	611,690	—	5,600	708,807	15,774
—	—	88,251	3,775,587	3,879,070	—
—	—	—	—	4,490,000	—
16,182	—	—	—	1,230,632	8,329
6,469	—	77,364	1,272	222,138	2,312
—	—	7,711	—	7,711	—
157,283	20,103	6,805,714	18,138	11,738,198	660,487
—	166,966	130,789	1,500	336,051	63,217
(68,421)	(16,476)	(2,484,444)	(17,313)	(4,581,349)	(545,849)
—	—	361,545	—	764,065	941,386
—	86,302	11,030	222	248,601	91,167
—	—	17,587	5,586	23,173	—
<u>907,719</u>	<u>900,694</u>	<u>5,985,603</u>	<u>4,121,072</u>	<u>22,280,064</u>	<u>8,216,120</u>
<u>1,757,933</u>	<u>5,858,437</u>	<u>9,092,002</u>	<u>5,073,287</u>	<u>33,504,442</u>	<u>13,730,849</u>
—	—	45,426	—	242,167	118,169
<u>\$ 1,757,933</u>	<u>\$ 5,858,437</u>	<u>\$ 9,137,428</u>	<u>\$ 5,073,287</u>	<u>\$ 33,746,609</u>	<u>\$ 13,849,018</u>

(continued)

## Statement of Net Position (continued)

### Proprietary Funds

**June 30, 2014**

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 6,000	\$ 78,158
Due to other funds .....	—	47,681
Due to other governments .....	—	85,725
Revenues received in advance .....	—	—
Deposits .....	—	—
Contracts and notes payable .....	—	—
Interest payable .....	48,000	13,188
Benefits payable .....	—	—
Current portion of long-term obligations .....	694,000	191,637
Other current liabilities .....	—	—
<b>Total current liabilities</b> .....	<b>748,000</b>	<b>416,389</b>
Noncurrent liabilities:		
Interfund payables .....	—	—
Loans payable .....	—	—
Lottery prizes and annuities .....	—	—
Compensated absences payable .....	384	29,765
Workers' compensation benefits payable .....	—	—
Certificates of participation, commercial paper, and other borrowings .....	—	36,136
Capital lease obligations.....	—	—
General obligation bonds payable .....	—	184,960
Revenue bonds payable .....	5,555,000	2,532,234
Net other postemployment benefits obligation .....	5,616	176,769
Revenues received in advance .....	—	—
Other noncurrent liabilities .....	—	205,957
<b>Total noncurrent liabilities</b> .....	<b>5,561,000</b>	<b>3,165,821</b>
<b>Total liabilities</b> .....	<b>6,309,000</b>	<b>3,582,210</b>
<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>—</b>	<b>822,886</b>
<b>Total liabilities and deferred inflows of resources</b> .....	<b>6,309,000</b>	<b>4,405,096</b>
<b>NET POSITION</b>		
Net investment in capital assets .....	—	994,561
Restricted:		
Nonexpendable – endowments .....	—	—
Expendable:		
Construction .....	—	210,867
Debt service .....	—	—
Security for revenue bonds .....	—	—
Lottery .....	—	—
Unemployment programs .....	—	—
Other purposes .....	—	—
<b>Total expendable</b> .....	<b>—</b>	<b>210,867</b>
Unrestricted .....	—	—
<b>Total net position (deficit)</b> .....	<b>—</b>	<b>1,205,428</b>
<b>Total liabilities, deferred inflows of resources, and net position</b> .....	<b>\$ 6,309,000</b>	<b>\$ 5,610,524</b>



<b>Business-type Activities – Enterprise Funds</b>					<b>Governmental</b>
<b>State</b>	<b>Unemployment</b>	<b>California State</b>	<b>Nonmajor</b>		<b>Activities</b>
<b>Lottery</b>	<b>Programs</b>	<b>University</b>	<b>Enterprise</b>	<b>Total</b>	<b>Internal</b>
					<b>Service Funds</b>
\$ 52,691	\$ 19	\$ 173,638	\$ 2,637	\$ 313,143	\$ 503,197
314,912	59,896	—	1,552	424,041	100,637
—	43,428	—	7	129,160	879
2,979	63,017	256,641	32	322,669	315,022
—	—	—	—	—	429
—	—	—	—	—	15,202
—	—	—	11,444	72,632	118,944
—	482,396	—	—	482,396	—
559,401	—	459,605	26,256	1,930,899	504,843
9	53,247	371,550	126	424,932	105,562
929,992	702,003	1,261,434	42,054	4,099,872	1,664,715
—	—	—	—	—	138,606
—	7,633,391	—	—	7,633,391	—
683,180	—	—	—	683,180	—
—	51,428	98,543	2,739	182,859	166,723
2,538	—	—	—	2,538	43,037
—	—	14,970	—	51,106	—
—	—	1,180,232	—	1,180,232	—
—	—	—	432,357	617,317	—
—	—	3,567,026	415,647	12,069,907	10,822,897
41,114	129,505	267,013	8,405	628,422	444,312
—	—	11,460	—	11,460	—
—	—	166,382	73,709	446,048	21,329
726,832	7,814,324	5,305,626	932,857	23,506,460	11,636,904
<b>1,656,824</b>	<b>8,516,327</b>	<b>6,567,060</b>	<b>974,911</b>	<b>27,606,332</b>	<b>13,301,619</b>
—	—	—	—	822,886	—
<b>1,656,824</b>	<b>8,516,327</b>	<b>6,567,060</b>	<b>974,911</b>	<b>28,429,218</b>	<b>13,301,619</b>
95,330	256,895	714,940	3,824	2,065,550	245,439
—	—	16,219	—	16,219	—
—	—	34,199	—	245,066	282,605
—	—	139	25,975	26,114	4,796
—	—	—	325,460	325,460	—
101,109	—	—	—	101,109	—
—	3,800,470	—	—	3,800,470	—
—	—	44,680	354,415	399,095	—
101,109	3,800,470	79,018	705,850	4,897,314	287,401
(95,330)	(6,715,255)	1,760,191	3,388,702	(1,661,692)	14,559
<b>101,109</b>	<b>(2,657,890)</b>	<b>2,570,368</b>	<b>4,098,376</b>	<b>5,317,391</b>	<b>547,399</b>
<b>\$ 1,757,933</b>	<b>\$ 5,858,437</b>	<b>\$ 9,137,428</b>	<b>\$ 5,073,287</b>	<b>\$ 33,746,609</b>	<b>\$ 13,849,018</b>

(concluded)

The notes to the financial statements are an integral part of this statement.

# Statement of Revenues, Expenses and Changes in Fund Net Position

## Proprietary Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
<b>OPERATING REVENUES</b>		
Unemployment and disability insurance .....	\$ —	\$ —
Lottery ticket sales .....	—	—
Power sales .....	(44,000)	131,952
Student tuition and fees .....	—	—
Services and sales .....	—	841,556
Investment and interest .....	—	—
Rent .....	—	—
Grants and contracts .....	—	—
Other .....	—	—
<b>Total operating revenues .....</b>	<b>(44,000)</b>	<b>973,508</b>
<b>OPERATING EXPENSES</b>		
Lottery prizes .....	—	—
Power purchases (net of recoverable power costs) .....	(61,000)	241,444
Personal services .....	—	311,144
Supplies .....	—	—
Services and charges .....	15,000	246,065
Depreciation .....	—	68,896
Scholarships and fellowships .....	—	—
Distributions to beneficiaries .....	—	—
Interest expense .....	—	—
Amortization (recovery) of long-term prepaid charges .....	—	—
Other .....	—	—
<b>Total operating expenses .....</b>	<b>(46,000)</b>	<b>867,549</b>
Operating income (loss) .....	2,000	105,959
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Donations and grants .....	—	—
Private gifts .....	—	—
Investment and interest income .....	879,000	—
Interest expense and fiscal charges .....	(881,000)	(115,499)
Lottery payments for education .....	—	—
Loss on early extinguishment of debt .....	—	—
Other .....	—	9,540
<b>Total nonoperating revenues (expenses) .....</b>	<b>(2,000)</b>	<b>(105,959)</b>
Income (loss) before capital contributions and transfers .....	—	—
Capital contributions .....	—	—
Transfers in .....	—	—
Transfers out .....	—	—
Change in net position .....	—	—
<b>Total net position (deficit) – beginning .....</b>	<b>—</b>	<b>1,205,428</b>
<b>Total net position (deficit) – ending .....</b>	<b>\$ —</b>	<b>\$ 1,205,428</b>

\*Restated

<b>Business-type Activities – Enterprise Funds</b>					<b>Governmental</b>
<b>State</b>	<b>Unemployment</b>	<b>California State</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Internal</b>
<b>Lottery</b>	<b>Programs</b>	<b>University</b>	<b>Enterprise</b>		<b>Service Funds</b>
\$ —	\$ 15,160,251	\$ —	\$ —	\$ 15,160,251	\$ —
5,034,661	—	—	—	5,034,661	—
—	—	—	—	87,952	—
—	—	2,123,212	—	2,123,212	—
—	—	458,527	83,524	1,383,607	2,543,093
—	—	—	116,677	116,677	8,173
—	—	—	1,044	1,044	418,574
—	—	73,343	—	73,343	—
—	—	178,656	3,807	182,463	5,143
<b>5,034,661</b>	<b>15,160,251</b>	<b>2,833,738</b>	<b>205,052</b>	<b>24,163,210</b>	<b>2,974,983</b>
3,082,376	—	—	—	3,082,376	—
—	—	—	—	180,444	—
66,109	163,545	4,033,120	14,961	4,588,879	913,906
16,371	—	1,221,702	—	1,238,073	9,821
537,078	85,466	—	87,003	970,612	1,587,712
6,075	7,423	259,201	461	342,056	47,903
—	—	862,479	—	862,479	—
—	13,416,969	—	—	13,416,969	—
—	—	—	38,486	38,486	440,300
—	—	—	—	—	1,496
—	—	—	1,491	1,491	9,393
<b>3,708,009</b>	<b>13,673,403</b>	<b>6,376,502</b>	<b>142,402</b>	<b>24,721,865</b>	<b>3,010,531</b>
1,326,652	1,486,848	(3,542,764)	62,650	(558,655)	(35,548)
—	—	1,491,559	—	1,491,559	—
—	—	39,636	—	39,636	—
43,288	7,007	43,610	1,275	974,180	575
(42,998)	—	(168,434)	(355)	(1,208,286)	(3)
(1,327,928)	—	—	—	(1,327,928)	—
—	—	—	(26,913)	(26,913)	(54,537)
27	—	97,046	(9)	106,604	(1,555)
<b>(1,327,611)</b>	<b>7,007</b>	<b>1,503,417</b>	<b>(26,002)</b>	<b>48,852</b>	<b>(55,520)</b>
(959)	1,493,855	(2,039,347)	36,648	(509,803)	(91,068)
—	—	—	80,903	80,903	—
—	—	2,302,858	—	2,302,858	76,657
—	—	—	(6,848)	(6,848)	(109,870)
(959)	1,493,855	263,511	110,703	1,867,110	(124,281)
<b>102,068</b>	<b>(4,151,745)</b>	<b>2,306,857</b>	<b>3,987,673</b>	<b>3,450,281</b>	<b>671,680</b>
<b>\$ 101,109</b>	<b>\$ (2,657,890)</b>	<b>\$ 2,570,368</b>	<b>\$ 4,098,376</b>	<b>\$ 5,317,391</b>	<b>\$ 547,399</b>

The notes to the financial statements are an integral part of this statement.

# Statement of Cash Flows

## Proprietary Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers/employers .....	\$ (38,000)	\$ 986,586
Receipts from interfund services provided .....	—	—
Payments to suppliers .....	(38,000)	(461,499)
Payments to employees .....	(4,000)	(311,144)
Payments for interfund services used .....	—	—
Payments for Lottery prizes .....	—	—
Claims paid to other than employees .....	—	—
Other receipts (payments) .....	—	46,099
<b>Net cash provided by (used in) operating activities .....</b>	<b>(80,000)</b>	<b>260,042</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Changes in interfund payables and loans payable .....	—	—
Receipt of bond charges .....	864,000	—
Retirement of general obligation bonds .....	—	—
Retirement of revenue bonds .....	(611,000)	—
Interest paid on operating debt .....	(312,000)	—
Transfers in .....	—	—
Transfers out .....	—	—
Grants received .....	—	—
Lottery payments for education .....	—	—
<b>Net cash provided by (used in) noncapital financing activities .....</b>	<b>(59,000)</b>	<b>—</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets .....	—	(210,594)
Proceeds from sale of capital assets .....	—	—
Proceeds from notes payable and commercial paper .....	—	108,765
Principal paid on notes payable and commercial paper .....	—	(123,134)
Proceeds from capital leases .....	—	—
Payment on capital debt and leases .....	—	—
Retirement of general obligation bonds .....	—	(61,085)
Proceeds from revenue bonds .....	—	180,159
Retirement of revenue bonds .....	—	(114,775)
Interest paid .....	—	(120,230)
Grants received .....	—	—
<b>Net cash provided by (used in) capital and related financing activities .....</b>	<b>—</b>	<b>(340,894)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments .....	—	(252,174)
Proceeds from maturity and sale of investments .....	—	252,174
Change in interfund receivables and loans receivable .....	—	1,237
Earnings on investments .....	18,000	7,758
<b>Net cash provided by (used in) investing activities .....</b>	<b>18,000</b>	<b>8,995</b>
Net increase (decrease) in cash and pooled investments .....	(121,000)	(71,857)
<b>Cash and pooled investments – beginning .....</b>	<b>1,401,000</b>	<b>621,563</b>
<b>Cash and pooled investments – ending .....</b>	<b>\$ 1,280,000</b>	<b>\$ 549,706</b>

<b>Business-type Activities – Enterprise Funds</b>					<b>Governmental</b>
<b>State</b>	<b>Unemployment</b>	<b>California State</b>	<b>Nonmajor</b>	<b>Total</b>	<b>Activities</b>
<b>Lottery</b>	<b>Programs</b>	<b>University</b>	<b>Enterprise</b>		<b>Internal</b>
					<b>Service Funds</b>
\$ 5,013,487	\$ 15,150,430	\$ 2,583,311	\$ 367,535	\$ 24,063,349	\$ 3,328,192
—	—	—	419	419	131,813
(218,881)	(85,464)	(1,175,200)	(85,538)	(2,064,582)	(1,563,512)
(50,726)	(143,569)	(3,951,474)	(13,533)	(4,474,446)	(843,001)
(15,070)	(35,075)	—	(950)	(51,095)	(93,495)
(3,567,224)	—	—	—	(3,567,224)	—
(345,503)	(13,698,487)	—	—	(14,043,990)	—
499,198	135,638	(651,704)	(260,098)	(230,867)	(451,504)
<b>1,315,281</b>	<b>1,323,473</b>	<b>(3,195,067)</b>	<b>7,835</b>	<b>(368,436)</b>	<b>508,493</b>
—	(951,927)	(1,213)	—	(953,140)	567
—	—	—	—	864,000	—
—	—	—	(151,715)	(151,715)	—
—	—	—	(85,391)	(696,391)	—
—	—	—	(2,080)	(314,080)	(415)
—	—	2,302,858	—	2,302,858	76,657
—	—	—	(6,848)	(6,848)	(109,870)
—	—	1,618,834	—	1,618,834	—
(1,415,702)	—	—	—	(1,415,702)	—
<b>(1,415,702)</b>	<b>(951,927)</b>	<b>3,920,479</b>	<b>(246,034)</b>	<b>1,247,816</b>	<b>(33,061)</b>
(19,178)	(2,824)	(430,502)	(430)	(663,528)	(1,338,493)
39	14,467	405	—	14,911	18,558
—	—	17,733	—	126,498	—
—	—	—	—	(123,134)	—
—	—	68,756	—	68,756	—
—	—	(384,777)	—	(384,777)	—
—	—	—	—	(61,085)	—
—	—	464,372	—	644,531	2,323,173
—	—	(349,702)	—	(464,477)	(412,085)
—	—	—	—	(120,230)	—
—	—	26,473	82,351	108,824	—
<b>(19,139)</b>	<b>11,643</b>	<b>(587,242)</b>	<b>81,921</b>	<b>(853,711)</b>	<b>591,153</b>
(65,037)	—	(7,743,216)	(2,500)	(8,062,927)	—
134,853	14,748	7,497,304	—	7,899,079	—
—	—	—	—	1,237	—
23,080	7,007	20,721	1,310	77,876	576
<b>92,896</b>	<b>21,755</b>	<b>(225,191)</b>	<b>(1,190)</b>	<b>(84,735)</b>	<b>576</b>
(26,664)	404,944	(87,021)	(157,468)	(59,066)	1,067,161
<b>342,925</b>	<b>3,135,982</b>	<b>533,081</b>	<b>846,859</b>	<b>6,881,410</b>	<b>3,669,911</b>
<b>\$ 316,261</b>	<b>\$ 3,540,926</b>	<b>\$ 446,060</b>	<b>\$ 689,391</b>	<b>\$ 6,822,344</b>	<b>\$ 4,737,072</b>

(continued)

## Statement of Cash Flows (continued)

### Proprietary Funds

#### Year Ended June 30, 2014

(amounts in thousands)

	<u>Electric Power</u>	<u>Water Resources</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss) .....	\$ 2,000	\$ 105,959
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Interest expense on operating debt .....	—	—
Depreciation .....	—	68,896
Provisions and allowances .....	—	—
Amortization of premiums and discounts .....	—	—
Amortization of long-term prepaid charges and credits .....	—	(11,996)
Other .....	—	46,098
Change in assets and liabilities:		
Receivables .....	—	57,304
Due from other funds .....	—	—
Due from other governments .....	—	(19,202)
Prepaid items .....	—	—
Inventories .....	—	2,211
Net investment in direct financing leases .....	—	—
Recoverable power costs (net) .....	(94,000)	—
Other current assets .....	14,000	—
Loans receivable .....	—	—
Accounts payable .....	(3,000)	25,290
Due to other funds .....	—	(1,490)
Due to component units .....	—	—
Due to other governments .....	—	(13,028)
Deposits .....	—	—
Contracts and notes payable .....	—	—
Interest payable .....	—	—
Revenues received in advance .....	—	—
Other current liabilities .....	—	—
Benefits payable .....	—	—
Lottery prizes and annuities .....	—	—
Compensated absences payable .....	1,000	—
Other noncurrent liabilities .....	—	—
Total adjustments .....	<u>(82,000)</u>	<u>154,083</u>
<b>Net cash provided by (used in) operating activities .....</b>	<b><u>\$ (80,000)</u></b>	<b><u>\$ 260,042</u></b>
<b>Noncash investing, capital, and financing activities:</b>		
Interest accreted on annuitized prizes .....	\$ —	\$ —
Interest accreted on zero coupon bonds .....	—	—
Unclaimed Lottery prizes directly allocated to another entity .....	—	—
Impairment loss of utility plant .....	—	11,795
Contributed capital assets .....	—	—
Change in accrued capital asset purchases .....	—	—
Amortization of bond premium and discount .....	—	12,029
Issuance of notes receivable through proceeds from long-term debt .....	—	—
Proceeds from long-term debt received directly by discretely presented component units .....	—	—
Collection of notes receivable used to directly pay long-term debt .....	—	—
Payment of long-term debt made directly by discretely presented component units .....	—	—
Debt restructure and termination of direct financing leases .....	—	—
Other miscellaneous noncash transactions .....	—	7,850

<b>Business-type Activities – Enterprise Funds</b>						<b>Governmental Activities</b>
<b>State Lottery</b>	<b>Unemployment Programs</b>	<b>California State University</b>	<b>Nonmajor Enterprise</b>	<b>Total</b>	<b>Internal Service Funds</b>	
\$ 1,326,652	\$ 1,486,848	\$ (3,542,764)	\$ 62,650	\$ (558,655)	\$ (35,548)	
—	—	—	—	—	412	
6,075	7,423	259,201	461	342,056	47,903	
922	—	—	(3,586)	(2,664)	—	
—	—	—	505	505	(44,113)	
3,230	—	—	948	(7,818)	18,058	
12	—	(3,678)	(8,480)	33,952	8,598	
(42,663)	33,778	8,258	2,208	58,885	9,177	
—	(7,220)	1,105	11	(6,104)	71,084	
—	97,362	—	1,450	79,610	5,312	
—	—	(4,187)	(26)	(4,213)	(14,686)	
377	—	—	(425)	2,163	16,304	
—	—	—	8,468	8,468	389,895	
—	—	—	—	(94,000)	—	
464	—	—	98	14,562	—	
—	—	(1,459)	(63,829)	(65,288)	—	
(1,812)	2	(9,710)	(1,662)	9,108	2,795	
(145)	8,777	—	(966)	6,176	(59,044)	
—	—	—	—	—	(2,059)	
—	(6,885)	—	4	(19,909)	585	
—	—	196	—	196	(47)	
—	—	—	—	—	4,487	
—	—	—	(106)	(106)	(3,370)	
(161)	23,957	15,728	(11)	39,513	7,008	
794	8,529	5,006	10,744	25,073	(1,306)	
—	(281,518)	18,839	80	(262,599)	64,971	
14,210	—	—	—	14,210	—	
7,326	(3,868)	10,402	24	14,884	(5,593)	
—	23,844	47,996	(725)	71,115	27,670	
(11,371)	(95,819)	347,697	(54,815)	257,775	544,041	
<b>\$ 1,315,281</b>	<b>\$ 1,391,029</b>	<b>\$ (3,195,067)</b>	<b>\$ 7,835</b>	<b>\$ (300,880)</b>	<b>\$ 508,493</b>	
					(concluded)	
\$ 42,998	\$ —	\$ —	\$ —	\$ 42,998	\$ —	
15,608	—	—	—	15,608	—	
21,673	—	—	—	21,673	—	
—	—	—	—	11,795	—	
—	—	20,588	—	20,588	—	
—	—	8,945	—	8,945	—	
—	—	15,068	—	27,097	—	
—	—	40,464	—	40,464	—	
—	—	40,464	—	40,464	—	
—	—	11,685	—	11,685	—	
—	—	11,685	—	11,685	—	
—	—	—	22,006	22,006	114,285	
4,830	—	16,042	—	28,722	—	

The notes to the financial statements are an integral part of this statement.

## Statement of Fiduciary Net Position

### Fiduciary Funds and Similar Component Units

**June 30, 2014**

(amounts in thousands)

	<b>Private Purpose Trust</b>	<b>Pension and Other Employee Benefit Trust</b>	<b>Investment Trust Local Agency Investment</b>	<b>Agency</b>
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 49,896	\$ 2,687,933	\$ 21,131,371	\$ 3,682,227
Investments, at fair value:				
Short-term .....	—	13,010,538	—	—
Equity securities .....	3,218,383	270,858,397	—	—
Debt securities .....	1,844,304	109,483,220	—	—
Real estate .....	188,273	53,253,600	—	—
Other .....	777,884	62,879,102	—	—
Securities lending collateral .....	—	39,699,637	—	—
Total investments .....	<u>6,028,844</u>	<u>549,184,494</u>	<u>—</u>	<u>—</u>
Receivables (net) .....	8,499	5,016,735	—	2,129,562
Due from other funds .....	85,929	567,552	—	20,693,709
Due from other governments .....	—	18,501	—	7,662
Prepaid items .....	—	—	—	28,928
Loans receivable .....	—	22,005	—	7,257
Other assets .....	172,661	930,877	—	93
<b>Total assets</b> .....	<b><u>6,345,829</u></b>	<b><u>558,428,097</u></b>	<b><u>21,131,371</u></b>	<b><u>\$ 26,549,438</u></b>
<b>LIABILITIES</b>				
Accounts payable .....	31,335	2,966,302	45	\$ 14,942,369
Due to other governments .....	—	—	11,251	9,984,233
Tax overpayments .....	—	—	—	4,632
Benefits payable .....	—	2,655,305	—	—
Revenues received in advance.....	—	—	—	22,125
Deposits .....	172,661	—	—	987,603
Securities lending obligations .....	—	39,546,799	—	—
Loans payable .....	—	944,269	—	—
Other liabilities .....	938	2,090,618	—	608,476
<b>Total liabilities</b> .....	<b><u>204,934</u></b>	<b><u>48,203,293</u></b>	<b><u>11,296</u></b>	<b><u>\$ 26,549,438</u></b>
<b>NET POSITION</b>				
<b>Restricted for pension benefits, pool participants, and other employee benefits .....</b>	<b><u>\$ 6,140,895</u></b>	<b><u>\$ 510,224,804</u></b>	<b><u>\$ 21,120,075</u></b>	



# Statement of Changes in Fiduciary Net Position

## Fiduciary Funds and Similar Component Units

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Private Purpose Trust</b>	<b>Pension and Other Employee Benefit Trust</b>	<b>Investment Trust Local Agency Investment</b>
<b>ADDITIONS</b>			
Contributions:			
Employer .....	\$ —	\$ 14,397,367	\$ —
Plan member .....	—	6,958,991	—
Total contributions .....	—	21,356,358	—
Investment income:			
Net appreciation (depreciation) in fair value of investments .....	512,830	71,480,345	—
Interest, dividends, and other investment income .....	244,806	8,581,008	50,201
Less: investment expense .....	(4,023)	(1,771,132)	—
Net investment income .....	753,613	78,290,221	50,201
Receipts from depositors .....	3,059,755	—	21,647,510
Other .....	—	32,452	—
<b>Total additions .....</b>	<b>3,813,368</b>	<b>99,679,031</b>	<b>21,697,711</b>
<b>DEDUCTIONS</b>			
Distributions paid and payable to participants .....	—	31,006,086	48,512
Refunds of contributions .....	—	444,619	—
Administrative expense .....	3	565,212	1,689
Interest expense .....	—	—	—
Payments to and for depositors .....	2,827,126	618,801	21,739,535
<b>Total deductions .....</b>	<b>2,827,129</b>	<b>32,634,718</b>	<b>21,789,736</b>
Change in net position .....	986,239	67,044,313	(92,025)
<b>Net position – beginning .....</b>	<b>5,154,656</b>	<b>443,180,491</b>	<b>21,212,100</b>
<b>Net position – ending .....</b>	<b>\$ 6,140,895</b>	<b>\$ 510,224,804</b>	<b>\$ 21,120,075</b>

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# **Discretely Presented Component Units Financial Statements**



## Statement of Net Position

### Discretely Presented Component Units – Enterprise Activity

**June 30, 2014**

(amounts in thousands)

	<b>University of California</b>	<b>California Housing Finance Agency</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments .....	\$ 322,711	\$ 1,081,220
Investments .....	4,717,181	100,943
Restricted assets:		
Cash and pooled investments .....	—	—
Investments .....	—	—
Receivables (net) .....	3,167,380	172,460
Due from primary government .....	205,129	—
Due from other governments .....	97,342	—
Prepaid items .....	—	534
Inventories .....	194,615	—
Other current assets .....	208,674	14,145
<b>Total current assets</b> .....	<b>8,913,032</b>	<b>1,369,302</b>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments .....	—	—
Investments .....	—	—
Investments .....	25,686,412	403,112
Receivables (net) .....	2,488,712	—
Loans receivable .....	—	3,781,555
Long-term prepaid charges .....	—	—
Capital assets:		
Land .....	863,455	—
Collections – nondepreciable .....	382,277	—
Buildings and other depreciable property .....	41,502,981	1,782
Intangible assets – amortizable .....	823,393	—
Less: accumulated depreciation/amortization .....	(19,569,114)	(940)
Construction in progress .....	3,642,165	—
Intangible assets – non-amortizable .....	—	—
Other noncurrent assets .....	286,504	16,681
<b>Total noncurrent assets</b> .....	<b>56,106,785</b>	<b>4,202,190</b>
<b>Total assets</b> .....	<b>65,019,817</b>	<b>5,571,492</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>3,705,459</b>	<b>25,710</b>
<b>Total assets and deferred outflows of resources</b> .....	<b>\$ 68,725,276</b>	<b>\$ 5,597,202</b>

<b>Nonmajor Component Units</b>		<b>Total</b>	
\$	949,157	\$	2,353,088
	404,400		5,222,524
	128,517		128,517
	15,929		15,929
	447,432		3,787,272
	1,212		206,341
	—		97,342
	742		1,276
	—		194,615
	32,349		255,168
	<u>1,979,738</u>		<u>12,262,072</u>
	26,725		26,725
	14,286		14,286
	1,841,034		27,930,558
	252,630		2,741,342
	285,454		4,067,009
	—		—
	139,066		1,002,521
	8,401		390,678
	1,995,127		43,499,890
	12,578		835,971
	(972,702)		(20,542,756)
	19,357		3,661,522
	5,082		5,082
	50,751		353,936
	<u>3,677,789</u>		<u>63,986,764</u>
	<u>5,657,527</u>		<u>76,248,836</u>
	<u>6,069</u>		<u>3,737,238</u>
\$	<u>5,663,596</u>	\$	<u>79,986,074</u>

(continued)

## Statement of Net Position (continued)

### Discretely Presented Component Units – Enterprise Activity

**June 30, 2014**

(amounts in thousands)

	<b>University of California</b>	<b>California Housing Finance Agency</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 1,483,299	\$ 89,309
Due to other governments .....	—	—
Revenues received in advance .....	1,061,477	—
Deposits .....	561,009	227,493
Contracts and notes payable .....	—	—
Interest payable .....	—	58,170
Securities lending obligations .....	1,269,083	—
Current portion of long-term obligations .....	3,432,534	74,248
Other current liabilities .....	1,532,342	599
<b>Total current liabilities</b> .....	<b>9,339,744</b>	<b>449,819</b>
Noncurrent liabilities:		
Compensated absences payable .....	262,593	—
Workers' compensation benefits payable .....	321,055	—
Certificates of participation, commercial paper, and other borrowings .....	—	—
Capital lease obligations.....	88,622	—
Revenue bonds payable .....	15,424,508	3,526,190
Net other postemployment benefits obligation .....	8,440,303	22,295
Net pension obligation .....	7,725,075	—
Other noncurrent liabilities .....	1,206,888	201,429
<b>Total noncurrent liabilities</b> .....	<b>33,469,044</b>	<b>3,749,914</b>
<b>Total liabilities</b> .....	<b>42,808,788</b>	<b>4,199,733</b>
<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>7,108,562</b>	<b>—</b>
<b>Total liabilities and deferred inflows of resources</b> .....	<b>49,917,350</b>	<b>4,199,733</b>
<b>NET POSITION</b>		
Net Investment in capital assets .....	12,166,807	842
Restricted:		
Nonexpendable – endowments.....	4,343,651	—
Expendable:		
Endowments and gifts .....	9,903,548	—
Education .....	783,994	—
Indenture .....	—	491,187
Employee benefits .....	—	—
Workers' compensation liability .....	—	—
Statute .....	—	986,565
Other purposes .....	—	—
<b>Total expendable</b> .....	<b>10,687,542</b>	<b>1,477,752</b>
Unrestricted .....	(8,390,074)	(81,125)
<b>Total net position</b> .....	<b>18,807,926</b>	<b>1,397,469</b>
<b>Total liabilities, deferred inflows of resources, and net position</b> .....	<b>\$ 68,725,276</b>	<b>\$ 5,597,202</b>

Nonmajor Component Units	Total
\$ 265,990	\$ 1,838,598
54,967	54,967
66,239	1,127,716
1,549	790,051
16,326	16,326
2,764	60,934
—	1,269,083
298,756	3,805,538
288,847	1,821,788
<u>995,438</u>	<u>10,785,001</u>
12,691	275,284
283	321,338
20,255	20,255
360,026	448,648
237,203	19,187,901
117,649	8,580,247
—	7,725,075
515,950	1,924,267
<u>1,264,057</u>	<u>38,483,015</u>
<u>2,259,495</u>	<u>49,268,016</u>
<u>1,561</u>	<u>7,110,123</u>
<u>2,261,056</u>	<u>56,378,139</u>
515,314	12,682,963
945,897	5,289,548
9,378	9,912,926
924,763	1,708,757
—	491,187
—	—
—	—
281,696	1,268,261
25,769	25,769
<u>1,241,606</u>	<u>13,406,900</u>
699,723	(7,771,476)
<u>3,402,540</u>	<u>23,607,935</u>
<u>\$ 5,663,596</u>	<u>\$ 79,986,074</u>
	(concluded)

The notes to the financial statements are an integral part of this statement.

## Statement of Activities

### Discretely Presented Component Units – Enterprise Activity

#### Year Ended June 30, 2014

(amounts in thousands)

	University of California	California Housing Finance Agency
<b>OPERATING EXPENSES</b>		
Personal services .....	\$ 17,267,563	\$ 29,703
Scholarships and fellowships .....	577,212	—
Supplies .....	2,584,968	—
Services and charges .....	290,444	29,572
Department of Energy laboratories .....	1,244,335	—
Depreciation .....	1,739,612	264
Interest expense and fiscal charges .....	617,000	122,277
Grants provided .....	642,809	—
Other .....	3,750,169	53,348
<b>Total operating expenses .....</b>	<b>28,714,112</b>	<b>235,164</b>
<b>PROGRAM REVENUES</b>		
Charges for services .....	16,945,088	38,783
Operating grants and contributions .....	8,051,387	53,462
Capital grants and contributions .....	473,464	—
<b>Total program revenues .....</b>	<b>25,469,939</b>	<b>92,245</b>
Net revenues (expenses) .....	(3,244,173)	(142,919)
<b>GENERAL REVENUES</b>		
Investment and interest income .....	2,972,157	171,294
Other .....	2,502,492	22,899
<b>Total general revenues .....</b>	<b>5,474,649</b>	<b>194,193</b>
Change in net position .....	2,230,476	51,274
<b>Net position – beginning .....</b>	<b>16,577,450 *</b>	<b>1,346,195 *</b>
<b>Net position – ending .....</b>	<b>\$ 18,807,926</b>	<b>\$ 1,397,469</b>

\* Restated



Nonmajor Component Units	Total
\$ 500,490	\$ 17,797,756
54,938	632,150
10,726	2,595,694
1,272,317	1,592,333
—	1,244,335
74,536	1,814,412
34,895	774,172
—	642,809
69,477	3,872,994
<b>2,017,379</b>	<b>30,966,655</b>
1,069,909	18,053,780
564,519	8,669,368
9,147	482,611
<b>1,643,575</b>	<b>27,205,759</b>
(373,804)	(3,760,896)
253,750	3,397,201
433,862	2,959,253
<b>687,612</b>	<b>6,356,454</b>
313,808	2,595,558
<b>3,088,732 *</b>	<b>21,012,377</b>
<b>\$ 3,402,540</b>	<b>\$ 23,607,935</b>

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## Notes to the Financial Statements – Index

Note 1. Summary of Significant Accounting Policies .....	69
A. Reporting Entity .....	69
1. Blended Component Units .....	69
2. Fiduciary Component Units .....	70
3. Discretely Presented Component Units .....	70
4. Joint Venture .....	72
5. Related Organizations .....	72
B. Government-wide and Fund Financial Statements .....	74
C. Measurement Focus and Basis of Accounting .....	77
1. Government-wide Financial Statements .....	77
2. Fund Financial Statements .....	77
D. Cash and Investments .....	78
E. Receivables .....	78
F. Inventories .....	78
G. Net Investment in Direct Financing .....	78
H. Long-term Prepaid Charges .....	78
I. Capital Assets .....	79
J. Long-term Obligations .....	80
K. Compensated Absences .....	80
L. Deferred Outflows and Deferred Inflows of Resources .....	81
1. Deferred Outflows of Resources .....	81
2. Deferred Inflows of Resources .....	81
M. Abnormal Fund Balances .....	82
N. Nonmajor Enterprise Segment Information .....	82
O. Net Position and Fund Balance .....	82
P. Restatement of Beginning Fund Balances and Net Position .....	83
1. Fund Financial Statements .....	83
2. Government-wide Financial Statements .....	84
Q. Guaranty Deposits .....	84
Note 2. Budgetary and Legal Compliance .....	85
A. Budgeting and Budgetary Control .....	85
B. Legal Compliance .....	85
Note 3. Deposits and Investments .....	86
A. Primary Government .....	86
1. Control of State Funds .....	86

2. Valuation of State Investments .....	87
3. Oversight of Investing Activities .....	87
4. Risk of Investments .....	88
a. Interest Rate Risk .....	89
b. Credit Risk .....	90
c. Custodial Credit Risk .....	90
d. Concentration of Credit Risk .....	90
B. Fiduciary Funds .....	91
C. Discretely Presented Component Units .....	91
Note 4. Accounts Receivable .....	92
Note 5. Restricted Assets .....	94
Note 6. Net Investment in Direct Financing Leases .....	94
Note 7. Capital Assets .....	96
Note 8. Accounts Payable .....	98
Note 9. Short-term Financing .....	100
Note 10. Long-term Obligations .....	100
Note 11. Certificates of Participation .....	104
Note 12. Commercial Paper and Other Long-term Borrowings .....	104
Note 13. Leases .....	105
Note 14. Commitments .....	106
Note 15. General Obligation Bonds .....	108
A. Variable-rate General Obligation Bonds .....	108
B. Economic Recovery Bonds .....	109
C. Mandatory Tender Bonds .....	109
D. Build America Bonds .....	110
E. Debt Service Requirements .....	110
F. General Obligation Bond Defeasances .....	111
1. Current Year .....	111
2. Prior Years .....	111
Note 16. Revenue Bonds .....	111
A. Governmental Activities .....	111
B. Business-type Activities .....	112
C. Discretely Presented Component Units .....	112
D. Revenue Bond Defeasances .....	114
1. Current Year – Governmental Activities .....	114
2. Current Year – Business-type Activities .....	115
3. Prior Years .....	115

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Note 17. Service Concession Arrangements .....	115
Note 18. Interfund Balances and Transfers .....	116
A. Interfund Balances .....	116
B. Interfund Transfers .....	122
Note 19. Fund Balances, Fund Deficits, and Endowments .....	124
A. Fund Balances .....	124
B. Fund Deficits .....	125
C. Discretely Presented Component Unit Endowments and Gifts .....	125
Note 20. Risk Management .....	125
Note 21. Deferred Outflows and Deferred Inflows of Resources .....	127
Note 22. No Commitment Debt .....	127
Note 23. Contingent Liabilities .....	127
A. Litigation .....	127
B. Federal Audit Exceptions .....	129
Note 24. Pension Trusts .....	130
A. Public Employees' Retirement Fund .....	130
1. Fund Information .....	130
2. Employer's Information .....	131
B. Teachers' Retirement Fund .....	132
Note 25. Postemployment Health Care Benefits .....	136
Note 26. Subsequent Events .....	139
A. Debt Issuances .....	139
B. Cash Management .....	139
C. Other .....	140

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# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2014:

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires governments that extend a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

### A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State, but for which the State is financially accountable or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Following is information on the blended, fiduciary, and discretely presented component units of the State.

#### 1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

*Building authorities* are blended component units because they have been created through the use of joint exercise of powers agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, email the State Controller's Office, Division of Accounting and Reporting at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov).

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues

from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. GSTSC is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

## **2. Fiduciary Component Units**

The State has two legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee benefits trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. CalPERS' separately issued financial statements may be obtained from the California Public Employees' Retirement System on its website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. The State is financially accountable for CalSTRS. CalSTRS administers the following four pension and other employee benefit trust funds: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System on its website at [www.CalSTRS.com](http://www.CalSTRS.com).

## **3. Discretely Presented Component Units**

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and primarily provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the California Housing Finance Agency, and nonmajor component units. Most component units separately issue their own financial statements. In general, the notes to the financial statements in this publication do not include information found in the component units' separately issued financial statements. Instead, references to the individual component unit financial statements are provided where applicable.

The *University of California* was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University of California is a component unit of the State because the State appoints a voting majority of the Regents and provides financial assistance to the University. The University of California offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. The University of California's financial statements may be obtained from the University of California on its website at [www.ucop.edu](http://www.ucop.edu).



The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and appoints the executive director who administers the day-to-day operations. CalHFA's financial statements may be obtained from the California Housing Finance Agency on its website at [www.CalHFA.ca.gov](http://www.CalHFA.ca.gov).

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University auxiliary organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity; or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, email the State Controller's Office, Division of Accounting and Reporting at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov).

The nonmajor consolidated component units segments are:

*California State University auxiliary organizations*, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

*Financing authorities*, which provide financing for specific purposes. These agencies include:

- The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;
- The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements; and
- The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

*District agricultural associations*, which exhibit all of the industries, industrial enterprises, resources, and products of the state (the district agricultural association's financial report is as of and for the year ended December 31, 2013).

*Other component units*, which include the following entities:

- The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;
- The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and
- The *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

#### 4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members: two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2014, CADA had total assets of \$31.4 million, total liabilities of \$19.7 million, and total net position of \$11.7 million. Total revenues for the fiscal year were \$10.5 million and expenses were \$11.3 million, resulting in a decrease in net position of \$800,000. Because the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958 or on its website at [www.cadanet.org](http://www.cadanet.org).

#### 5. Related Organizations

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but for which it is not financially accountable.

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, contact the Independent System Operator, P.O. Box 639014, Folsom, California 95763-9014 or go to its website at [www.caiso.com](http://www.caiso.com).

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobilehome owners. A three-member board of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, California 95814 or go to its website at [www.earthquakeauthority.com](http://www.earthquakeauthority.com).

The *State Compensation Insurance Fund (State Fund)* was established by the State of California through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all 11 members of the State Fund's governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the State Fund, the financial information of this institution is not included in the financial statement of this report. For information regarding obtaining copies of the financial statements of the State Fund, contact the State Compensation Insurance Fund, 333 Bush Street, 8th Floor, San Francisco, California 94104 or go to its website at [www.statefundca.com](http://www.statefundca.com).

The *California Health Benefit Exchange (the Exchange)*, an independent public entity, offers new health insurance to individuals, families, and small businesses. A five-member board of state-elected officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the Exchange, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the Exchange, contact Covered California, P.O. Box 989725, West Sacramento, California 95798-9725.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board of state-elected officials governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CPCFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CPCFA, contact the State Treasurer's Office, 915 Capitol Mall, Room 457, Sacramento, California 95814 or go to its website at [www.treasurer.ca.gov/cpcfca](http://www.treasurer.ca.gov/cpcfca).

The *California Health Facilities Financing Authority (CHFFA)* was established by the State of California through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CHFFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at [www.treasurer.ca.gov/chffa](http://www.treasurer.ca.gov/chffa).

The *California Educational Facilities Authority (CEFA)* was created by Board of Control approval in 1974. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CEFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements for the CEFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at [www.treasurer.ca.gov/cefa](http://www.treasurer.ca.gov/cefa).

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board of state officials governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. Because the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, contact the State Treasurer's Office, 304 South Broadway, Suite 550, Los Angeles, California 90013 or go to its website at [www.treasurer.ca.gov/csfa/](http://www.treasurer.ca.gov/csfa/).

## B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

**Governmental fund types** are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The State reports the following major governmental funds:

The *General Fund* is the main operating fund of the State. It accounts for transactions related to resources obtained and used for those services that need not be accounted for in another fund.

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government that are all restricted by federal regulations.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are restricted for transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are restricted for maintaining the State's natural resources and improving the environmental quality of its air, land, and water.

**Proprietary fund types** focus on the determination of operating income, changes in net position, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. For its proprietary funds, the State applies all applicable GASB pronouncements.

The State has two proprietary fund types: enterprise funds and internal service funds.

*Enterprise funds* record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

*Nonmajor enterprise funds* account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include: architectural services, public building construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

**Fiduciary fund types** are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

*Private purpose trust funds* account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed.

*Pension and other employee benefit trust funds* of the primary government and fiduciary component units account for transactions, assets, liabilities, and net position available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

*Agency funds* account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

**Discretely presented component units** consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the California Housing Finance Agency, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

## C. Measurement Focus and Basis of Accounting

### 1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### 2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unassigned fund balance is a measure of available spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. When an asset is recorded in a governmental fund statement, but the revenue is not available per the criterion described herein, the State reports a deferred inflow of resources until such time the revenue becomes available. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments.

**Proprietary fund types, the investment trust fund, private purpose trust funds, and pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Lottery revenue and the related prize expenses are recognized when sales are made. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

For purposes of the Statement of Cash Flows, all cash and pooled investments in the State Treasurer's pooled investment program are considered to be cash and cash equivalents.

**Discretely presented component units** are accounted for using the economic resources measurement focus and the accrual basis of accounting.

## **D. Cash and Investments**

The State considers cash and pooled investments, for the purpose of the Statement of Cash Flows, as cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand, deposits in the State's pooled investment program, restricted cash and pooled investments for debt service, construction and operations, restricted cash on deposit with fiscal agents (for example, revenue bond trustees), and highly liquid investments with an original maturity date of three months or less.

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments.

## **E. Receivables**

Amounts are aggregated into a single receivables account net of allowance for uncollectible amounts. The detail of the primary government's accounts receivable can be found in Note 4, Accounts Receivable.

## **F. Inventories**

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Position. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

## **G. Net Investment in Direct Financing Leases**

The State Public Works Board accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments in the internal service fund financial statements. As the majority of this lease receivable is from governmental funds, it is eliminated within the governmental activities column of the government-wide Statement of Net Position.

The California State University System (CSU) accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into 30-year capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the CSU auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

## **H. Long-term Prepaid Charges**

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges



are recognized when billed in the future years under the terms of water supply contracts. The long-term prepaid charges for the Public Buildings Construction Fund include prepaid insurance costs on revenue bonds issued. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid charges are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts. In the government-wide financial statements, the prepaid charges for governmental activities includes prepaid insurance costs on revenue bonds issued.

## **I. Capital Assets**

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Position.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are: held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least \$5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over five years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from three to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

## J. Long-term Obligations

Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension and other employee benefit trust funds, the net other postemployment benefits obligation (OPEB), the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums and discounts for business-type activities and component units are deferred and amortized over the life of the bonds. In these instances, bonds payable is reported net of the applicable premium and discount. Bond premiums and discounts for governmental funds are reported as other financing sources (uses). However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount. Bond issuance costs, excluding prepaid insurance, are expensed when incurred.

With advance approval from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities capital projects fund, the liability for revenue bonds is recorded in the respective fund.

## K. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the governmental fund financial statements, only the compensated absences liability for employees who have left state service and have unused reimbursable leave at year end is included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

## L. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund financial statements report deferred outflows of resources and deferred inflows of resources.

### 1. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after “Total Assets” in the Balance Sheet and Statement of Net Position.

The State’s deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for business-type activities and component units.
- *Net Pension Liability*: The University of California, a discretely presented component unit, reports the decreases in its net pension liability that were not included in its pension expense as deferred outflows of resources. Also, employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

### 2. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after “Total Liabilities” in the Balance Sheet and Statement of Net Position.

The State’s deferred inflows of resources consist of the following transactions:

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds resulted in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Service Concession Arrangements*: The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.
- *Net Pension Liability*: The University of California reports the increases in its net pension liability that were not included in pension expense as deferred inflows of resources.
- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position. Revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported in the governmental funds’ balance sheet.

## M. Abnormal Account Balances

In the 2013-14 fiscal year, the Water Resources Electric Power Fund had a net refund of \$44 million of power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves as lower levels of reserve were required. During the 2013-14 fiscal year, the fund returned \$93 million through adjustments to power charges and through separate monthly payments to its ratepayers.

## N. Nonmajor Enterprise Segment Information

Two nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Statement of Cash Flows of the nonmajor enterprise funds. A *segment* is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

*State Water Pollution Control Revolving Fund:* Interest charged on loans to communities for construction of water pollution control facilities and projects.

*Housing Loan Fund:* Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

## O. Net Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called “net position” on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called “fund balance” on the governmental fund statements. The government-wide financial statements include the following categories of net position:

*Net investment in capital assets*, represents capital assets, net of accumulated depreciation, reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted* net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2014, the government-wide financial statements show restricted net position for the primary government of \$28.9 billion, of which \$6.8 billion is due to enabling legislation.

*Unrestricted* net position is neither restricted nor invested in capital assets.

In the fund financial statements, proprietary funds include categories of net position similar to those in the government-wide financial statements. Fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned.

*Nonspendable* fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale

unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

*Restricted* fund balance has constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws and regulations of other governments) or through a constitutional provision or enabling legislation.

*Committed* fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the State's highest level of decision-making authority, the California State Legislature. The formal action that commits fund balance to a specific purpose occurred prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

*Assigned* fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount, unless the purchase order relates to restricted or committed resources. Furthermore, all resources in governmental funds, other than the General Fund, that are not reported as nonspendable, restricted, or committed are classified as assigned for the purpose of the respective funds.

*Unassigned* fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported.

*Fund balance spending order*: For the purpose of reporting fund balance in this financial report under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Fiduciary fund net position is amounts held in trust for benefits and other purposes.

## P. Restatement of Beginning Fund Balances and Net Position

### 1. Fund Financial Statements

The beginning fund balance of *governmental funds* decreased by a net total of \$566 million. This decrease is comprised of an understatement of \$444 million for education expenditures that support community colleges and an overstatement of \$357 million of retail sales tax revenue in the *General Fund*, and the following restatements in *nonmajor governmental funds*:

- \$212 million increase as a result of a change in the tobacco settlement revenue recognition methodology in the *Golden State Tobacco Securitization Corporation Fund*;
- \$26 million increase due to the understatement of retail sales tax revenue in the *Economic Recovery Bond Sinking Fund*; and
- \$3 million decrease due to the movement of a fund previously reported within the *Financing for Local Governments and the Public* special revenue fund that is now administered by a discretely presented component unit reported within the *financing authorities* consolidated nonmajor component unit segment.

The beginning net position of the *internal service funds* increased by \$419 million. This increase is comprised of \$368 million, as adjusted for capitalized interest of \$11.8 million, due to the reclassification of the *Public Building Construction Fund* from an enterprise fund to an internal service fund. The remaining \$51 million increase resulted from understated capital assets and understated revenue in the *Financial Information Systems Fund*.

The beginning net position of the *enterprise funds* decreased by \$616 million. The decrease is comprised of the \$380 million prior year net position of the *Public Buildings Construction Fund* that was reclassified from an enterprise fund to an internal service fund and the \$236 million transfer of capital lease obligation from governmental activities to the *California State University Fund*, a major enterprise fund.

Beginning net position of the *discretely presented component units* decreased by \$6.3 billion. This decrease is primarily the result of the *University of California's* implementation of GASB Statement No. 65 and GASB Statement No. 68, as well as a change in its reporting entity. Further information related to these restatements is included in the University's separately issued financial statements which can be obtained from the University on its website at [www.ucop.edu](http://www.ucop.edu). In addition, other component units had small restatements to their beginning net position as follows:

- \$39 million increase for understated loans receivable of the *California Housing Finance Agency*;
- \$6 million decrease for OPEB obligation and other adjustments of the *California State University Auxiliary Organizations*;
- \$3 million increase due to the movement of a fund previously reported as a special revenue fund by the primary government to the *financing authorities* consolidated nonmajor component unit segment; and
- \$239,000 net increase for the implementation of GASB 65, understated liabilities, and unrecorded capital assets for the *district agricultural associations*.

## 2. Government-wide Financial Statements

The beginning net position of the *governmental activities* increased by \$2.3 billion. In addition to the amounts described in the previous section for governmental funds, the restatement comprises a \$2.2 billion increase for understated capital assets and the \$236 million increase for the transfer from governmental activities of capital lease obligations of the *California State University Fund* described in the previous section for enterprise funds.

The beginning net position of *business-type activities* and *component units* were restated as described in the previous section for enterprise funds and discretely presented component units, respectively.

## Q. Guaranty Deposits

The State is the custodian of guaranty deposits held to protect consumers, to secure the State's deposits in financial institutions, and to ensure payment of taxes and fulfillment of obligations to the State. Guaranty deposits of securities and other properties are not shown on the financial statements.

## NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

### A. Budgeting and Budgetary Control

The State's annual budget is prepared primarily on a modified accrual basis for governmental funds. The Governor recommends a budget for approval by the Legislature each year. This recommended budget includes estimated revenues, but revenues are not included in the annual budget bill adopted by the Legislature. Under state law, the State cannot adopt a spending plan that exceeds estimated revenues.

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2014, increased spending authority for the budgetary/legal basis reported General Fund, and decreased spending authority for the Environmental and Natural Resources Funds and Transportation Funds.

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period in which the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for these encumbrances lapses.

### B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon request by emailing the State Controller's Office, Division of Accounting and Reporting at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov).

## **NOTE 3: DEPOSITS AND INVESTMENTS**

Cash balances not required for immediate use are invested by the State Treasurer. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner.

### **A. Primary Government**

#### **1. Control of State Funds**

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units and a related organization participate in the State Treasurer's Office pooled investment program. As of June 30, 2014, the discretely presented component units and the related organization account for approximately 3.2% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and that earn income that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2014, totaling approximately \$7.3 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2014, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling \$19 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

Certain funds have elected to participate in the pooled investment program even though they have the authority to invest on their own. Others may be required by legislation to participate in the program; as a result, the deposits of these funds may be considered involuntary. However, these funds are part of the State's reporting entity. The remaining participant in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are assigned to the State's General Fund. Most of the \$16 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2013-14 was earned on balances in these funds.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.



## 2. Valuation of State Investments

The State Treasurer's Office reports its investments at fair value. The fair value of securities in the State Treasurer's pooled investment program generally is based on quoted market prices. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations can be obtained from the State Treasurer's Office website at [www.treasurer.ca.gov](http://www.treasurer.ca.gov).

As of June 30, 2014, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 239 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

## 3. Oversight of Investing Activities

The Pooled Money Investment Board (PMIB) provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The PMIB is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2014, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2014, medium-term asset-backed securities comprised approximately 1.19% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the

fiscal year, the interest received by the State Treasurer’s pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer’s pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 0.84% of the pooled investments.

Table 1 identifies the investment types that are authorized by the California Government Code and the State Treasurer’s Office investment policy for the pooled investment program. Maturities are limited by the State Treasurer’s Office Investment Policy for the Pooled Money Investment Program. For commercial paper, the Investment Policy is more restrictive than the Government Code. For corporate bonds and notes, the Government Code requires that a security fall within the top three ratings of a nationally recognized statistical ratings organization (NASRO). Items reported as N/A have no limitation in either the Government Code or the State Treasurer’s Office Investment Policy.

**Table 1**

**Authorized Investments**

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>	<b>Credit Rating</b>
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency and supranational securities	5 years	N/A	N/A	N/A
Certificates of deposit	5 years	N/A	N/A	N/A
Bankers acceptances	180 days	N/A	N/A	N/A
Commercial paper	180 days	30%	10 % of issuer’s outstanding Commercial Paper	A-2/P-2/F-2
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A-
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

**4. Risk of Investments**

The following types of risks are common in deposits and investments, including those of the State:

*Interest Rate Risk* is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

*Credit Risk* is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer’s ability to make these payments will cause security prices to decline.

*Custodial Credit Risk* is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

*Concentration of Credit Risk* is the risk of loss attributed to the magnitude of an investor’s holdings in a single issuer.

*Foreign Currency Risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

**a. Interest Rate Risk**

Table 2 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include \$4.8 billion of time deposits and \$314 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2014, only \$130 million, or 0.22% of the total pooled investments, was invested in mortgage-backed securities.

**Table 2****Schedule of Investments – Primary Government – Interest Rate Risk**

June 30, 2014

(amounts in thousands)

	<b>Fair Value at Year End</b>	<b>Weighted Average Maturity (in years)</b>
<b>Pooled investments</b>		
U.S. Treasury bills and notes .....	\$ 34,926,335	0.94
U.S. Agency bonds and discount notes .....	4,685,570	0.50
Supranatural debentures and discount notes (IBRD) .....	150,040	1.56
Small Business Administration loans .....	581,690	0.25
Mortgage-backed securities .....	130,274	2.37
Certificates of deposit .....	11,993,881	0.22
Bank notes .....	599,930	0.14
Commercial paper .....	6,698,100	0.11
<b>Total pooled investments .....</b>	<b>59,765,820</b>	
<b>Other primary government investments</b>		
U.S. Treasuries and agencies .....	2,285,376	2.58
Commercial paper .....	252,683	0.73
Guaranteed investment contracts .....	210,327	8.66
Corporate debt securities .....	1,011,356	2.08
Repurchase agreements .....	2,274	0.00
Other .....	953,463	3.49
<b>Total other primary government investments .....</b>	<b>4,715,479</b>	
<b>Funds outside primary government included in pooled investments</b>		
Less: investment trust funds .....	21,104,087	
Less: other trust and agency funds .....	1,750,530	
Less: discretely presented component units and related organizations .....	1,901,592	
<b>Total primary government investments .....</b>	<b>\$ 39,725,090</b>	

**b. Credit Risk**

Table 3 presents the credit risk of the primary government’s debt securities. If a particular security has multiple ratings, the lowest rating of the three major NASROs is used. Similar to interest rate risk shown in Table 2, time deposits and internal loans to state funds are not included.

**Table 3**

**Schedule of Investments in Debt Securities – Primary Government – Credit Risk**

June 30, 2014

(amounts in thousands)

<b>Credit Rating as of Year End</b>		<b>Fair Value</b>
<b>Short-term</b>	<b>Long-term</b>	
<b>Pooled investments</b>		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$ 10,594,908
A-1/P-1/F-1	AA/Aa/AA	13,532,613
Not rated .....		130,274
Not applicable .....		35,508,025
<b>Total pooled investments .....</b>		<b>\$ 59,765,820</b>
<b>Other primary government investments</b>		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$ 917,961
A-1/P-1/F-1	AA/Aa/AA	1,782,457
A-2/P-2/F-2	A/A/A	768,419
A-3/P-3/F-3	BBB/Baa/BBB	27,441
Not rated .....		444,488
Not applicable .....		774,713
<b>Total other primary government investments .....</b>		<b>\$ 4,715,479</b>

**c. Custodial Credit Risk**

The State of California has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2014, one guaranteed investment contract of the Electric Power Fund in the amount of \$100 million was uninsured and uncollateralized.

**d. Concentration of Credit Risk**

The investment policy of the State Treasurer’s Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2014, the State did not hold debt securities in any one issuer (other than U.S. Treasury securities) that represented 5% or more of the primary government investments.

## **B. Fiduciary Funds**

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

Additional disclosure for CalPERS' investments and derivative instruments is included in CalPERS' separately issued financial statements, which can be obtained from CalPERS on its website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov). Additional disclosure for CalSTRS' investments and derivative instruments is included in CalSTRS' separately issued financial statements, which can be obtained from CalSTRS on its website at [www.CalSTRS.com](http://www.CalSTRS.com).

## **C. Discretely Presented Component Units**

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of CalHFA, and other nonmajor component units are invested in the State Treasurer's pooled investment program.

Additional disclosures for the University of California's investments and derivative instruments are included in the University's separately issued financial statements, which can be obtained from the University on its website at [www.ucop.edu](http://www.ucop.edu). Additional disclosure for CalHFA's investments and derivative instruments is included in CalHFA's separately issued financial statements, which can be obtained from CalHFA on its website at [www.CalHFA.ca.gov](http://www.CalHFA.ca.gov).

**NOTE 4: ACCOUNTS RECEIVABLE**

Table 4 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, the California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

**Table 4**

**Schedule of Accounts Receivable**

June 30, 2014

(amounts in thousands)

	<u>Taxes</u>	<u>Lottery Retailers</u>	<u>Unemployment Programs</u>
<b>Current governmental activities</b>			
General Fund .....	\$ 12,482,261	\$ —	\$ —
Federal Fund .....	—	—	—
Transportation Fund .....	638,349	—	—
Environmental and Natural Resources Fund .....	—	—	—
Nonmajor governmental funds .....	435,737	—	—
Internal service funds .....	—	—	—
Adjustment:			
Unavailable revenue <sup>1</sup> .....	(1,608,039)	—	—
<b>Total current governmental activities .....</b>	<b><u>\$ 11,948,308</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Amounts not scheduled for collection during the subsequent year (unavailable revenue) .....</b>	<b><u>\$ 1,608,039</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>
<b>Current business-type activities</b>			
Water Resources Fund .....	\$ —	\$ —	\$ —
State Lottery Fund .....	—	404,239	—
Unemployment Programs Fund .....	—	—	1,307,800
California State University .....	—	—	—
Nonmajor enterprise programs .....	—	—	—
<b>Total current business-type activities .....</b>	<b><u>\$ —</u></b>	<b><u>\$ 404,239</u></b>	<b><u>\$ 1,307,800</u></b>
<b>Amounts not scheduled for collection during the subsequent year (unavailable revenue) .....</b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 32,109</u></b>

<sup>1</sup> The unavailable revenue reported in the governmental fund financial statements represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

<sup>2</sup> Amount includes noncurrent receivables for service concession arrangements of \$64 million that were not included in the governmental fund financial statements.

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<b>California State University</b>	<b>Other</b>	<b>Total</b>
\$ —	\$ 683,690	\$ 13,165,951
—	12,520	12,520
—	490,805	1,129,154
—	523,853	523,853
—	3,021,169	3,456,906
—	109,934	109,934
—	(385,974)	(1,994,013)
<u>\$ —</u>	<u>\$ 4,455,997</u>	<u>\$ 16,404,305</u>
<u>\$ —</u>	<u>\$ 450,350</u> <sup>2</sup>	<u>\$ 2,058,389</u>
\$ —	\$ 35,068	\$ 35,068
—	—	404,239
—	—	1,307,800
191,054	—	191,054
—	32,321	32,321
<u>\$ 191,054</u>	<u>\$ 67,389</u>	<u>\$ 1,970,482</u>
<u>\$ 253,902</u>	<u>\$ —</u>	<u>\$ 286,011</u>

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**NOTE 5: RESTRICTED ASSETS**

Table 5 presents a summary of the legal restrictions placed on assets of the primary government and the discretely presented component units.

**Table 5**

**Schedule of Restricted Assets**

June 30, 2014

(amounts in thousands)

	<b>Cash and Pooled Investments</b>	<b>Investments</b>	<b>Due From Other Governments</b>	<b>Loans Receivable</b>	<b>Total</b>
<b>Primary government</b>					
Debt service .....	\$ 1,725,392	\$ 372,388	\$ 20,182	\$ 305,278	\$ 2,423,240
Construction .....	3,254,758	—	—	—	3,254,758
Operations .....	147,000	—	—	—	147,000
Other .....	3,636	—	—	—	3,636
<b>Total primary government .....</b>	<b>5,130,786</b>	<b>372,388</b>	<b>20,182</b>	<b>305,278</b>	<b>5,828,634</b>
<b>Discretely presented component units</b>					
Debt service .....	155,242	30,215	—	—	185,457
<b>Total discretely presented component units .....</b>	<b>155,242</b>	<b>30,215</b>	<b>—</b>	<b>—</b>	<b>185,457</b>
<b>Total restricted assets .....</b>	<b>\$ 5,286,028</b>	<b>\$ 402,603</b>	<b>\$ 20,182</b>	<b>\$ 305,278</b>	<b>\$ 6,014,091</b>

**NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES**

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of \$6.0 billion from governmental funds along with the corresponding lease obligation was eliminated within the governmental activities column of the government-wide Statement of Net Position.

California State University System (CSU) accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into capital lease agreements with certain auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.



Table 6 summarizes the minimum lease payments to be received by the primary government.

**Table 6****Schedule of Minimum Lease Payments to be Received by the Primary Government**

(amounts in thousands)

Year Ending June 30	State Public Works Board			California State University
	Primary Government Agencies	Local Agencies	Total	
2015 .....	\$ 96,981	\$ 62,177	\$ 159,158	\$ 29,305
2016 .....	93,299	53,892	147,191	26,639
2017 .....	91,228	39,986	131,214	26,930
2018 .....	78,068	32,698	110,766	27,014
2019 .....	68,417	26,183	94,600	27,039
2020-2024 .....	263,993	64,282	328,275	144,956
2025-2029 .....	214,944	63,317	278,261	145,181
2030-2034 .....	195,607	26,383	221,990	114,458
2035-2039 .....	34,447	—	34,447	36,895
2040-2044 .....	—	—	—	22,465
2045-2049 .....	—	—	—	4,495
<b>Total minimum lease payments .....</b>	<b>1,136,984</b>	<b>368,918</b>	<b>1,505,902</b>	<b>605,377</b>
Less: unearned income .....	467,486	86,347	553,833	235,020
<b>Net investment in direct financing leases .....</b>	<b>669,498</b>	<b>282,571</b>	<b>952,069</b>	<b>370,357</b>
Less: current portion .....	52,638	48,191	100,829	11,442
<b>Noncurrent net investment in direct financing leases ..</b>	<b>\$ 616,860</b>	<b>\$ 234,380</b>	<b>\$ 851,240</b>	<b>\$ 358,915</b>

**NOTE 7: CAPITAL ASSETS**

Table 7 summarizes the capital activity for the primary government.

**Table 7****Schedule of Changes in Capital Assets – Primary Government**

June 30, 2014

(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
<b>Governmental activities</b>				
<b>Capital assets not being depreciated/amortized</b>				
Land .....	\$ 17,871,142 *	\$ 498,492	\$ 111,239	\$ 18,258,395
State highway infrastructure .....	64,183,838 *	1,213,741	128,893	65,268,686
Collections .....	22,645	—	15	22,630
Construction in progress .....	14,053,023 *	3,680,687	2,875,936	14,857,774
Intangible assets .....	1,106,355 *	377,103	17,051	1,466,407
<b>Total capital assets not being depreciated/amortized .....</b>	<b>97,237,003</b>	<b>5,770,023</b>	<b>3,133,134</b>	<b>99,873,892</b>
<b>Capital assets being depreciated/amortized</b>				
Buildings and improvements .....	20,448,490 *	1,626,299	16,820	22,057,969
Infrastructure .....	738,492	532	3,312	735,712
Equipment and other assets .....	4,654,507 *	372,011	266,336	4,760,182
Intangible assets .....	992,911 *	104,748	6,689	1,090,970
<b>Total capital assets being depreciated/amortized .....</b>	<b>26,834,400</b>	<b>2,103,590</b>	<b>293,157</b>	<b>28,644,833</b>
<b>Less accumulated depreciation/amortization for:</b>				
Buildings and improvements .....	6,841,635 *	538,495	10,287	7,369,843
Infrastructure .....	325,336	19,510	2,244	342,602
Equipment and other assets .....	3,903,250 *	307,322	247,150	3,963,422
Intangible assets .....	396,561 *	83,013	5,431	474,143
<b>Total accumulated depreciation/amortization .....</b>	<b>11,466,782</b>	<b>948,340</b>	<b>265,112</b>	<b>12,150,010</b>
<b>Total capital assets being depreciated/amortized, net .....</b>	<b>15,367,618</b>	<b>1,155,250</b>	<b>28,045</b>	<b>16,494,823</b>
<b>Governmental activities, capital assets, net .....</b>	<b>\$ 112,604,621</b>	<b>\$ 6,925,273</b>	<b>\$ 3,161,179</b>	<b>\$ 116,368,715</b>
<b>Business-type activities</b>				
<b>Capital assets not being depreciated/amortized</b>				
Land .....	\$ 216,888	\$ 5,395	\$ 145	\$ 222,138
Collections .....	6,051	1,680	20	7,711
Construction in progress .....	885,919 *	483,767	605,621	764,065
Intangible assets .....	403,979	16,596	171,974	248,601
<b>Total capital assets not being depreciated/amortized .....</b>	<b>1,512,837</b>	<b>507,438</b>	<b>777,760</b>	<b>1,242,515</b>
<b>Capital assets being depreciated/amortized</b>				
Buildings and improvements .....	10,451,931	838,891	465,750	10,825,072
Infrastructure .....	236,149	28,554	2,706	261,997
Equipment and other assets .....	576,331	88,915	14,117	651,129
Intangible assets .....	174,195 *	163,074	1,218	336,051
<b>Total capital assets being depreciated/amortized .....</b>	<b>11,438,606</b>	<b>1,119,434</b>	<b>483,791</b>	<b>12,074,249</b>
<b>Less accumulated depreciation/amortization for:</b>				
Buildings and improvements .....	4,164,763	256,776	440,014	3,981,525
Infrastructure .....	61,446	12,145	1,937	71,654
Equipment and other assets .....	347,815	53,901	11,194	390,522
Intangible assets .....	119,035	19,234	621	137,648
<b>Total accumulated depreciation/amortization .....</b>	<b>4,693,059</b>	<b>342,056</b>	<b>453,766</b>	<b>4,581,349</b>
<b>Total capital assets being depreciated/amortized, net .....</b>	<b>6,745,547</b>	<b>777,378</b>	<b>30,025</b>	<b>7,492,900</b>
<b>Business-type activities, capital assets, net .....</b>	<b>\$ 8,258,384</b>	<b>\$ 1,284,816</b>	<b>\$ 807,785</b>	<b>\$ 8,735,415</b>

\* Restated

Table 8 summarizes the depreciation expense charged to the activities of the primary government.

**Table 8****Schedule of Depreciation Expense – Primary Government**

June 30, 2014

(amounts in thousands)

	<u>Amount</u>
<b>Governmental activities</b>	
General government .....	\$ 130,960
Education .....	173,453
Health and human services .....	74,771
Resources .....	51,767
State and consumer services .....	66,722
Business and transportation .....	182,251
Correctional programs .....	220,513
Internal service funds (charged to the activities that utilize the fund) .....	47,903
<b>Total governmental activities .....</b>	<b>948,340</b>
<b>Business-type activities .....</b>	<b>342,056</b>
<b>Total primary government .....</b>	<b>\$ 1,290,396</b>

Table 9 summarizes the capital activity for discretely presented component units.

**Table 9****Schedule of Changes in Capital Assets – Discretely Presented Component Units**

June 30, 2014

(amounts in thousands)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Capital assets not being depreciated/amortized</b>				
Land .....	\$ 986,996 *	\$ 28,058	\$ 12,533	\$ 1,002,521
Collections .....	362,373	28,441	136	390,678
Construction in progress .....	2,991,757 *	803,485	133,720	3,661,522
Intangible assets .....	5,131	—	49	5,082
<b>Total capital assets not being depreciated/amortized .....</b>	<b>4,346,257</b>	<b>859,984</b>	<b>146,438</b>	<b>5,059,803</b>
<b>Capital assets being depreciated/amortized</b>				
Buildings and improvements .....	31,251,445 *	1,578,315	46,088	32,783,672
Infrastructure .....	666,799	18,349	62	685,086
Equipment and other depreciable assets .....	9,822,467 *	566,709	358,044	10,031,132
Intangible assets .....	674,542	210,312	48,883	835,971
<b>Total capital assets being depreciated/amortized .....</b>	<b>42,415,253</b>	<b>2,373,685</b>	<b>453,077</b>	<b>44,335,861</b>
<b>Less accumulated depreciation/amortization for:</b>				
Buildings and improvements .....	11,724,481 *	1,153,760	17,902	12,860,339
Infrastructure .....	305,908	23,211	22	329,097
Equipment and other depreciable assets .....	6,807,869 *	612,565	358,877	7,061,557
Intangible assets .....	299,981	24,876	33,094	291,763
<b>Total accumulated depreciation/amortization .....</b>	<b>19,138,239</b>	<b>1,814,412</b>	<b>409,895</b>	<b>20,542,756</b>
<b>Total capital assets being depreciated/amortized, net .....</b>	<b>23,277,014</b>	<b>559,273</b>	<b>43,182</b>	<b>23,793,105</b>
<b>Capital assets, net .....</b>	<b>\$ 27,623,271</b>	<b>\$ 1,419,257</b>	<b>\$ 189,620</b>	<b>\$ 28,852,908</b>

\* Restated

**NOTE 8: ACCOUNTS PAYABLE**

Accounts payable are amounts, related to different programs, that are due taxpayers, vendors, customers, beneficiaries, and employees. Table 10 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Position.

**Table 10**

**Schedule of Accounts Payable**

June 30, 2014

(amounts in thousands)

	<b>Education</b>	<b>Health and Human Services</b>	<b>Resources</b>
<b>Governmental activities</b>			
General Fund .....	\$ 196,859	\$ 547,660	\$ 205,604
Federal Fund .....	31,065	331,696	61,154
Transportation Fund .....	—	4	3,961
Environmental and Natural Resources Fund .....	500	1,101	349,490
Nonmajor governmental funds .....	26,285	301,260	20,287
Internal service funds .....	11	—	19,497
Adjustment:			
Fiduciary funds .....	5,911,355	14,646,519	—
<b>Total governmental activities .....</b>	<b>\$ 6,166,075</b>	<b>\$ 15,828,240</b>	<b>\$ 659,993</b>
<b>Business-type activities</b>			
Electric Power Fund .....	\$ —	\$ —	\$ 6,000
Water Resources Fund .....	—	—	78,158
State Lottery Fund .....	—	—	—
Unemployment Programs Fund .....	—	19	—
California State University .....	173,638	—	—
Nonmajor enterprise funds .....	—	88	—
Adjustment:			
Fiduciary funds .....	—	—	—
<b>Total business-type activities .....</b>	<b>\$ 173,638</b>	<b>\$ 107</b>	<b>\$ 84,158</b>

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<b>Business and Transportation</b>	<b>General Government and Others</b>	<b>Total</b>
\$ 628	\$ 407,582	\$ 1,358,333
260,963	123,443	808,321
367,506	49,959	421,430
—	7,645	358,736
6,441	580,509	934,782
—	483,689	503,197
54,684	734,615	21,347,173
<b><u>\$ 690,222</u></b>	<b><u>\$ 2,387,442</u></b>	<b><u>\$ 25,731,972</u></b>
\$ —	\$ —	\$ 6,000
—	—	78,158
—	52,691	52,691
—	—	19
—	—	173,638
—	2,549	2,637
—	17	17
<b><u>\$ —</u></b>	<b><u>\$ 55,257</u></b>	<b><u>\$ 313,160</u></b>

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## **NOTE 9: SHORT-TERM FINANCING**

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures, because General Fund revenues and disbursements do not occur evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants.

There were no outstanding RANs at the beginning of the fiscal year. To fund cash flow needs for fiscal year 2013-14, the State issued \$5.5 billion in RANs on August 15, 2013. The RANs were repaid during May and June of 2014.

## **NOTE 10: LONG-TERM OBLIGATIONS**

As of June 30, 2014, the primary government had long-term obligations totaling \$168.8 billion. Of that amount, \$7.7 billion is due within one year. For governmental activities, the beginning balance of revenue bonds increased \$11.8 billion and the beginning balance of capital lease obligations decreased \$5.1 billion as a result of the reclassification of the Public Buildings Construction Fund from an enterprise fund (business-type activity) to an internal service fund (governmental activity). This reclassification resulted in the elimination of the capital lease obligation of the governmental funds to the Public Buildings Construction Fund in the government-wide Statement of Net Position. After these beginning balance restatements, the largest changes in long-term obligations for governmental activities are an increase of \$3.1 billion in net other postemployment benefits obligation and an increase of \$1.1 billion in state-mandated cost claims payable. Another notable increase occurred in general obligation bonds payable. Notable decreases occurred in revenue bonds payable and compensated absences payable.

Not included in the mandated cost claims payable shown in Table 11 are certain state-mandated programs that are in the adjudication process. Until the Commission on State Mandates rules on a test claim, and the claim's parameters and guidelines are established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

As of June 30, 2014, the pollution remediation obligations increased by \$73 million to \$1.1 billion. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2014, the State estimates that remediation costs at Stringfellow will total \$385 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the final terms of the settlement for Leviathan Mine. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup, as required by state law.

The other long-term obligations for governmental activities consist of \$43 million owed for lawsuits, the University of California unfunded pension liability of \$24 million, and the Technology Services Revolving Fund notes payable of \$36 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest changes in business-type long-term obligations are a decrease of \$952 million for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund and a decrease of \$812 million in revenue bonds payable (after the previously discussed restatement of the beginning balance for the reclassification of the Public Buildings Construction Fund from an enterprise fund to an internal service fund).

Table 11 summarizes the changes in long-term obligations during the year ended June 30, 2014.

**Table 11**

**Schedule of Changes in Long-term Obligations**

(amounts in thousands)

	<b>Balance July 1, 2013</b>	<b>Additions</b>
<b>Governmental activities</b>		
Compensated absences payable .....	\$ 4,135,101	\$ 1,290,940
Workers' compensation benefits payable .....	3,507,477	639,244
Certificates of participation and commercial paper outstanding .....	538,715	1,254,265
Discounts .....	(122)	—
Total certificates of participation and commercial paper payable .....	538,593	1,254,265
Capital lease obligations .....	236,305 *	80,022
General obligation bonds outstanding .....	79,688,445	5,905,370
Premiums .....	2,657,766	505,026
Total general obligation bonds payable .....	82,346,211	6,410,396
Revenue bonds outstanding .....	18,590,437 *	2,293,720
Accreted interest .....	383,862	40,564
Premiums .....	519,230	184,986
Discounts .....	(2,003)	—
Total revenue bonds payable .....	19,491,526	2,519,270
Mandated cost claims payable .....	6,750,849	1,154,062
Net other postemployment benefits obligation .....	15,559,232	4,871,902
Net pension obligation .....	3,278,774	207,749
Other long-term obligations:		
Proposition 98 funding guarantee .....	1,914,064	17,523
Pollution remediation obligations .....	1,009,216	151,527
Other .....	140,198	22,132
Total other long-term obligations .....	3,063,478	191,182
<b>Total governmental activities .....</b>	<b>\$ 138,907,546</b>	<b>\$ 18,619,032</b>
<b>Business-type activities</b>		
Loans payable .....	\$ 8,585,318	\$ —
Lottery prizes and annuities .....	1,198,904	3,624,432
Compensated absences payable .....	314,133	98,069
Workers' compensation benefits payable .....	2,078	460
Certificates of participation and commercial paper outstanding .....	77,560	262,036
Capital lease obligations .....	1,145,637	177,398
General obligation bonds outstanding .....	888,280	—
Discounts .....	(1,227)	—
Total general obligation bonds payable .....	887,053	—
Revenue bonds outstanding .....	13,080,438 *	470,300
Premiums .....	721,576	60,851
Discounts .....	(358)	—
Total revenue bonds payable .....	13,801,656	531,151
Net other postemployment benefits obligation .....	510,229	187,723
Other long-term obligations .....	482,571	37,540
<b>Total business-type activities .....</b>	<b>\$ 27,005,139</b>	<b>\$ 4,918,809</b>

\* Restated



Deductions	Balance June 30, 2014	Due Within One Year	Noncurrent Liabilities
\$ 1,670,152	\$ 3,755,889	\$ 5,346	\$ 3,750,543
445,289	3,701,432	410,534	3,290,898
1,194,810	598,170	8,565	589,605
(46)	(76)	(46)	(30)
1,194,764	598,094	8,519	589,575
56,239	260,088	59,896	200,192
5,297,945	80,295,870	3,827,670	76,468,200
182,315	2,980,477	161,390	2,819,087
5,480,260	83,276,347	3,989,060	79,287,287
2,945,896	17,938,261	580,591	17,357,670
—	424,426	—	424,426
147,748	556,468	66,666	489,802
(291)	(1,712)	(292)	(1,420)
3,093,353	18,917,443	646,965	18,270,478
54,259	7,850,652	135,473	7,715,179
1,814,275	18,616,859	—	18,616,859
248,738	3,237,785	—	3,237,785
2,505	1,929,082	409,614	1,519,468
78,777	1,081,966	81,055	1,000,911
59,431	102,899	60,645	42,254
140,713	3,113,947	551,314	2,562,633
<b>\$ 14,198,042</b>	<b>\$ 143,328,536</b>	<b>\$ 5,807,107</b>	<b>\$ 137,521,429</b>
\$ 951,927	\$ 7,633,391	\$ —	\$ 7,633,391
3,588,896	1,234,440	551,260	683,180
90,856	321,346	138,487	182,859
—	2,538	—	2,538
134,949	204,647	153,541	51,106
72,761	1,250,274	70,042	1,180,232
212,800	675,480	56,875	618,605
61	(1,288)	—	(1,288)
212,861	674,192	56,875	617,317
1,216,405	12,334,333	842,670	11,491,663
124,717	657,710	77,339	580,371
1,769	(2,127)	—	(2,127)
1,342,891	12,989,916	920,009	12,069,907
69,530	628,422	—	628,422
21,918	498,193	40,685	457,508
<b>\$ 6,486,589</b>	<b>\$ 25,437,359</b>	<b>\$ 1,930,899</b>	<b>\$ 23,506,460</b>

## NOTE 11: CERTIFICATES OF PARTICIPATION

Table 12 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building.

**Table 12**

### Schedule of Debt Service Requirements for Certificates of Participation – Primary Government

(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2015 .....	\$ 8,565	\$ 1,075	\$ 9,640
2016 .....	11,915	625	12,540
<b>Total .....</b>	<b>\$ 20,480</b>	<b>\$ 1,700</b>	<b>\$ 22,180</b>

## NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Under the general obligation and enterprise fund programs, commercial paper (new issuance or rollover notes) may be issued at the prevailing market rate, not to exceed 11%, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are restricted primarily for construction costs of general obligation bond program projects and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The “Letter of Credit” agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed \$1.7 billion. As of June 30, 2014, the general obligation commercial paper program had \$578 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed \$140 million. As of June 30, 2014, the enterprise fund commercial paper program had \$36 million in outstanding notes.

The primary government has a revenue bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2014, \$169 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a \$2 billion commercial paper program with tax-exempt and taxable components. At June 30, 2014, outstanding taxable commercial paper totaled \$994 million. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Outstanding borrowings under these uncollateralized financing agreements total \$262 million for general corporate purposes for the period ending June 30, 2014. For more information regarding the commercial paper program and other long-term borrowings of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at [www.ucop.edu](http://www.ucop.edu).

**NOTE 13: LEASES**

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2014, was approximately \$3.1 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. Operating lease expenditures for the year ended June 30, 2014, amounted to approximately \$298 million for governmental activities and \$29 million for business-type activities. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of net minimum capital lease payments for the primary government is \$1.5 billion. Note 10, Long-term Obligations, reports current additions and deductions for these capital lease obligations. Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of \$1.1 billion that the California State University, reported as an enterprise fund, has entered into with the State Public Works Board (SPWB), reported as an internal service fund. This amount represents 74.9% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of \$432 million for governmental activities and \$808 million for business-type activities.

The capital lease commitments do not include \$6.0 billion in lease-purchase agreements with the SPWB and \$271 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University's lease obligations is included in its separately issued financial statements that can be obtained from the University on its website at [www.ucop.edu](http://www.ucop.edu).

Table 13 summarizes future minimum lease commitments of the primary government.

**Table 13**

**Schedule of Future Minimum Lease Commitments – Primary Government**

(amounts in thousands)

Year Ending June 30	Governmental Activities		Business-type Activities		Total
	Operating Leases	Capital Leases	Operating Leases	Capital Leases	
2015 .....	\$ 239,809	\$ 65,304	\$ 25,216	\$ 132,459	\$ 462,788
2016 .....	175,419	51,409	18,949	132,086	377,863
2017 .....	124,533	39,989	17,861	127,679	310,062
2018 .....	60,848	29,047	14,598	127,196	231,689
2019 .....	29,916	26,019	11,107	103,219	170,261
2020-2024 .....	46,904	53,337	32,165	439,038	571,444
2025-2029 .....	23,990	4,369	16,373	385,756	430,488
2030-2034 .....	18,555	4,531	9,941	347,503	380,530
2035-2039 .....	101	3,833	3,031	149,000	155,965
2040-2044 .....	101	1,519	968	4,775	7,363
2045-2049 .....	101	—	397	—	498
2050-2054 .....	101	—	178	—	279
2055-2059 .....	74	—	32	—	106
2060-2064 .....	5	—	32	—	37
2065-2069 .....	—	—	32	—	32
2070-2074 .....	—	—	32	—	32
2075-2079 .....	—	—	32	—	32
2080-2084 .....	—	—	32	—	32
2085-2089 .....	—	—	32	—	32
2090-2094 .....	—	—	32	—	32
2095-2099 .....	—	—	33	—	33
<b>Total minimum lease payments .....</b>	<b>\$ 720,457</b>	<b>279,357</b>	<b>\$ 151,073</b>	<b>1,948,711</b>	<b>\$ 3,099,598</b>
Less: amount representing interest .....		19,269		698,437	
<b>Present value of net minimum lease payments .....</b>		<b>260,088</b>		<b>1,250,274</b>	
Less: current portion .....		59,896		70,042	
<b>Capital lease obligation, net of current portion .....</b>		<b>\$ 200,192</b>		<b>\$ 1,180,232</b>	

**NOTE 14: COMMITMENTS**

As of June 30, 2014, the primary government had commitments of \$7.7 billion for certain highway construction and high-speed rail projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with \$1.0 billion from local governments and \$6.7 billion from proceeds of approved federal grants. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of \$569 million for various education programs, \$382 million for terrorism prevention and disaster-preparedness response projects, \$286 million for services under the workforce development program, \$160 million for services provided under various public health programs, \$152 million for community service programs, \$69 million for services provided under the welfare program, \$30 million for services provided under the rehabilitation program, and \$22 million for services provided under the child support program.

The primary government had other commitments, totaling \$8.6 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The \$8.6 billion in commitments includes grant agreements totaling approximately \$5.5 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The \$8.6 billion in commitments includes \$260 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and \$1.0 billion for undisbursed loan commitments to qualified agencies for clean water projects. In addition, the \$8.6 billion in commitments includes \$73 million in long-term contracts to purchase power. These contracts qualify for the Normal Purchase Normal Sale exception under GASB Statement No. 53 and, therefore, are not included on the Statement of Net Position of the Electric Power Fund nor disclosed as derivative financial instruments.

The \$8.6 billion in commitments also includes contracts of \$958 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. The primary government had commitments of \$265 million for California State University (CSU) construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2014, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of \$21 million in electricity through December 2015 and \$23 million in natural gas through June 2017. The primary government also had commitments of \$18 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of \$438 million for gaming and telecommunication systems and services. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2014, the primary government encumbered expenditures of \$784 million for the General Fund, \$3.1 billion for the Transportation Fund, \$1.1 billion for the Environmental and Natural Resources Fund, and \$658 million for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2014, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which can be obtained from the University on its website at [www.ucop.edu](http://www.ucop.edu). Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which can be obtained from the CalHFA on its website at [www.CalHFA.ca.gov](http://www.CalHFA.ca.gov). Additional disclosure for the California Public Employees' Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which can be obtained from CalPERS on its website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

## NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, 2014, the State had \$80.3 billion in outstanding general obligation bonds related to governmental activities and \$675 million related to business-type activities. In addition, \$26.5 billion of long-term general obligation bonds had been authorized but not issued, of which \$25.8 billion is related to governmental activities and \$706 million is related to business-type activities. The total amount authorized but not issued includes \$17 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, \$578 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

### A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2014, the State had \$3.0 billion of variable-rate general obligation bonds outstanding, consisting of \$814 million in daily rate bonds with credit enhancement and \$1.7 billion in weekly rate bonds with credit enhancement, and \$498 million in weekly or monthly rate bonds without credit enhancement. During fiscal year 2013-14, the State issued \$300 million of variable-rate general obligation bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced Index Floating Rate Bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate or percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on all variable-rate bonds is paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks for each series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts. The bondholders have the right to tender the bonds daily if the bonds are in a daily rate mode and weekly if the bonds are in a weekly rate mode. Upon a tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 180 days, the bonds will be subject to term loan payment in 12 equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2013-14.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of October 16, 2015; November 10, 2016; December 16, 2016; and April 12, 2017. The letters of credit for the Series 2004 variable-rate bonds have expiration dates of April 6, 2015; October 15, 2015; and November 10, 2016. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of November 4, 2016; November 10, 2016; December 16, 2016; February 17, 2017; and April 11, 2017. The Series 2012A and 2013 C, D and E Index Floating Rate Bonds have mandatory purchase dates on May 1, 2015, December 1, 2016, December 1, 2017, or December 3, 2018. The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2017 to 2020.

Based on the schedules provided in the Official Statements, any required sinking fund deposits for the variable-rate general obligation bonds will be set aside in a mandatory sinking fund at the beginning of each of the following fiscal years: 2015-16 through 2033-34, and 2039-40. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption of any other general obligation bonds then outstanding. To the extent that the deposit is not applied by January 31 of each fiscal year, the variable-rate general obligation bonds will be redeemed in whole or in part on an interest payment date in that fiscal year.

## **B. Economic Recovery Bonds**

In 2004, voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2014, the State had \$4.6 billion in Economic Recovery Bonds outstanding. Of the \$4.6 billion outstanding, bonds totaling \$110 million are variable-rate bonds in the daily-rate mode and \$500 million are mandatory tender bonds. The interest rates associated with the daily-rate bonds are determined by the remarketing agent to be the lowest rates that would enable them to sell the bonds for delivery on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest is paid on the first business day of each calendar month. As described in the Official Statement for the variable-rate bonds, payment of principal, interest, and purchase price upon tender, is secured by a letter of credit. The State reimburses the credit provider for any amounts paid. The expiration date for the letter of credit is December 12, 2014.

## **C. Mandatory Tender Bonds**

Of the \$4.6 billion in outstanding Economic Recovery Bonds, \$500 million were mandatory tender bonds and had an interest rate reset date of July 1, 2014. On that date, the bonds became subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium. Upon mandatory tender, the State could have remarketed or redeemed these bonds. The State redeemed these bonds on July 1, 2014. The debt service requirements in Table 14 include the effect of this redemption in fiscal year ended June 30, 2015.

As of June 30, 2014, the State had \$850 million in outstanding general obligation mandatory tender bonds, including \$450 million with a fixed interest rate and \$400 million with an index floating rate (discussed in Section A). On their respective mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that day. These bonds have mandatory tender dates on May 1, 2015; December 1, 2016; December 1, 2017; and December 3, 2018. In the event of an unsuccessful remarketing of all the outstanding bonds on the scheduled mandatory tender dates, the bonds will enter into a

delayed remarketing period and accrue interest at a higher effective interest rate, gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Current state laws limit interest rates to 11% per annum. With respect to \$100 million of the Index Floating Rate Bonds, beginning six months after the scheduled mandatory tender date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments until they are remarketed or refunded.

### D. Build America Bonds

As of June 30, 2014, the State had \$13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. Subsequent federal legislation reduced the Build America Bonds subsidy by 8.7% for the federal fiscal year ending September 30, 2013 and 7.2% for the federal fiscal year ending September 30, 2014. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the United States Treasury under ARRA. The subsidy payments are deposited into the state treasury.

### E. Debt Service Requirements

Table 14 shows the debt service requirements for all general obligation bonds as of June 30, 2014. The estimated debt service requirements for the \$3 billion variable-rate general obligation bonds and the \$110 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2014. For mandatory tender bonds, the debt service requirements shown in Table 14 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

**Table 14**

**Schedule of Debt Service Requirements for General Obligation Bonds**

(amounts in thousands)

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015.....	\$ 3,827,670	\$ 4,117,916	\$ 7,945,586	\$ 56,875	\$ 29,345	\$ 86,220
2016.....	3,174,350	3,962,830	7,137,180	75,620	26,610	102,230
2017.....	2,759,560	3,829,238	6,588,798	61,895	23,909	85,804
2018.....	2,741,100	3,709,530	6,450,630	39,600	21,708	61,308
2019.....	3,323,295	3,574,474	6,897,769	26,800	20,220	47,020
2020 - 2024.....	14,025,615	15,563,258	29,588,873	75,475	85,212	160,687
2025 - 2029.....	12,781,005	12,597,373	25,378,378	55,265	74,625	129,890
2030 - 2034.....	14,788,660	9,438,265	24,226,925	157,965	45,129	203,094
2035 - 2039.....	15,559,405	5,130,596	20,690,001	91,605	17,834	109,439
2040 - 2044.....	7,315,210	942,934	8,258,144	34,380	1,600	35,980
<b>Total .....</b>	<b>\$ 80,295,870</b>	<b>\$ 62,866,414</b>	<b>\$ 143,162,284</b>	<b>\$ 675,480</b>	<b>\$ 346,192</b>	<b>\$ 1,021,672</b>



## F. General Obligation Bond Defeasances

### 1. Current Year

On September 10, 2013, the primary government issued \$559 million in general obligation bonds to current refund \$586 million of outstanding general obligation bonds maturing in 2015 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by \$80 million and resulted in an economic gain of \$56 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 4.09% per year over the life of the new bonds.

On November 5, 2013, the primary government issued \$723 million in general obligation bonds to current refund \$782 million of outstanding general obligation bonds maturing in 2015 to 2033. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by \$122 million and resulted in an economic gain of \$87 million, discounted at 3.90% per year over the life of the new bonds.

On March 27, 2014, the primary government issued \$795 million in general obligation bonds to current and advance refund \$880 million of outstanding general obligation bonds maturing in 2014 to 2034. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by \$161 million and resulted in an economic gain of \$117 million, discounted at 3.43% per year over the life of the new bonds.

### 2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2014, the outstanding balance of general obligation bonds defeased in prior years was approximately \$325 million.

## NOTE 16: REVENUE BONDS

### A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects in order to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is \$141 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the state. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds; provided that, in connection with the issuance of the 2005 Bonds and the 2013 Bonds that refunded a portion of the 2005 Bonds, the Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next succeeding fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest remaining on all asset-backed bonds is \$18.4 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled \$377 million, while Tobacco Settlement Revenue and interest earned totaled \$356 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the Public Buildings Construction Fund and building authorities. The General Fund has no legal liability for the payment of principal and interest on these revenue bonds. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

## **B. Business-type Activities**

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, financing of electric power purchases for resale to utility customers, state university campuses, and certain nonmajor enterprise funds.

## **C. Discretely Presented Component Units**

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2013-14 on its website at [www.ucop.edu](http://www.ucop.edu).

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2013-14 on its website at [www.CalHFA.ca.gov](http://www.CalHFA.ca.gov).

Table 15 shows outstanding revenue bonds of the primary government and the discretely presented component units.

**Table 15****Schedule of Revenue Bonds Payable**

June 30, 2014

(amounts in thousands)

**Primary government****Governmental activities**

Transportation Fund .....	\$	137,659
Public Buildings Construction Fund .....		11,323,687
Nonmajor governmental funds:		
Golden State Tobacco Securitization Corporation Fund .....		7,167,103
Building authorities .....		288,994

<b>Total governmental activities .....</b>		<b>18,917,443</b>
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**Business-type activities**

Electric Power Fund .....		6,249,000
Water Resources Fund .....		2,647,814
California State University .....		3,663,116
Nonmajor enterprise funds .....		429,986

<b>Total business-type activities .....</b>		<b>12,989,916</b>
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<b>Total primary government .....</b>		<b>31,907,359</b>
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**Discretely presented component units**

University of California .....		16,561,052
California Housing Finance Agency .....		3,596,347
Nonmajor component units .....		246,756

<b>Total discretely presented component units .....</b>		<b>20,404,155</b>
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<b>Total revenue bonds payable .....</b>	<b>\$</b>	<b>52,311,514</b>
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Table 16 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 15.

**Table 16**

**Schedule of Debt Service Requirements for Revenue Bonds**

(amounts in thousands)

Year Ending June 30	Primary Government				Discretely Presented	
	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest *
2015 .....	\$ 580,591	\$ 894,061	\$ 842,670	\$ 581,159	\$ 388,475	\$ 909,744
2016 .....	545,951	870,953	922,715	543,053	452,003	881,647
2017 .....	610,761	844,555	951,265	501,123	449,336	859,986
2018 .....	649,146	813,396	985,515	456,399	435,674	838,259
2019 .....	628,196	776,337	1,015,355	410,747	441,415	817,289
2020-2024 .....	3,111,706	3,499,513	3,979,498	1,317,112	2,896,410	3,699,230
2025-2029 .....	3,136,099	2,920,227	1,564,505	704,171	3,040,940	2,921,805
2030-2034 .....	3,167,515	1,982,982	1,128,675	367,114	3,463,482	2,157,148
2035-2039 .....	2,592,035	1,156,841	722,470	137,853	3,342,858	1,357,680
2040-2044 .....	1,904,530	820,802	217,270	20,047	2,729,054	674,677
2045-2049 .....	1,436,157	3,507,027	4,395	98	1,187,130	321,722
2050-2112 .....	—	—	—	—	881,225	2,633,368
<b>Total .....</b>	<b>\$ 18,362,687</b>	<b>\$ 18,086,694</b>	<b>\$ 12,334,333</b>	<b>\$ 5,038,876</b>	<b>\$ 19,708,002</b>	<b>\$ 18,072,555</b>

\* Includes interest on variable-rate bonds based on rates in effect on June 30, 2014.

**D. Revenue Bond Defeasances**

**1. Current Year – Governmental Activities**

In September 2013, the SPWB and the University of California entered into a series of restructuring agreements, in which bonds held by the SPWB for University projects were refunded by revenue bonds issued by the University. Additionally, on October 2, 2013, the SPWB entered into an escrow agreement with the State Treasurer. The cash transferred to the State Treasurer, along with deposits from the University from the refunding bonds, will be used to make principal and interest payments for the refunded debt, resulting in the legal defeasance of \$2.2 billion in bonds payable. The restructuring was authorized in the 2013-14 budget.

The SPWB and the University also executed termination agreements relating to all leases relating to the defeased and redeemed bonds. As a result, all the net investment in direct financing leases, construction work in progress, and bonds payable related to these leases were removed from the Public Buildings Construction Fund Statement of Net Position. The net effect of these transactions was a loss of \$55 million, as shown in the Public Buildings Construction Fund’s Statement of Revenues, Expenses, and Changes in Fund Net Position.

## 2. Current Year – Business-type Activities

As discussed under governmental activities above, the restructuring agreement between the SPWB and the University and the escrow agreement between the SPWB and the State Treasurer resulted in the legal defeasance of all outstanding bonds reported in the High Technology Education Fund, a nonmajor enterprise fund. In addition, the related lease receivable was terminated and the High Technology Education Fund's remaining assets were transferred to the escrow account with the State Treasurer and the fund was dissolved. The net effect of the restructure and refunding was a loss of \$27 million, as shown in the enterprise funds' Combining Statement of Revenues, Expenses, and Changes in Fund Net Position.

In August 2013, California State University issued \$309 million in systemwide revenue refunding bonds to partially defease certain outstanding systemwide revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding will decrease debt service payments by \$22 million over the life of the bonds and will result in an economic gain of \$19 million for the refunded bonds.

## 3. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2014, the outstanding balance of revenue bonds defeased in prior years was \$632 million for business-type activities. All previously defeased revenue bonds for governmental activities were redeemed by June 30, 2014.

## NOTE 17: SERVICE CONCESSION ARRANGEMENTS

The State entered into various service concessions arrangements with independent third parties to develop, equip, operate, and maintain nonexclusive concessions at park grounds in exchange for fixed installment payments, for a fixed period of time. These third parties are compensated by user fees. These existing facilities are reported as capital assets by the State, the present value of installment payments are reported as receivables, and a corresponding deferred inflow of resources is reported in the government-wide Statement of Net Position. The State reserves the right to provide or modify the types of goods and services provided by the operator to ensure that the public receives fair pricing, proper service, and appropriate quality. The State is not obligated by the debts of the operator in the event of a default, nor does the State guarantee minimum revenue to the operator. The amount of the primary government's service concession arrangements can be found in Note 21, Deferred Outflows and Deferred Inflows of Resources.

The University of California, a discretely presented component unit, has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources. Additional information on the University's service concession arrangements can be found in the University's separately issued financial statements on its website at [www.ucop.edu](http://www.ucop.edu).

**NOTE 18: INTERFUND BALANCES AND TRANSFERS**

**A. Interfund Balances**

Short-term interfund receivables and payables result from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund.

Table 17 shows the amounts due from and due to other funds.

**Table 17**

**Schedule of Due From Other Funds and Due To Other Funds**

June 30, 2014

(amounts in thousands)

Due From	Due To				
	General Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Fund	Electric Power Fund
<b>Governmental funds</b>					
General Fund .....	\$ —	\$ —	\$ —	\$ 571,090	\$ —
Federal Fund .....	632,163	919,991	37,392	248,038	—
Transportation Fund .....	19,052	—	—	34,836	—
Environmental and Natural Resources Fund ....	21,278	6,476	—	5	—
Nonmajor governmental funds .....	768,555	30,274	7,836	18,272	—
<b>Total governmental funds .....</b>	<b>1,441,048</b>	<b>956,741</b>	<b>45,228</b>	<b>872,241</b>	<b>—</b>
<b>Enterprise funds</b>					
Water Resources Fund .....	—	—	—	—	—
State Lottery Fund .....	137	155	—	314,620	—
Unemployment Programs Fund .....	59,896	—	—	—	—
Nonmajor enterprise funds .....	1,107	—	151	208	—
<b>Total enterprise funds .....</b>	<b>61,140</b>	<b>155</b>	<b>151</b>	<b>314,828</b>	<b>—</b>
<b>Internal service funds .....</b>	<b>8,707</b>	<b>13,779</b>	<b>2,861</b>	<b>19,126</b>	<b>3,000</b>
<b>Total due from other funds .....</b>	<b>\$ 1,510,895</b>	<b>\$ 970,675</b>	<b>\$ 48,240</b>	<b>\$ 1,206,195</b>	<b>\$ 3,000</b>

Due To							
Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due to Other Funds
\$ —	\$ —	\$ —	\$ 257	\$ —	\$ 285,469	\$ 8,416,873	\$ 9,273,689
—	—	36,689	—	169	10,870	10,952,460	12,837,772
—	—	—	—	—	12,660	54,090	120,638
—	—	—	—	21	19,349	109	47,238
—	—	—	382	75	17,424	1,923,001	2,765,819
—	—	<b>36,689</b>	<b>639</b>	<b>265</b>	<b>345,772</b>	<b>21,346,533</b>	<b>25,045,156</b>
—	—	—	—	—	47,681	—	47,681
—	—	—	—	—	—	—	314,912
—	—	—	—	—	—	—	59,896
—	—	—	—	—	69	17	1,552
—	—	—	—	—	<b>47,750</b>	<b>17</b>	<b>424,041</b>
<b>1,129</b>	<b>295</b>	<b>1,827</b>	<b>466</b>	<b>407</b>	<b>48,400</b>	<b>640</b>	<b>100,637</b>
<b>\$ 1,129</b>	<b>\$ 295</b>	<b>\$ 38,516</b>	<b>\$ 1,105</b>	<b>\$ 672</b>	<b>\$ 441,922</b>	<b>\$ 21,347,190</b>	<b>\$ 25,569,834</b>

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 17, annual enacted budgets provide for long-term loans from many of the State’s special funds—mainly the Transportation Fund, Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The \$3.3 billion in Transportation Fund loans payable from the General Fund also includes \$1.0 billion in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

Table 18 shows the primary government’s interfund receivables and payables.

**Table 18**

**Schedule of Interfund Receivables and Payables**

June 30, 2014

(amounts in thousands)

Interfund Receivables	Interfund Payables		
	General Fund	Transportation Fund	Environmental and Natural Resources Funds
<b>Governmental funds</b>			
General Fund .....	\$ —	\$ 3,337,281	\$ 829,227
Transportation Fund .....	—	—	—
Environmental and Natural Resources Fund .....	—	25,000	—
Nonmajor governmental funds .....	8,584	—	—
<b>Total governmental funds .....</b>	<b>8,584</b>	<b>3,362,281</b>	<b>829,227</b>
<b>Internal service funds .....</b>	<b>40,650</b>	<b>—</b>	<b>—</b>
<b>Total primary government .....</b>	<b>\$ 49,234</b>	<b>\$ 3,362,281</b>	<b>\$ 829,227</b>



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**Interfund Payables**


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<b>Nonmajor Governmental Fund</b>	<b>Water Resources Fund</b>	<b>Unemployment Programs Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Total</b>
\$ 1,332,548	\$ —	\$ 611,690	\$ 5,600	\$ 7,191	\$ 6,123,537
—	—	—	—	2,316	2,316
—	—	—	—	—	25,000
—	—	—	—	—	8,584
<b>1,332,548</b>	<b>—</b>	<b>611,690</b>	<b>5,600</b>	<b>9,507</b>	<b>6,159,437</b>
<b>172</b>	<b>91,517</b>	<b>—</b>	<b>—</b>	<b>6,267</b>	<b>138,606</b>
<b>\$ 1,332,720</b>	<b>\$ 91,517</b>	<b>\$ 611,690</b>	<b>\$ 5,600</b>	<b>\$ 15,774</b>	<b>\$ 6,298,043</b>

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The amounts shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 19 shows the amounts due from the primary government and due to component units.

**Table 19**

**Schedule of Due from Primary Government and Due to Component Units**

June 30, 2014

(amounts in thousands)

<b>Due From</b>	<b>Due To</b>		
	<b>Component Units</b>		
	<b>University of California</b>	<b>Nonmajor Component Units</b>	<b>Total</b>
<b>Governmental funds</b>			
General Fund .....	\$ 205,129	\$ 1,212	\$ 206,341
<b>Total governmental funds .....</b>	<b>205,129</b>	<b>1,212</b>	<b>206,341</b>
<b>Total primary government .....</b>	<b>\$ 205,129</b>	<b>\$ 1,212</b>	<b>\$ 206,341</b>

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## B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was \$2.3 billion to the California State University, an enterprise fund. The General Fund also transferred \$1.6 billion to nonmajor governmental funds mainly for support of trial courts and state and local government health care programs. The Transportation Fund transferred \$1.0 billion of weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for reimbursement of debt service costs. The Federal Fund transferred \$631 million to the General Fund for administration of the Unemployment Insurance Program.

Table 20 shows interfund transfers of the primary government.

**Table 20**

**Schedule of Interfund Transfers**

June 30, 2014

(amounts in thousands)

Transferred From	Transferred To		
	General Fund	Transportation Fund	Environmental and Natural Resources Funds
<b>Governmental funds</b>			
General Fund .....	\$ —	\$ —	\$ 28,853
Federal Fund .....	631,194	—	173,568
Transportation Fund .....	74,430	—	12,903
Environmental and Natural Resources Fund .....	8,849	—	—
Nonmajor governmental funds .....	273,021	25	24,775
<b>Total governmental funds .....</b>	<b>987,494</b>	<b>25</b>	<b>240,099</b>
<b>Nonmajor enterprise funds .....</b>	<b>199</b>	—	—
<b>Internal service funds .....</b>	<b>8,766</b>	—	—
<b>Total primary government .....</b>	<b>\$ 996,459</b>	<b>\$ 25</b>	<b>\$ 240,099</b>

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**Transferred To**

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Nonmajor Governmental Funds	California State University Fund	Internal Service Funds	Total
\$ 1,577,442	\$ 2,302,858	\$ 6,394	\$ 3,915,547
17,970	—	—	822,732
1,071,822	—	—	1,159,155
13,814	—	—	22,663
86,129	—	—	383,950
<u>2,767,177</u>	<u>2,302,858</u>	<u>6,394</u>	<u>6,304,047</u>
—	—	6,649	6,848
37,490	—	63,614	109,870
<u>\$ 2,804,667</u>	<u>\$ 2,302,858</u>	<u>\$ 76,657</u>	<u>\$ 6,420,765</u>

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**NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS**

**A. Fund Balances**

Table 21 shows the composition of the governmental fund balances at June 30, 2014.

**Table 21**

**Schedule of Fund Balances by Function**

June 30, 2014

(amounts in thousands)

Year Ending June 30	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
<b>Nonspendable</b>					
Long-term interfund receivables .....	\$ 49,234	\$ —	\$ —	\$ —	\$ —
Long-term loans receivable .....	79,375	—	—	—	—
Other .....	—	—	—	—	27,260
<b>Total nonspendable .....</b>	<b>128,609</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>27,260</b>
<b>Restricted</b>					
General government .....	6,113	—	—	14,222	3,639,099
Education .....	284,204	296	4,824	—	852,134
Health and human services .....	101,301	257	—	1,365,893	2,295,229
Resources .....	—	9,217	—	4,838,324	98,547
State and consumer services .....	2,628	—	224,207	55,432	518,981
Business and transportation .....	—	201,804	7,169,827	47,236	2,931,637
Correctional programs .....	—	—	—	—	1,927
<b>Total restricted .....</b>	<b>394,246</b>	<b>211,574</b>	<b>7,398,858</b>	<b>6,321,107</b>	<b>10,337,554</b>
<b>Committed</b>					
General government .....	13,999	—	—	21,623	334,549
Education .....	3,023	—	—	—	30,777
Health and human services .....	4,445	—	1,430	—	269,511
Resources .....	455	—	10	1,275,839	740,043
State and consumer services .....	—	—	—	23,649	57,697
Business and transportation .....	—	—	65,926	—	87,123
Correctional programs .....	103,198	—	—	—	6,570
<b>Total committed .....</b>	<b>125,120</b>	<b>—</b>	<b>67,366</b>	<b>1,321,111</b>	<b>1,526,270</b>
<b>Assigned – General government .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>18,857</b>
<b>Unassigned .....</b>	<b>(8,092,571)</b>	<b>—</b>	<b>—</b>	<b>(11,664)</b>	<b>(8,481)</b>
<b>Total fund balances (deficit) .....</b>	<b>\$ (7,444,596)</b>	<b>\$ 211,574</b>	<b>\$ 7,466,224</b>	<b>\$ 7,630,554</b>	<b>\$ 11,901,460</b>

## B. Fund Deficits

Table 22 shows the funds that had deficit balances at June 30, 2014.

**Table 22**

### Schedule of Fund Deficits

June 30, 2014

(amounts in thousands)

	Governmental Funds	Internal Service Funds	Enterprise Funds
General Fund .....	\$ 7,444,596	\$ —	\$ —
Architecture Revolving Fund .....	—	26,660	—
Service Revolving Fund .....	—	172,160	—
Water Resources Fund .....	—	51,390	—
Unemployment Programs Fund .....	—	—	2,657,890
<b>Total fund deficits .....</b>	<b>\$ 7,444,596</b>	<b>\$ 250,210</b>	<b>\$ 2,657,890</b>

## C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2014, the total value of restricted endowments and gifts was \$14.2 billion and unrestricted endowments and gifts was \$2.1 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to \$2.1 billion at June 30, 2014. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of \$946 million and \$9 million, respectively.

### NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay-as-you-go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be \$3.7 billion as of June 30, 2014. This estimate is based primarily on actuarial reviews of the State’s workers’ compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers’ compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately \$5.2 billion is discounted to \$3.7 billion using a 3.5% interest rate. Of the total, \$410 million is a current liability, of which \$273 million is included in the General Fund, \$134 million in the special revenue funds, and \$3 million in the internal service funds. The remaining \$3.3 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company for medical malpractice, workers’ compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based on an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 2% to 5%.

Table 23 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

**Table 23**

**Schedule of Changes in Self-Insurance Claims**

Year Ended June 30  
(amounts in thousands)

	<b>Primary Government</b>		<b>Discretely Presented Component Unit University of California</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Unpaid claims, beginning .....	\$ 3,509,555	\$ 3,204,635	\$ 631,798	\$ 599,176
Incurred claims .....	639,704	754,641	467,191	421,832
Claim payments .....	(445,289)	(449,721)	(454,411)	(389,210)
<b>Unpaid claims, ending .....</b>	<b>\$ 3,703,970</b>	<b>\$ 3,509,555</b>	<b>\$ 644,578</b>	<b>\$ 631,798</b>



**NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES**

In the fund financial statements, governmental funds reported deferred inflows of resources of \$2.0 billion because this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 24 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position.

**Table 24****Schedule of Deferred Outflows and Deferred Inflows of Resources**

June 30, 2014

(amounts in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Deferred outflows of resources:</b>				
Loss on refunding of debt .....	\$ 986,477	\$ 242,167	\$ 1,228,644	\$ 346,480
Decrease in fair value of hedging derivatives .....	—	—	—	100,282
Net pension liability .....	—	—	—	3,290,476
<b>Total deferred outflows of resources .....</b>	<b>986,477</b>	<b>242,167</b>	<b>1,228,644</b>	<b>3,737,238</b>
<b>Deferred inflows of resources:</b>				
Gain on refunding of debt .....	106,426	—	106,426	1,561
Service concession arrangements .....	64,376	—	64,376	30,701
Net pension liability .....	—	—	—	7,077,861
Other deferred inflows .....	—	822,886	822,886	—
<b>Total deferred inflows of resources .....</b>	<b>\$ 170,802</b>	<b>\$ 822,886</b>	<b>\$ 993,688</b>	<b>\$ 7,110,123</b>

**NOTE 22: NO COMMITMENT DEBT**

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2014, these component units had approximately \$4.3 billion of debt outstanding, which is not debt of the State.

The conduit obligations outstanding for the California Housing Finance Agency, a major component unit, amounted to \$341 million, which is not debt of the State.

**NOTE 23: CONTINGENT LIABILITIES****A. Litigation**

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following were accrued as a liability in the government-wide financial statements: legal proceedings that were decided against the primary government

before June 30, 2014; legal proceedings that were in progress as of June 30, 2014, and were settled or decided against the primary government as of March 19, 2015; and legal proceedings having a high probability of resulting in a decision against the primary government as of March 19, 2015, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are the more significant lawsuits pending against the primary government.

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA-Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs allege class action relief, declaratory relief, and seek attorney fees based on alleged violations to the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified amount of refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. Briefing of the appeal was completed on December 17, 2014, and the parties are waiting for notice of oral argument.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as Northwest that have no income earned inside California. In another recently settled case, *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board* raised the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the state, making it similar to the Ventas case. This plaintiff also intended to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, the Court of Appeal ruled that Bakersfield Mall, LLC did not follow mandatory class action claim procedures. *CA-Centerside II, LLC v. Franchise Tax Board* raised the same constitutional issues as the Bakersfield case, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state. Actual and expected future claims for refunds from LLCs are estimated to be as high as \$1.2 billion.

The primary government is a defendant in a case, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* regarding the constitutionality of Revenue and Taxation Code section 25101.15 allowing intrastate unitary businesses the option of reporting the income of various entities within the unitary business on either a separate or combined basis. The plaintiff claims, among other things, that section 25101.15 unlawfully discriminates against them because it allows intrastate unitary businesses the option to report on either a separate or combined basis, and that they should be allowed to report the income of their business entities on a separate basis. The Franchise Tax Board prevailed in the trial court, and the case is fully briefed and awaiting oral argument on appeal. If section 25101.15 were invalidated, the dollar amount of potential refunds for past years is impossible to estimate, but could be substantial. The potential loss of future revenue is also impossible to estimate, but could be mitigated by legislative action.

The primary government is a defendant in another case, *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board*, regarding constitutionality of Revenue and Taxation Code section 25101.15. The parties' cross-motions for summary judgment were heard on January 8, 2015. After that hearing, the superior court stayed further proceedings pending an appellate decision in the *Harley-Davidson* case. An estimate of potential loss is not possible.

The primary government is the defendant in a consolidated case, *The Gillette Company & Subsidiaries v. Franchise Tax Board*, formerly six cases, *Kimberly-Clark Worldwide, Inc. et al. v. Franchise Tax Board*; *Gillette Company v. Franchise Tax Board*; *Proctor & Gamble v. Franchise Tax Board*; *Sigma-Aldrich, Inc. v. Franchise Tax Board*; *RB Holdings (USA), Inc. v. Franchise Tax Board*; and *Jones Apparel Group Inc. v. Franchise Tax Board*, regarding the application of California's double-weighted sales factor apportionment formula under Revenue and Taxation Code section 25128. Multistate taxpayers claim that amended Revenue and Taxation Code section 25128 is invalid because California failed to repeal the entire Multistate Tax Compact. The case is fully briefed and before the California Supreme Court awaiting a hearing date. Taxpayers seek a combined refund totaling approximately \$34 million (plus statutory interest) for taxable years 1993 through 2005. If amended section 25128 is found invalid, the potential total refunds to other taxpayers are impossible to estimate with precision, but could exceed \$750 million.

The primary government is the defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *Health Net of California, Inc. v. DHCS*; and *Santa Clara Family Health Plan v. David Maxwell-Jolly et al.* regarding application of budget reduction factors to managed-care capitated rates. These cases have been settled on a contingent basis based on the plans' profitability. The estimated combined potential total loss is more than \$400 million based on four separate settlement agreements that were entered into in 2013 and 2014.

## **B. Federal Audit Exceptions**

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, California Housing Finance Agency (CalHFA), and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

## NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements.

Both CalPERS and CalSTRS retirement systems implemented the GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, in their fiscal year 2013-14 financial statements. The objective of GASB 67 is to improve financial reporting by state and local governmental pension plans and the decision-usefulness of reported pension information as well as to increase the transparency, consistency, and comparability of pension information across governments.

The California Legislature passed and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time after December 31, 2012. The financial impact will be gradually realized as total pension costs and the employer share of those costs decrease.

CalPERS administers four defined benefit retirement plans: the Public Employees’ Retirement Fund, the Judges’ Retirement Fund, the Judges’ Retirement Fund II, and the Legislators’ Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers’ and Firefighters’ Defined Contribution Plan Fund, the Public Agency Deferred Compensation Plan, and the public employee Supplemental Contributions Program Fund. The predominance of both assets and liabilities reside in the Public Employees’ Retirement Fund. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California Public Employees’ Retirement System on its website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

CalPERS uses the accrual basis of accounting. Contributions to the pension trust funds are recognized in the period in which the contributions are due pursuant to legal requirements. Benefits and refunds in the defined benefit plans are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers’ Retirement Plan: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained from the California State Teachers’ Retirement System on its website at [www.CalSTRS.com](http://www.CalSTRS.com).

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are earned. Employer and primary government contributions are recognized when earned and when the employer or the primary government has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

### A. Public Employees’ Retirement Fund

#### 1. Fund Information

*Plan Description:* CalPERS administers the Public Employees’ Retirement Fund (PERF). The PERF is comprised of and reported as three separate entities for accounting purposes. PERF A is comprised of agent multiple-employer plans, which includes State of California and most public agencies’ rate plans with more

than 100 active members. PERF B is a cost-sharing multiple-employer plan of school employers consisting of non-teaching and non-certified employees. PERF C is a cost-sharing multiple-employer plan of public agencies plans with generally less than 100 active members. Employers participating in the PERF include the primary government and certain discretely presented component units, 1,517 school employers, and 1,746 public agencies as of June 30, 2014.

The amount by which the actuarial accrued liability exceeded the actuarial value of assets in the PERF for the primary government and other participating agencies was \$36.4 billion at June 30, 2013, as a result of the difference between the actuarial value of assets of \$111.0 billion and the actuarial accrued liability of \$147.4 billion. Contributions are either actuarially determined or determined by statute.

## 2. Employer's Information

*Plan Description:* The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The primary government employees served by the PERF include first-tier and second-tier miscellaneous and industrial employees, California Highway Patrol employees, peace officers and firefighters, and other safety members. In the June 30, 2013 actuarial valuation, the payroll for primary government employees covered by the PERF for the 2012-13 fiscal year was \$15.3 billion.

All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years or after ten years for second-tier employees. The PERF provides death, disability, and survivor benefits. The benefit provisions are established by statute.

*Funding Policy:* Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formulas. The primary government contribution rates are determined by periodic actuarial valuations or by statute.

Employees, with the exception of employees in the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation ranging from \$0 to \$863. Employees' required contributions vary from 1.5% to 12.0% of their salaries over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance.

Table 25 shows the required employer contribution rates for the primary government.

**Table 25**

**Schedule of Required Employer Contribution Rates for the Primary Government – By Member Category**

Year Ended June 30, 2014

	<b>Normal Cost</b>	<b>Unfunded Liability</b>	<b>Group Term Life Benefit</b>	<b>Total Rate</b>
Miscellaneous members				
First tier .....	8.089 %	12.961 %	0.071 %	21.121 %
Second tier .....	7.960	12.961	0.071	20.992
Industrial (first and second tier) .....	10.325	5.357	0.000	15.682
California Highway Patrol .....	12.895	21.683	0.038	34.616
Peace officers and firefighters .....	15.489	15.006	0.000	30.495
Other safety members .....	12.007	5.198	0.000	17.205

For the year ended June 30, 2014, the annual pension cost (APC) and the amount of contributions made by the primary government were each \$3.7 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 27. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2013, is also shown in Table 27.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**B. Teachers’ Retirement Fund**

*Plan Description:* CalSTRS administers the Teachers’ Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers’ Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member’s age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers’ Retirement Law establishes the benefits for the DB Program. The DB Program had 1,687 contributing employers at June 30, 2014 and, as of June 30, 2013, had 416,643 active and 182,576 inactive program members and 269,274 benefit recipients. The primary government is a nonemployer contributor to the DB Program. The payroll for employees covered by the DB Program for the year ended June 30, 2014, was approximately \$27.1 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the amount of funds contributed. Vesting in the DBS Program occurs automatically with vesting in the DB Program. The Teachers’ Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

The CB Benefit Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CB Benefit Program is optional. However, if the employer elects to offer the CB Benefit Program, each eligible employee will automatically be covered by the CB Benefit Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2014, the CB Benefit Program had 32 contributing school districts and 35,066 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code Section 415(m). Internal Revenue Code Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of Internal Revenue Code Section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2014, the RB Program had 260 participants.

*Funding Policy:* DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Members and employers contribute a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

The DB Program contribution rate for members under the CalSTRS 2% at 60 formula is 8.00% of creditable compensation, while the contribution rate for members under the CalSTRS 2% at 62 formula is 50% of the normal cost of their retirement plan, which resulted in an 8.00% contribution rate of creditable compensation for the fiscal year 2013-14. The employer contribution rate is 8.25% of creditable compensation. In fiscal year 2013-14, the General Fund contribution was 2.017% of total creditable compensation of the fiscal year ending in the prior calendar year. Education Code section 22955(b) states that the General Fund will contribute additional quarterly payments at a contribution rate of 0.524% of creditable earnings of the fiscal year ending in the immediately preceding calendar year when there is an unfunded actuarial obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded actuarial obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions. Based on the actuarial valuation, as of June 30, 2012, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund was required to contribute the additional quarterly payments at a contribution rate of 1.024% starting October 1, 2013. As of June 30, 2014, the state contributed \$201 million of the \$268 million total amount for fiscal year 2013-14.

Assembly Bill 1469 (AB 1469) was passed by the Legislature on June 15, 2014, signed into law on June 24, 2014, and took effect immediately. This bill was designed to address the long-term funding gap of the DB Program. It creates a plan to fully fund the DB Program by 2046 through increases in employer, State, and employee contributions. The portion of the state appropriation under Education Code section 22955(b) that is in addition to the 2.017% has been replaced by section 22955.1(b) in order to fully fund by 2046 the benefits in effect as of 1990.

As a result of AB 1469, the fourth quarterly payment of \$67 million was included in an increased first-quarter payment of \$94 million for fiscal year 2014-15, which was transferred on July 1, 2014.

Table 26 shows the CalSTRS’ state contribution rates effective for fiscal year 2014-15 and beyond.

**Table 26**

**Schedule of CalSTRS’ State Contribution Rates**

Effective Date	Base Rate	AB 1469 Increase for 1990 Benefit Structure	SBMA <sup>1</sup> Funding	Total State Appropriation to DB Program
July 1, 2014	2.017 %	1.437 %	2.50 %	5.954 %
July 1, 2015	2.017	2.874	2.50	7.391
July 1, 2016	2.017	4.311	2.50	8.828
July 1, 2017 to June 30, 2046	2.017	4.311	2.50	8.828
July 1, 2046 and thereafter	2.017	— <sup>2</sup>	2.50	4.517 <sup>2</sup>

<sup>1</sup> Supplemental Benefits Maintenance Account

<sup>2</sup> AB 1469 gives the CalSTRS board limited authority to adjust state contribution rates from July 1, 2017, through June 30, 2046 in order to eliminate the remaining unfunded actuarial obligation associated with the 1990 benefit structure. The board cannot increase the rate by more than 0.50 percent in a fiscal year, and if there is no unfunded actuarial obligation, the contribution rate imposed to pay for the 1990 benefit structure shall be reduced to 0 percent. Rates in effect prior to July 1, 2014, are reinstated, if necessary, to address any remaining 1990 unfunded actuarial obligation from July 1, 2046, and thereafter.

The DBS Program member contribution rate for service that exceeds one full year during a fiscal year is 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2014, the employer and primary government contributions were approximately \$2.3 billion and \$1.4 billion, respectively. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 27.



Table 27

**Actuarial Information – Pension Trusts – Public Employees’ Retirement Fund and  
State Teachers’ Retirement Defined Benefit Program Fund**

Valuation Date as Indicated

	<b>Public Employees’ Retirement Fund</b>	<b>State Teachers’ Retirement Defined Benefit Program Fund<sup>1</sup></b>
Last actuarial valuation .....	June 30, 2013	June 30, 2013
Actuarial cost method .....	Individual Entry Age Normal	Entry Age Normal
Amortization method .....	Level % of Payroll	Level % of Payroll, Open
Remaining amortization period .....	30 years	30 years
Asset valuation method .....	Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
Actuarial assumption		
Investment rate of return .....	7.50 %	7.50 %
Projected salary increase .....	3.20 - 18.60	3.75
Includes inflation at .....	2.75	3.00
Post-retirement benefit increases .....	2.00 - 3.00	2.00
Annual pension costs (in millions)		
Year ended 6/30/11 .....	\$ 3,277	\$ 5,985
Year ended 6/30/12 .....	2,928	6,230
Year ended 6/30/13 .....	3,236	6,629
Year ended 6/30/14 .....	3,749	— <sup>2</sup>
Percent contribution		
Year ended 6/30/11 .....	100 %	47 %
Year ended 6/30/12 .....	100	46
Year ended 6/30/13 .....	100	44
Year ended 6/30/14 .....	100	— <sup>2</sup>
Funding as of last valuation (in millions)		
Actuarial value – assets .....	\$ 110,989	\$ 148,614
Actuarial accrued liabilities (AAL) – entry age .....	147,392	221,861
Unfunded actuarial accrued liability (UAAL) .....	36,403	73,247
Covered payroll .....	15,346	27,117
Funded ratio .....	75.3 %	67.0 %
UAAL as percent of covered payroll .....	237.2 %	270.1 %

<sup>1</sup> The State is a nonemployer contributor to the State Teachers’ Retirement Defined Benefit Program Fund, a cost-sharing multiple-employer plan. The annual pension cost includes the amount related to both the State and the local government employers. According to the provisions of the Teacher’s Retirement Law and the related Education Codes, the State and local government employers contributed \$1.4 billion and \$2.3 billion, respectively, for the year ending June 30, 2014. Based on the most recent actuarial valuation, dated June 30, 2013, current statutory contributions are sufficient to fund normal costs but are not expected to be sufficient to amortize the unfunded actuarial obligation. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions, and other experience that may differ from the actuarial assumptions.

<sup>2</sup> CalSTRS implementation of GASB 67 in its 2013-14 fiscal year financial statements makes information related to the annual pension cost and the related percent contribution rates incomparable for financial presentation to prior years displayed.

## NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

*State of California Other Postemployment Benefits Plan Description:* The primary government provides health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the California Department of Human Resources (CalHR), respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The State contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is a self-funded trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov).

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement No. 45 reporting purposes. Fifty trial courts have a single-employer defined benefit plan; these plans have separate biennial actuarial valuations. One trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. Seven trial courts (Alameda, Del Norte, Fresno, Mendocino, Modoc, San Benito, and Stanislaus) have no plan. Twenty-one plans are not accounted for in a trust fund and do not issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2013-14 fiscal year, approximately 168,200 annuitants were enrolled to receive health benefits and approximately 139,000 annuitants were enrolled to receive dental benefits. As of July 1, 2013, the most recent actuarial valuation date, the trial courts had approximately 4,200 enrolled retirees and spouses.

*Funding Policy:* The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. The State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis, with a modest amount of prefunding for members of Bargaining Units 5, 12, and 16. The maximum 2014 monthly State contribution was \$642 for one-party coverage, \$1,218 for two-party coverage, and \$1,559 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Twenty-one trial courts fund retirees' benefits on a strictly pay-as-you-go basis. The 2013 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from \$8 to \$1,134,429, with the average being \$119,867. One trial court (Yolo) continuously contributes at least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Sonoma and Marin are on a pay-as-you-go plus 50% of direct-subsidy benefits funding policy (after

initial contribution) until their plans are fully funded. Orange contributed the larger of the ARC, or 3.5% of payroll, with at least the ARC contributed for 2014, with no commitment to future contributions. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.94% of annual covered pension payroll. Seventeen other trial courts made contributions only in 2014, with five other trial courts contributing in other years (Placer in 2013 and 2014; San Mateo in 2013, 2014, and 2015; Nevada in 2012 and 2013; Santa Cruz in 2013; and Butte in 2014 and prior years, which fully funded the plan), but none of these 22 trial courts are committing to future trust contributions. Lassen is fully funded with no future contributions expected, Imperial has committed to \$20,000 per year for future contributions, and Santa Clara funding policy is set by the County and will increase to 70% of the ARC long term. For the year ended June 30, 2014, the State contributed \$1.9 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent \$73 million and certain discretely presented component units represent \$4 million.

*Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation:* The State's annual OPEB cost (expense) is calculated based on the ARC. Table 28 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2014, and the two preceding years, including trial courts.

**Table 28**


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**Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed  
and Net OPEB Obligation**

(amounts in thousands)

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<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 4,837,769	36.20 %	\$ 13,440,768
June 30, 2013	4,992,924	35.33	16,267,964
June 30, 2014	5,129,284	37.20	19,489,030

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Table 29 presents the components of the State’s net OPEB obligation to the OPEB plan, including trial courts.

**Table 29**

**Schedule of Net OPEB Obligations**

June 30, 2014

(amounts in thousands)

	<b>Amount</b>
Annual required contribution .....	\$ 5,046,539
Interest on net OPEB obligations .....	736,019
Adjustment to annual required contribution .....	(653,274)
<b>Annual OPEB cost .....</b>	<b>5,129,284</b>
Contributions made .....	(1,908,218)
Increase in net OPEB obligation .....	<b>3,221,066</b>
<b>Net OPEB obligations – beginning of year .....</b>	<b>16,267,964</b>
<b>Net OPEB obligations – end of year .....</b>	<b>\$ 19,489,030</b>

*Funded Status and Funding Progress:* As of June 30, 2014—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was \$71.8 billion, and the actuarial value of assets was \$41 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$71.8 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$19.3 billion, and the ratio of the UAAL to the covered payroll was 373%.

For the trial courts, as of July 1, 2013—the most recent actuarial valuation date—the AAL for benefits was \$1.4 billion and the actuarial value of assets was \$30 million, resulting in an UAAL of \$1.4 billion. The covered payroll was \$931 million and the ratio of the UAAL to covered payroll was 149%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about mortality and the healthcare cost trend. Amounts determined regarding the plan’s funded status and the employer’s annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

In the June 30, 2014 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2015 and 8.00% in 2016 initially, reduced to an ultimate rate of 4.50% in 2021. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The UAAL is being amortized as a level percentage of active member payroll on an open basis over 30 years.

In the July 1, 2013 biennial actuarial valuations, the entry age normal cost method was used for 50 of the trial courts. The actuarial assumptions included a 3.75% investment rate of return for 40 trial courts. There are 10 other trial courts with investment rates of return ranging from 4.75% to 7.50%. The actuarial assumptions included an annual health care cost trend rate of 8.25% for most trial courts initially, reduced incrementally to an ultimate trend rate of 5.00% after five years. Annual inflation and payroll growth are assumed to be 2.75% and 3.00%, respectively, for most trial courts. The UAAL is amortized on an open basis over 30 years as a level percentage of payroll for 46 trial courts. Three other trial courts (Lassen, Orange, and Yolo) amortize on a closed basis as a level percentage of payroll over 29, 24, and 25 years, respectively. Alpine is amortizing using the level dollar amount over 24 years on a closed basis.

## **NOTE 26: SUBSEQUENT EVENTS**

The following information describes significant events that occurred subsequent to June 30, 2014, but prior to the date of the auditor's report.

### **A. Debt Issuances**

Between September 2014 and March 2015, the primary government issued \$5.5 billion in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including children's hospitals; housing; prisons; libraries; earthquake safety and public building rehabilitation; transportation; highway safety, traffic reduction, air quality, and port security; public primary, secondary, community college and university education facilities; passenger rail; safe and clean drinking water; clean water; water security, clean air, parks, coastal and beach protection; seismic retrofit; high-speed rail; stem cell research; and veterans' homes.

In September 2014, the primary government issued \$110 million in veterans general obligation bonds to finance or refinance obligations that were issued to provide funds for financing of contracts for the purchase of homes and farms for military veterans who reside in California.

In August 2014, the California State University issued \$748 million in revenue bonds to refund certain maturities of Systemwide Revenue Bonds series 2004A, 2005A, and 2005C; repay bond anticipation notes, refund other outstanding bond indebtedness by an auxiliary organization; and fund new capital projects.

In October 2014, the State Public Works Board issued \$250 million in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation, Department of State Hospitals, and Judicial Council of California.

In October 2014 and November 2014, the Department of Water Resources issued a combined total of \$795 million in water system revenue bonds to retire or redeem certain outstanding bonds and commercial paper notes, to fund deposits to the debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

### **B. Cash Management**

In September 2014, the State issued \$2.8 billion of Revenue Anticipation Notes to fund, in part, the State's cash management needs of the 2014-15 fiscal year by supporting the cash flow needs of the General Fund.

## C. Other

In August 2014, the Electric Power Fund received \$142 million in energy settlements to resolve claims arising from events and transactions in Western Energy Markets during the period of January 1, 2000, through June 20, 2001.

In September 2014, CalPERS received a settlement check of \$88 million from Citigroup MBS Securities related to residential mortgage-backed securities.

In October 2014, CalPERS received \$249 million from Bank of America as part of a settlement related to mortgage-backed securities.

In the November 4, 2014 general election:

- Voters passed Proposition 1 authorizing the issuance of \$7.1 billion of general obligation bonds and reallocating \$425 million of unused bond authority from prior water bond acts for state water supply infrastructure projects.
- Voters passed Proposition 2 requiring the annual transfer of 1.5% of general fund revenue to the state budget stabilization account, and personal capital gain tax revenues exceeding 8% of general fund revenues to the budget stabilization account and, under certain conditions, a dedicated K-14 school reserve fund. The proposition also requires that half of the budget stabilization account revenues be used to repay state debts and unfunded liabilities. Proposition 2 allows limited use of the state budget stabilization account in the event of an emergency or if there is a state budget deficit. Proposition 2 caps the state budget stabilization account at 10% of general fund revenues, directing the remainder to infrastructure.
- Voters passed Proposition 47 requiring, absent prior conviction for certain serious offenses, misdemeanor sentencing for certain drug possession offenses and certain property crimes involving amounts of \$950 or less. Proposition 47 requires the resentencing of persons serving felony sentences for these offenses unless the court finds unreasonable public safety risk. Any savings are to be applied to mental health and drug treatment programs, K-12 schools, and crime victims.

In November 2014, Standard and Poor's Rating Services raised the State's general obligation rating to "A+" from "A", citing as a motivating factor the November 4, 2014 voter approval of Proposition 2 that strengthens the budget stabilization account.

In November 2014, the primary government entered into a note purchase agreement with Bank of America allowing the State to request the bank to purchase up to \$500 million of general obligation commercial paper.

In February 2015, Fitch raised the State's general obligation rating to "A+" from "A", citing the State's continued improvement in its fundamental fiscal position, institutionalized changes to its fiscal operations, and ongoing economic and revenue recovery as contributing to an improved financial position and enhancing the State's ability to address future fiscal challenges.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during the 2014-15 fiscal year. As of June 30, 2014, the State had \$7.6 billion in outstanding loans with the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of March 19, 2015, the State had an outstanding loan balance of \$8.1 billion. While the State continued to request additional loans during 2015, it estimates that these loans will be fully repaid by 2019.

# Required Supplementary Information



## Schedule of Funding Progress

(amounts in millions)

### Public Employees' Retirement Fund – Primary Government

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2011	\$ 102,452	\$ 129,648	\$ 27,196	79.0 %	\$ 16,212	167.7 %
June 30, 2012	106,145	134,314	28,169	79.0	15,680	179.6
June 30, 2013	110,989	147,392	36,403	75.3	15,346	237.2

### State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
June 30, 2011	\$ 143,930	\$ 207,770	\$ 63,840	69.3 %	\$ 26,592	240.1 %
June 30, 2012	144,232	214,765	70,533	67.2	26,404	267.1
June 30, 2013	148,614	221,861	73,247	67.0	27,117	270.1

### Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
<b>State substantive plan</b>						
June 30, 2012	\$ 8	\$ 63,845	\$ 63,837	0.0 %	\$ 18,710	341.2 %
June 30, 2013	10	64,585	64,574	0.0	18,060	357.6
June 30, 2014	41	71,814	71,773	0.0	19,250	372.8
<b>Trial Courts <sup>1</sup></b>						
July 1, 2009	\$ 9	\$ 1,493	\$ 1,484	0.6 %	\$ 1,009	147.0 %
July 1, 2011	17	1,385	1,368	1.2	922	148.4
July 1, 2013	30	1,421	1,391	2.1	931	149.4

<sup>1</sup> The trial courts reporting is based on 51 individual biennial actuarial valuations as of July 1, 2013.

Note: The University of California provides OPEB benefits through its Retirement Health Plan to its eligible retirees and their families. As the University is the employer providing these benefits, the State will not be reporting these benefits in Note 25 or the Required Supplementary Information. Information regarding the University and references to its financial statements can be found in Note 1, Section A.3., Discretely Presented Component Units.



## Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 34, the State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized.

### A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2014, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling \$65.2 billion, land purchased for highway projects totaling \$13.5 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling \$12.5 billion.

*Donation and Relinquishment:* Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2014, donations are \$74,290 of infrastructure land, and relinquishments are \$61 million of state highway infrastructure (completed highway projects) and \$13 million of infrastructure land.

### B. Condition Baselines and Assessments

#### 1. Bridges

The State uses the Bridge Health Index (BHI)—a numerical rating scale from 0 to 100 that uses element-level inspection data—to determine the aggregate condition of its bridges. The inspection data is based on the American Association of State Highway and Transportation Officials' "Guide to Commonly Recognized Structural Elements."

From a deterioration standpoint, the BHI represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value has a BHI of 100. As a bridge deteriorates over time, it loses asset value, as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The following table shows the State’s established condition baseline and actual BHI for fiscal years 2011-12 through 2013-14:

<b>Fiscal Year Ended June 30</b>	<b>Established BHI Baseline <sup>1</sup></b>	<b>Actual BHI</b>
2012	80.0	94.5
2013	80.0	94.8
2014	80.0	95.6

<sup>1</sup> The actual statewide BHI should not be lower than the minimum BHI established by the State.

The following table provides details on the State’s actual BHI as of June 30, 2014:

<b>BHI Description</b>	<b>Bridge Count</b>	<b>Percent</b>	<b>Network BHI</b>
Excellent	7,211	54.96 %	99.9
Good	4,635	35.33	96.9
Acceptable	680	5.18	86.3
Fair	132	1.01	74.2
Poor	102	0.78	62.8
Does not carry traffic	360	2.74	93.2
<b>Total</b>	<b>13,120</b>	<b>100.00 %</b>	

## 2. Roadways

The State conducts a periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways’ pavement condition by the following descriptions:

1. Excellent/good condition – minor or no potholes or cracks
2. Fair condition – moderate potholes or cracks
3. Poor condition – significant or extensive potholes or cracks

Statewide lane miles are considered “distressed lane miles” if they are in either fair or poor condition. The actual distressed lane miles are compared to the established condition baseline to ensure that the baseline is not exceeded.

The following table shows the State’s established condition baseline and actual distressed lane miles from the last three completed pavement-condition surveys:

<b>Condition Assessment Date</b> <sup>1</sup>	<b>Established Condition Baseline Distressed Lane Miles (maximum)</b> <sup>2</sup>	<b>Actual Distressed Lane Miles</b>	<b>Actual Distressed Lane Miles as Percent of Total Lane Miles</b>
March 2008	18,000	12,998	26.3 %
December 2011 <sup>3</sup>	18,000	12,333	24.9
December 2013	18,000	7,820	15.7

<sup>1</sup> Condition assessment for the State’s established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.

<sup>2</sup> The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

<sup>3</sup> The State’s compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011.

The following table provides details on the State’s actual distressed lane miles as of the last completed pavement-condition survey:

<b>Pavement Condition</b>	<b>Lane Miles</b>	<b>Distressed Lane Miles</b>
Excellent/Good	41,898	—
Fair	2,483	2,483
Poor	5,337	5,337
<b>Total</b>	<b>49,718</b>	<b>7,820</b>

### C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State’s scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year.

The State’s budgeted and actual preservation cost information for the most recent and four previous fiscal years is shown in the following table:

<b>Fiscal Year Ended June 30</b>	<b>Estimated Budgeted Preservation Costs (in millions)</b>	<b>Actual Preservation Costs (in millions)</b>
2010	\$ 2,162	\$ 698
2011	2,802	1,394
2012	2,722	1,806
2013	1,598	989
2014	2,069	612

## Budgetary Comparison Schedule

### General Fund and Major Special Revenue Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	General			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Corporation tax .....	\$ 7,971,000	\$ 8,107,000	\$ 8,724,718	\$ 617,718
Intergovernmental .....	—	—	—	—
Cigarette and tobacco taxes .....	89,000	86,000	86,378	378
Inheritance, estate, and gift taxes .....	—	—	—	—
Insurance gross premiums tax .....	2,143,000	2,287,000	2,362,738	75,738
Vehicle license fees .....	19,985	19,985	21,833	1,848
Motor vehicle fuel tax .....	—	—	—	—
Personal income tax .....	64,287,000	66,522,000	66,782,714	260,714
Retail sales and use taxes .....	22,920,000	22,759,000	22,250,163	(508,837)
Other major taxes and licenses .....	351,200	352,200	355,367	3,167
Other revenues .....	2,019,723	1,704,815	1,835,678	130,863
<b>Total revenues .....</b>	<b>99,800,908</b>	<b>101,838,000</b>	<b>102,419,589</b>	<b>581,589</b>
<b>EXPENDITURES</b>				
State and consumer services .....	14,081	13,593	11,483	2,110
Business and transportation .....	91,052	91,118	91,073	45
Resources .....	1,109,179	1,262,638	1,208,336	54,302
Health and human services .....	27,518,481	29,390,387	28,591,476	798,911
Correctional programs .....	8,610,145	9,348,790	9,184,218	164,572
Education .....	48,408,996	49,570,274	49,546,886	23,388
General government:				
Tax relief .....	421,734	425,256	421,734	3,522
Debt service .....	4,800,543	4,800,543	4,751,765	48,778
Other general government .....	4,327,934	4,478,542	4,201,023	277,519
<b>Total expenditures .....</b>	<b>95,302,145</b>	<b>99,381,141</b>	<b>98,007,994</b>	<b>1,373,147</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds .....	—	—	1,154,221	—
Transfers to other funds .....	—	—	(1,338,685)	—
Other additions and deductions .....	—	—	(102,379)	—
<b>Total other financing sources (uses) .....</b>	<b>—</b>	<b>—</b>	<b>(286,843)</b>	<b>—</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses .....	—	—	4,124,752	—
<b>Fund balances – beginning .....</b>	<b>—</b>	<b>—</b>	<b>4,285,137</b>	<b>—</b>
<b>Fund balances – ending .....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 8,409,889</b>	<b>\$ —</b>

Federal				Transportation			
Budgeted Amounts		Actual Amounts	Variance With Final Budget	Budgeted Amounts		Actual Amounts	Variance With Final Budget
Original	Final			Original	Final		
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
60,477,098	60,477,098	60,477,098	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	6,026,194	6,014,023	6,065,747	51,724
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,796,510	3,859,470	3,900,966	41,496
26	26	26	—	400,774	461,636	385,002	(76,634)
<b>60,477,124</b>	<b>60,477,124</b>	<b>60,477,124</b>	<b>—</b>	<b>10,223,478</b>	<b>10,335,129</b>	<b>10,351,715</b>	<b>16,586</b>
5,411	5,411	5,411	—	115,770	115,770	102,987	12,783
5,069,737	5,069,737	5,069,737	—	11,587,798	11,555,219	10,523,981	1,031,238
259,979	259,979	259,979	—	234,072	234,155	233,369	786
44,172,988	44,172,988	44,172,988	—	3,418	3,418	2,656	762
88,228	88,228	88,228	—	—	—	—	—
6,727,357	6,727,357	6,727,357	—	2,649	2,649	2,118	531
—	—	—	—	—	—	—	—
—	—	—	—	686	2,350	1,399	951
962,624	962,624	962,624	—	665,866	666,600	658,196	8,404
<b>57,286,324</b>	<b>57,286,324</b>	<b>57,286,324</b>	<b>—</b>	<b>12,610,259</b>	<b>12,580,161</b>	<b>11,524,706</b>	<b>1,055,455</b>
—	—	8,461,005	—	—	—	18,492,786	—
—	—	(11,636,639)	—	—	—	(21,415,565)	—
—	—	(16,758)	—	—	—	(1,116,593)	—
—	—	<b>(3,192,392)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(4,039,372)</b>	<b>—</b>
—	—	(1,592)	—	—	—	(5,212,363)	—
—	—	<b>10,769</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>22,442,954</b>	<b>—</b>
<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9,177</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 17,230,591</b>	<b>\$ —</b>

(continued)

## Budgetary Comparison Schedule (continued)

### General Fund and Major Special Revenue Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	Environmental and Natural Resources			
	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Corporation tax .....	\$ —	\$ —	\$ —	\$ —
Intergovernmental .....	—	—	—	—
Cigarette and tobacco taxes .....	—	—	—	—
Inheritance, estate, and gift taxes .....	—	—	—	—
Insurance gross premiums tax .....	—	—	—	—
Vehicle license fees .....	—	—	—	—
Motor vehicle fuel tax .....	—	—	—	—
Personal income tax .....	—	—	—	—
Retail sales and use taxes .....	—	—	—	—
Other major taxes and licenses .....	153,108	153,108	153,108	—
Other revenues .....	3,464,344	3,464,344	3,464,344	—
<b>Total revenues .....</b>	<b>3,617,452</b>	<b>3,617,452</b>	<b>3,617,452</b>	<b>—</b>
<b>EXPENDITURES</b>				
State and consumer services .....	79,501	79,501	64,120	15,381
Business and transportation .....	8,928	8,928	8,928	—
Resources .....	4,784,304	4,523,630	4,047,506	476,124
Health and human services .....	218,588	170,386	106,722	63,664
Correctional programs .....	—	—	—	—
Education .....	16,140	16,140	14,089	2,051
General government:				
Tax relief .....	—	—	—	—
Debt service .....	—	—	—	—
Other general government .....	122,080	110,587	89,814	20,773
<b>Total expenditures .....</b>	<b>5,229,541</b>	<b>4,909,172</b>	<b>4,331,179</b>	<b>577,993</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers from other funds .....	—	—	896,385	—
Transfers to other funds .....	—	—	(740,256)	—
Other additions and deductions .....	—	—	54,934	—
<b>Total other financing sources (uses) .....</b>	<b>—</b>	<b>—</b>	<b>211,063</b>	<b>—</b>
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses .....	—	—	(502,665)	—
<b>Fund balances – beginning .....</b>	<b>—</b>	<b>—</b>	<b>12,029,423</b>	<b>*</b>
<b>Fund balances – ending .....</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 11,526,758</b>	<b>\$ —</b>

\* Restated

(concluded)

## Reconciliation of Budgetary Basis Fund Balances of the General Fund and the Major Special Revenue Funds to GAAP Basis Fund Balances

June 30, 2014

(amounts in thousands)

	<u>Major Special Revenue Funds</u>			
	<u>General</u>	<u>Federal</u>	<u>Transportation</u>	<u>Environmental and Natural Resources</u>
<b>Budgetary fund balance reclassified into</b>				
GAAP statement fund structure .....	\$ 8,409,889	\$ 9,177	\$ 17,230,591	\$ 11,526,758
<b>Basis difference:</b>				
Interfund receivables .....	49,234	—	3,354,281	829,227
Loans receivable .....	126,121	201,804	—	1,113,482
Interfund payables .....	(6,123,537)	—	(2,316)	(25,000)
Escheat property .....	(820,249)	—	—	—
Bonds authorized but unissued .....	—	—	(15,119,755)	(5,751,377)
Tax revenues .....	(717,500)	—	—	—
Fund classification changes .....	447,754	1,593	—	—
Other .....	4,363	—	2,529,013	12,808
<b>Timing difference:</b>				
Liabilities budgeted in subsequent years .....	(8,820,671)	(1,000)	(525,590)	(75,344)
<b>GAAP fund balance (deficit) – ending .....</b>	<b><u>\$ (7,444,596)</u></b>	<b><u>\$ 211,574</u></b>	<b><u>\$ 7,466,224</u></b>	<b><u>\$ 7,630,554</u></b>

### Notes to the Required Supplementary Information

#### Budgetary Comparison Schedule

The State annually reports its financial condition based on a Generally Accepted Accounting Principles (GAAP) basis and on the State's budgetary provisions (budgetary basis). The Budgetary Comparison Schedule for the General Fund and Major Special Revenue Funds reports the original budget, the final budget, the actual expenditures, and the variance between the final budget and the actual expenditures, using the budgetary basis of accounting.

On the budgetary basis, individual appropriations are charged as expenditures when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year in which goods and services are received. The Budgetary Comparison Schedule includes all of the current year expenditures for the General Fund and major special revenue funds as well as related appropriations that are typically legislatively authorized annually, continually, or by project. While the encumbrances relate to all programs' expenditures on a budgetary basis, adjustments for encumbrances are budgeted under other general government.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with Government Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes a comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available by emailing the State Controller's Office, Division of Accounting and Reporting at [StateGovReports@sco.ca.gov](mailto:StateGovReports@sco.ca.gov).

## Reconciliation of Budgetary With GAAP Basis

The reconciliation of budgetary basis fund balances of the General Fund and the major special revenue funds to GAAP basis fund balances is presented on the previous page and the reconciling items are explained in the following paragraphs.

The beginning fund balance for the General Fund on the budgetary basis is restated for prior year revenue adjustments and prior year expenditure adjustments. A prior year revenue adjustment occurs when the actual amount received in the current year differs from the amount of revenue accrued in the prior year. A prior year expenditure adjustment results when the actual amount paid in the current year differs from the prior year accrual for appropriations for which the ability to encumber funds has lapsed in previous periods. The beginning fund balance on a GAAP basis is not affected by these adjustments.

### Basis Difference

*Interfund Receivables and Loans Receivable:* Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a \$49 million increase to the fund balance in the General Fund, a \$3.4 billion increase to the fund balance in the Transportation Fund, and a \$829 million increase to the fund balance in Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of \$126 million in the General Fund, \$202 million in the Federal Fund, and \$1.1 billion in Environmental and Natural Resources Fund.

*Interfund Payables:* Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a \$6.1 billion decrease to the budgetary fund balance in the General Fund, \$2 million decrease to the Transportation Fund, and \$25 million decrease to the Environmental and Natural Resources Fund.

*Escheat Property:* A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused a \$820 million decrease to the General Fund balance.

*Bonds Authorized but Unissued:* In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a \$15.1 billion decrease to the fund balance in the Transportation Fund and a \$5.8 billion decrease in the Environmental and Natural Resources Fund.



*Tax Revenues:* Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance decrease of \$718 million in the General Fund.

*Fund Classification Changes:* The fund balance amounts for governmental funds have been reclassified in accordance with governmental accounting standards. These reclassifications caused fund balance increases of \$448 million in the General Fund and \$2 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund, respectively, for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

*Other:* Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increases of \$5 million in the General Fund, \$2.5 billion in the Transportation Fund, and \$13 million in the Environmental and Natural Resources Fund.

### **Timing Difference**

*Liabilities Budgeted in Subsequent Years:* On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused fund balance decreases of \$8.8 billion in the General Fund, \$1 million in the Federal Fund, \$526 million in the Transportation Fund, and \$75 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of \$3.9 billion for deferred apportionment payments to K-12 schools and community colleges, \$2.8 billion for medical assistance, \$989 million for June 2014 payroll that was deferred to July 2014, \$555 million for pension contributions, \$284 million for workers' compensation claims, and \$191 million in tax overpayments.

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# **Combining Financial Statements and Schedules – Nonmajor and Other Funds**



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# Nonmajor Governmental Funds

*Nonmajor governmental funds* account for the State's activities that do not meet the criteria of a major governmental fund. Following are brief descriptions of nonmajor governmental funds.

*Special revenue funds* account for the proceeds of specific revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

The **Business and Professions Regulatory and Licensing Fund** accounts for fees and other revenues charged for regulating and licensing specific industries, professions, and vocations.

The **Financing for Local Governments and the Public Fund** accounts for taxes, fees, bond proceeds, and other revenues that are used to finance the construction and maintenance of parks, jails, and other public and local government programs.

The **Cigarette and Tobacco Tax Fund** accounts for a surtax on cigarette and tobacco products that is used for various health programs.

The **Local Revenue and Public Safety Fund** accounts for vehicle license fees and a 1.5625% state sales tax that is dedicated to local governments for realigning costs from the State to local governments and a 0.5% state sales tax that is dedicated to local governments to fund public safety programs.

The **Health Care Related Programs Fund** accounts for fees, taxes, bond proceeds, transfers from the Federal Trust Fund and other state funds, and other revenues that are used for the Medi-Cal and Healthy Families programs, medical research, and other health and human services programs.

The **Trial Courts Fund** accounts for the various fees collected by the courts, maintenance-of-effort payments from the counties, transfers in from the General Fund, and trial court operating costs.

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for the receipt of Tobacco Revenue Settlements pledged for the payment of debt service.

**Other special revenue programs funds** account for all other proceeds of revenue sources, other than debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

*Debt service funds* account for and report financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from the sale of surplus property, and the 0.25% sales and use tax revenue collected for the payment of principal, interest, and other related costs of the Economic Recovery Bonds.

(continued)

(continued)

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation-related general obligation bonds.

**Capital projects funds** account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **Higher Education Construction Fund** accounts for bond proceeds used to construct state colleges and universities.

The **Hospital Construction Fund** accounts for bond proceeds that are used to construct hospitals.

The **Local Government Construction Fund** accounts for bond proceeds that are used to construct schools, libraries, and other major capital facilities for local governments.

**Building authorities** are blended component units that are created by joint-powers agreements between local governments and the State or other local governments for the purpose of financing the construction of state buildings. The funds account for bond proceeds used to finance and construct state buildings and parking facilities.

**Other capital projects funds** account for transactions related to resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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# Combining Balance Sheet

## Nonmajor Governmental Funds

June 30, 2014

(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 1,169,322	\$ 931,273	\$ 430,051
Investments .....	—	—	—
Receivables (net) .....	77,423	18,927	317,327
Due from other funds .....	33,410	502,541	5,891
Due from other governments .....	14,372	307,299	—
Interfund receivables .....	266,142	215,178	—
Loans receivable .....	188,887	2,395,746	—
Other assets .....	428	—	—
<b>Total assets .....</b>	<b>\$ 1,749,984</b>	<b>\$ 4,370,964</b>	<b>\$ 753,269</b>
<b>LIABILITIES</b>			
Accounts payable .....	\$ 50,146	\$ 132,707	\$ 75,107
Due to other funds .....	34,584	305,991	13,597
Due to other governments .....	335	181,145	101,378
Interfund payables .....	2,405	—	—
Revenues received in advance .....	35,018	1,828	—
Deposits .....	370	—	—
Interest payable .....	—	—	—
General obligation bonds payable .....	—	—	—
Other liabilities .....	44,624	388	4
<b>Total liabilities .....</b>	<b>167,482</b>	<b>622,059</b>	<b>190,086</b>
<b>DEFERRED INFLOWS OF RESOURCES .....</b>	<b>—</b>	<b>—</b>	<b>260,517</b>
<b>Total liabilities and deferred inflows of resources .....</b>	<b>167,482</b>	<b>622,059</b>	<b>450,603</b>
<b>FUND BALANCES</b>			
Nonspendable .....	—	—	—
Restricted .....	856,450	3,445,078	302,666
Committed .....	726,052	310,685	—
Assigned .....	—	—	—
Unassigned .....	—	(6,858)	—
<b>Total fund balances .....</b>	<b>1,582,502</b>	<b>3,748,905</b>	<b>302,666</b>
<b>Total liabilities, deferred inflows of resources, and fund balances .....</b>	<b>\$ 1,749,984</b>	<b>\$ 4,370,964</b>	<b>\$ 753,269</b>



Special Revenue

Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
\$ 2,744,756	\$ 832,942	\$ 1,014,499	\$ 154,127	\$ 1,597,334	\$ 8,874,304
—	—	134,745	499,478	—	634,223
68,301	2,274,615	298,007	202,884	141,660	3,399,144
27,805	230,209	197	—	333,128	1,133,181
—	1,767	26,989	—	57,401	407,828
—	12,000	440,000	—	399,400	1,332,720
—	39,200	—	—	11,176	2,635,009
—	—	30,053	—	—	30,481
<b>\$ 2,840,862</b>	<b>\$ 3,390,733</b>	<b>\$ 1,944,490</b>	<b>\$ 856,489</b>	<b>\$ 2,540,099</b>	<b>\$ 18,446,890</b>
\$ 6,670	\$ 155,486	\$ 242,811	\$ 120	\$ 246,094	\$ 909,141
30,330	2,336,562	1,116	—	37,354	2,759,534
2,756,627	34,956	132,940	—	304,800	3,512,181
—	—	—	—	6,179	8,584
—	10,432	16,067	—	29,786	93,131
—	—	373,441	—	18,353	392,164
—	—	—	—	—	—
—	—	—	—	—	—
—	126	81,490	—	13,762	140,394
<b>2,793,627</b>	<b>2,537,562</b>	<b>847,865</b>	<b>120</b>	<b>656,328</b>	<b>7,815,129</b>
—	—	—	—	<b>5,273</b>	<b>265,790</b>
<b>2,793,627</b>	<b>2,537,562</b>	<b>847,865</b>	<b>120</b>	<b>661,601</b>	<b>8,080,919</b>
—	—	27,260	—	—	27,260
8,549	764,618	942,398	856,369	1,632,349	8,808,477
38,686	88,553	108,110	—	247,772	1,519,858
—	—	18,857	—	—	18,857
—	—	—	—	(1,623)	(8,481)
<b>47,235</b>	<b>853,171</b>	<b>1,096,625</b>	<b>856,369</b>	<b>1,878,498</b>	<b>10,365,971</b>
<b>\$ 2,840,862</b>	<b>\$ 3,390,733</b>	<b>\$ 1,944,490</b>	<b>\$ 856,489</b>	<b>\$ 2,540,099</b>	<b>\$ 18,446,890</b>

(continued)

## Combining Balance Sheet (continued)

### Nonmajor Governmental Funds

June 30, 2014

(amounts in thousands)

	Debt Service		
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 1,882,054	\$ —	\$ 1,882,054
Investments .....	—	—	—
Receivables (net) .....	57,662	—	57,662
Due from other funds .....	39,694	—	39,694
Due from other governments .....	—	—	—
Interfund receivables .....	—	—	—
Loans receivable .....	—	—	—
Other assets .....	—	—	—
<b>Total assets .....</b>	<b>\$ 1,979,410</b>	<b>\$ —</b>	<b>\$ 1,979,410</b>
<b>LIABILITIES</b>			
Accounts payable .....	\$ 298	\$ —	\$ 298
Due to other funds .....	—	—	—
Due to other governments .....	—	—	—
Interfund payables .....	—	—	—
Revenues received in advance .....	—	—	—
Deposits .....	—	—	—
Interest payable .....	111,155	—	111,155
General obligation bonds payable .....	1,164,630	—	1,164,630
Other liabilities .....	—	—	—
<b>Total liabilities .....</b>	<b>1,276,083</b>	<b>—</b>	<b>1,276,083</b>
<b>DEFERRED INFLOWS OF RESOURCES .....</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities and deferred inflows of resources .....</b>	<b>1,276,083</b>	<b>—</b>	<b>1,276,083</b>
<b>FUND BALANCES</b>			
Nonspendable .....	—	—	—
Restricted .....	703,327	—	703,327
Committed .....	—	—	—
Assigned .....	—	—	—
Unassigned .....	—	—	—
<b>Total fund balances .....</b>	<b>703,327</b>	<b>—</b>	<b>703,327</b>
<b>Total liabilities, deferred inflows of resources, and fund balances .....</b>	<b>\$ 1,979,410</b>	<b>\$ —</b>	<b>\$ 1,979,410</b>

Capital Projects

Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
\$ 297,765	\$ 47,699	\$ 363,649	\$ 43,779	\$ 78,792	\$ 831,684	\$ 11,588,042
—	—	—	—	—	—	634,223
10	16	—	—	74	100	3,456,906
129	30	229	20,836	12,096	33,320	1,206,195
—	—	3,936	—	—	3,936	411,764
—	—	—	—	—	—	1,332,720
—	—	—	—	—	—	2,635,009
—	—	—	—	—	—	30,481
<b>\$ 297,904</b>	<b>\$ 47,745</b>	<b>\$ 367,814</b>	<b>\$ 64,615</b>	<b>\$ 90,962</b>	<b>\$ 869,040</b>	<b>\$ 21,295,340</b>
\$ 2,072	\$ 8,036	\$ 7,495	\$ —	\$ 7,740	\$ 25,343	\$ 934,782
620	—	2,724	—	2,941	6,285	2,765,819
—	—	2,651	—	85	2,736	3,514,917
—	—	—	—	—	—	8,584
—	—	—	—	—	—	93,131
—	—	—	—	—	—	392,164
—	—	—	2,514	—	2,514	113,669
—	—	—	—	—	—	1,164,630
—	—	—	—	—	—	140,394
<b>2,692</b>	<b>8,036</b>	<b>12,870</b>	<b>2,514</b>	<b>10,766</b>	<b>36,878</b>	<b>9,128,090</b>
—	—	—	—	—	—	265,790
<b>2,692</b>	<b>8,036</b>	<b>12,870</b>	<b>2,514</b>	<b>10,766</b>	<b>36,878</b>	<b>9,393,880</b>
—	—	—	—	—	—	27,260
295,212	39,709	354,944	62,101	73,784	825,750	10,337,554
—	—	—	—	6,412	6,412	1,526,270
—	—	—	—	—	—	18,857
—	—	—	—	—	—	(8,481)
<b>295,212</b>	<b>39,709</b>	<b>354,944</b>	<b>62,101</b>	<b>80,196</b>	<b>832,162</b>	<b>11,901,460</b>
<b>\$ 297,904</b>	<b>\$ 47,745</b>	<b>\$ 367,814</b>	<b>\$ 64,615</b>	<b>\$ 90,962</b>	<b>\$ 869,040</b>	<b>\$ 21,295,340</b>

(concluded)

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Nonmajor Governmental Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	Special Revenue		
	Business and Professions Regulatory and Licensing	Financing for Local Governments and the Public	Cigarette and Tobacco Tax
<b>REVENUES</b>			
Personal income taxes .....	\$ —	\$ 1,187,411	\$ —
Sales and use taxes .....	—	—	—
Insurance taxes .....	—	—	—
Other taxes .....	95,996	604,240	734,870
Intergovernmental .....	—	687,168	—
Licenses and permits .....	363,006	18,803	—
Charges for services .....	38,704	2,856	490
Fees .....	925,070	554	24
Penalties .....	9,045	10,739	—
Investment and interest .....	32,404	2,654	968
Escheat .....	63	—	—
Other .....	12,694	20,293	208
<b>Total revenues .....</b>	<b>1,476,982</b>	<b>2,534,718</b>	<b>736,560</b>
<b>EXPENDITURES</b>			
Current:			
General government .....	554,513	551,123	17,352
Education .....	17,772	317	17,072
Health and human services .....	294,888	2,000,418	575,966
Resources .....	51,679	85,218	12,082
State and consumer services .....	428,173	—	—
Business and transportation .....	80,655	184,794	—
Correctional programs .....	—	101,043	—
Capital outlay .....	—	225	—
Debt service:			
Bond and commercial paper retirement .....	—	5,135	—
Interest and fiscal charges .....	—	63	—
<b>Total expenditures .....</b>	<b>1,427,680</b>	<b>2,928,336</b>	<b>622,472</b>
Excess (deficiency) of revenues over (under) expenditures ....	49,302	(393,618)	114,088
<b>OTHER FINANCING SOURCES (USES)</b>			
General obligation bonds and commercial paper issued .....	—	50,000	—
Refunding debt issued .....	—	4,660	—
Payment to refund long-term debt .....	—	—	—
Premium on bonds issued .....	—	534	—
Transfers in .....	19,532	585,946	—
Transfers out .....	(16,626)	(24,644)	(82,871)
<b>Total other financing sources (uses) .....</b>	<b>2,906</b>	<b>616,496</b>	<b>(82,871)</b>
Net change in fund balances .....	52,208	222,878	31,217
<b>Fund balances – beginning .....</b>	<b>1,530,294</b>	<b>3,526,027</b> *	<b>271,449</b>
<b>Fund balances – ending .....</b>	<b>\$ 1,582,502</b>	<b>\$ 3,748,905</b>	<b>\$ 302,666</b>

\* Restated

Special Revenue

Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,187,411
11,977,469	—	—	—	—	11,977,469
—	986,717	—	—	—	986,717
—	—	—	—	296	1,435,402
—	139,479	809,027	—	—	1,635,674
2,135,720	3	—	—	10,757	2,528,289
—	75	56,050	—	160,146	258,321
—	3,764,500	629,299	—	986,712	6,306,159
—	10,175	510,942	—	275,285	816,186
506	3,391	2,921	811	6,054	49,709
—	—	1,008	—	3	1,074
—	318,153	142,960	355,107	319,604	1,169,019
<b>14,113,695</b>	<b>5,222,493</b>	<b>2,152,207</b>	<b>355,918</b>	<b>1,758,857</b>	<b>28,351,430</b>
4,012,410	350	2,971,498	—	1,034,702	9,141,948
—	194,082	—	—	7,292	236,535
8,883,546	4,954,153	—	—	650,685	17,359,656
—	152	—	—	49,149	198,280
—	—	195	—	10,009	438,377
—	—	—	—	10,241	275,690
1,217,699	—	—	—	30,104	1,348,846
—	—	—	—	—	225
—	227,475	—	50,910	72,414	355,934
—	264	—	325,884	22,309	348,520
<b>14,113,655</b>	<b>5,376,476</b>	<b>2,971,693</b>	<b>376,794</b>	<b>1,886,905</b>	<b>29,704,011</b>
40	(153,983)	(819,486)	(20,876)	(128,048)	(1,352,581)
—	462,360	—	—	—	512,360
—	—	—	—	—	4,660
—	—	—	—	—	—
—	465	—	—	—	999
558	178,807	863,654	—	19,347	1,667,844
—	(8,750)	(200,000)	—	(51,043)	(383,934)
<b>558</b>	<b>632,882</b>	<b>663,654</b>	<b>—</b>	<b>(31,696)</b>	<b>1,801,929</b>
598	478,899	(155,832)	(20,876)	(159,744)	449,348
<b>46,637</b>	<b>374,272</b>	<b>1,252,457</b>	<b>877,245</b>	<b>2,038,242</b>	<b>9,916,623</b>
<b>\$ 47,235</b>	<b>\$ 853,171</b>	<b>\$ 1,096,625</b>	<b>\$ 856,369</b>	<b>\$ 1,878,498</b>	<b>\$ 10,365,971</b>

(continued)

# Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)

## Nonmajor Governmental Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Debt Service</b>		
	<b>Economic Recovery Bond Sinking</b>	<b>Transportation Debt Service</b>	<b>Total Nonmajor Debt Service</b>
<b>REVENUES</b>			
Personal income taxes .....	\$ —	\$ —	\$ —
Sales and use taxes .....	1,505,455	—	1,505,455
Insurance taxes .....	—	—	—
Other taxes .....	—	—	—
Intergovernmental .....	—	—	—
Licenses and permits .....	—	—	—
Charges for services .....	—	—	—
Fees .....	—	—	—
Penalties .....	—	—	—
Investment and interest .....	2,711	—	2,711
Escheat .....	—	—	—
Other .....	57,832	—	57,832
<b>Total revenues .....</b>	<b>1,565,998</b>	<b>—</b>	<b>1,565,998</b>
<b>EXPENDITURES</b>			
Current:			
General government .....	17,102	—	17,102
Education .....	—	—	—
Health and human services .....	—	—	—
Resources .....	—	—	—
State and consumer services .....	—	—	—
Business and transportation .....	—	—	—
Correctional programs .....	—	—	—
Capital outlay .....	—	—	—
Debt service:			
Bond and commercial paper retirement .....	1,314,630	321,038	1,635,668
Interest and fiscal charges .....	222,279	714,302	936,581
<b>Total expenditures .....</b>	<b>1,554,011</b>	<b>1,035,340</b>	<b>2,589,351</b>
Excess (deficiency) of revenues over (under) expenditures .....	11,987	(1,035,340)	(1,023,353)
<b>OTHER FINANCING SOURCES (USES)</b>			
General obligation bonds and commercial paper issued .....	—	—	—
Refunding debt issued .....	—	—	—
Payment to refund long-term debt .....	—	—	—
Premium on bonds issued .....	—	—	—
Transfers in .....	—	1,035,340	1,035,340
Transfers out .....	—	—	—
<b>Total other financing sources (uses) .....</b>	<b>—</b>	<b>1,035,340</b>	<b>1,035,340</b>
Net change in fund balances .....	11,987	—	11,987
<b>Fund balances – beginning .....</b>	<b>691,340</b> *	<b>—</b>	<b>691,340</b>
<b>Fund balances – ending .....</b>	<b>\$ 703,327</b>	<b>\$ —</b>	<b>\$ 703,327</b>

\* Restated

Capital Projects

Higher Education Construction	Hospital Construction	Local Government Construction	Building Authorities	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,187,411
—	—	—	—	—	—	13,482,924
—	—	—	—	—	—	986,717
—	—	—	—	—	—	1,435,402
—	—	—	—	—	—	1,635,674
—	—	—	—	1,067	1,067	2,529,356
—	—	—	—	—	—	258,321
—	—	—	—	—	—	6,306,159
—	—	—	—	—	—	816,186
658	129	3,143	132	42	4,104	56,524
—	—	—	—	—	—	1,074
58	—	—	—	2,565	2,623	1,229,474
<b>716</b>	<b>129</b>	<b>3,143</b>	<b>132</b>	<b>3,674</b>	<b>7,794</b>	<b>29,925,222</b>
—	61,192	—	—	—	61,192	9,220,242
—	—	692,298	—	—	692,298	928,833
—	—	—	—	—	—	17,359,656
—	—	—	—	36,630	36,630	234,910
—	—	—	—	—	—	438,377
—	—	—	—	—	—	275,690
—	—	—	—	—	—	1,348,846
150,306	397	14,429	—	4,296	169,428	169,653
137,305	15,140	1,748,085	39,895	7,605	1,948,030	3,939,632
2,906	12	26,711	29,882	149	59,660	1,344,761
<b>290,517</b>	<b>76,741</b>	<b>2,481,523</b>	<b>69,777</b>	<b>48,680</b>	<b>2,967,238</b>	<b>35,260,600</b>
(289,801)	(76,612)	(2,478,380)	(69,645)	(45,006)	(2,959,444)	(5,335,378)
215,585	52,245	905,910	—	2,275	1,176,015	1,688,375
287,765	—	1,330,935	—	6,985	1,625,685	1,630,345
(173,373)	—	—	—	—	(173,373)	(173,373)
23,902	2,057	150,885	—	769	177,613	178,612
—	—	—	53,025	48,458	101,483	2,804,667
—	—	(16)	—	—	(16)	(383,950)
<b>353,879</b>	<b>54,302</b>	<b>2,387,714</b>	<b>53,025</b>	<b>58,487</b>	<b>2,907,407</b>	<b>5,744,676</b>
64,078	(22,310)	(90,666)	(16,620)	13,481	(52,037)	409,298
<b>231,134</b>	<b>62,019</b>	<b>445,610</b>	<b>78,721</b>	<b>66,715</b>	<b>884,199</b>	<b>11,492,162</b>
<b>\$ 295,212</b>	<b>\$ 39,709</b>	<b>\$ 354,944</b>	<b>\$ 62,101</b>	<b>\$ 80,196</b>	<b>\$ 832,162</b>	<b>\$ 11,901,460</b>

(concluded)

## Budgetary Comparison Schedule

### Budgetary Basis

### Nonmajor Governmental Funds\*

#### Year Ended June 30, 2014

(amounts in thousands)

	<b>Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
<b>REVENUES</b>			
Cigarette and tobacco taxes .....	\$ 481,377	\$ 481,377	\$ —
Vehicle license fees .....	1,611,149	1,611,149	—
Personal income tax .....	1,187,411	1,187,411	—
Retail sales and use taxes .....	13,637,924	13,637,924	—
Other major taxes and licenses .....	841,449	841,449	—
Other revenues .....	10,351,442	10,351,442	—
<b>Total revenues .....</b>	<b>28,110,752</b>	<b>28,110,752</b>	<b>—</b>
<b>EXPENDITURES</b>			
State and consumer services .....	481,590	445,721	35,869
Business and transportation .....	1,346,118	1,333,793	12,325
Resources .....	204,189	185,353	18,836
Health and human services .....	20,392,561	19,076,855	1,315,706
Correctional programs .....	133,217	132,752	465
Education .....	853,265	784,888	68,377
General government:			
Tax relief .....	582	582	—
Other general government .....	9,483,546	9,174,497	309,049
<b>Total expenditures .....</b>	<b>32,895,068</b>	<b>31,134,441</b>	<b>1,760,627</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds .....	—	24,566,450	—
Transfers to other funds .....	—	(22,052,439)	—
Other additions and deductions .....	—	844,642	—
<b>Total other financing sources (uses) .....</b>	<b>—</b>	<b>3,358,653</b>	<b>—</b>
Excess of revenues and other sources over expenditures and other uses .....	—	334,964	—
<b>Fund balances – beginning .....</b>	<b>—</b>	<b>11,654,326</b>	<b>—</b>
<b>Fund balances – ending .....</b>	<b>\$ —</b>	<b>\$ 11,989,290</b>	<b>\$ —</b>

\* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds include the General Fund, most of the funds that comprise the Transportation Fund and the Environmental and Natural Resources Fund, and many other funds that make up the nonmajor governmental funds reported in these financial statements. Governmental cost funds derive their revenue from taxes, licenses, and fees that support the general operations of the State. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. Nongovernmental cost funds consist of funds that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues and mainly represent the proprietary and fiduciary funds reported in these financial statements. Expenditures of these funds do not represent a cost of government and most of the nongovernmental cost funds are not included in the annual appropriated budget. Therefore, the expenditures of these funds are not included in this schedule. The Federal Fund is one nongovernmental cost fund that is included in the annual appropriated budget. The Budgetary Comparison Schedule for the General Fund, Federal Fund, Transportation Fund, and Environmental and Natural Resources Fund is included in the Required Supplementary Information section; the remaining governmental cost funds are reflected in this schedule. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, notes to the Required Supplementary Information, and in the separately issued Comprehensive Annual Financial Report Supplement.



# Internal Service Funds

*Internal service funds* account for state activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Following are brief descriptions of the internal service funds.

The **Public Buildings Construction Fund** accounts for rental charges from the lease of public assets and the related lease-purchase revenue bonds. This fund was reclassified from an enterprise fund to an internal service fund this fiscal year.

The **Architecture Revolving Fund** accounts for charges for the costs of architectural services, construction, and improvements.

The **Service Revolving Fund** accounts for charges for printing and procurement services rendered by the Department of General Services for state departments and other public entities.

The **Prison Industries Fund** accounts for charges for goods produced by inmates in state prisons that are sold to state departments and other governmental entities.

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system. This was previously reported in the Other Internal Service Programs column.

The **Technology Services Revolving Fund** accounts for charges for technology services performed for various state, federal, and local government entities by the California Technology Agency.

The **Water Resources Revolving Fund** accounts for charges for administrative services related to water delivery provided by the Department of Water Resources to federal, state, and local government agencies.

**Other internal service program funds** account for all other goods and services provided to other agencies, departments, or governments on a cost-reimbursement basis.

# Combining Statement of Net Position

## Internal Service Funds

**June 30, 2014**

(amounts in thousands)

	<b>Public Buildings Construction</b>	<b>Architecture Revolving</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments .....	\$ —	\$ 274,968
Restricted assets:		
Cash and pooled investments .....	3,339,603	—
Net investment in direct financing leases .....	406,075	—
Receivables (net) .....	—	26
Due from other funds .....	215,923	13,994
Due from other governments .....	—	—
Prepaid items .....	—	12,387
Inventories .....	—	—
Total current assets .....	<u>3,961,601</u>	<u>301,375</u>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments .....	402,394	—
Net investment in direct financing leases .....	6,576,903	—
Interfund receivables .....	—	—
Long-term prepaid charges .....	8,329	—
Capital assets:		
Land .....	—	—
Buildings and other depreciable property .....	—	409
Intangible assets – amortizable .....	—	—
Less: accumulated depreciation/amortization .....	—	(409)
Construction in progress .....	941,012	—
Intangible assets – non-amortizable .....	—	—
Total noncurrent assets .....	<u>7,928,638</u>	<u>—</u>
<b>Total assets</b> .....	<b><u>11,890,239</u></b>	<b><u>301,375</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b><u>118,169</u></b>	<b><u>—</u></b>
<b>Total assets and deferred outflows of resources</b> .....	<b><u>\$ 12,008,408</u></b>	<b><u>\$ 301,375</u></b>

<u>Service Revolving</u>	<u>Prison Industries</u>	<u>Financial Information Systems</u>	<u>Technology Services Revolving</u>	<u>Water Resources Revolving</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 82,885	\$ 168,509	\$ 44,018	\$ 47,973	\$ 14,053	\$ 362,669	\$ 995,075
—	—	—	—	—	—	3,339,603
—	—	—	—	—	—	406,075
8,674	1,831	8	86,199	12,929	267	109,934
26,331	1,667	2,869	50,936	75,521	54,681	441,922
19,878	307	—	797	—	60	21,042
93,435	282	6,478	573	11,064	159	124,378
8,011	37,805	—	29,901	983	—	76,700
<u>239,214</u>	<u>210,401</u>	<u>53,373</u>	<u>216,379</u>	<u>114,550</u>	<u>417,836</u>	<u>5,514,729</u>
—	—	—	—	—	—	402,394
—	—	—	—	—	—	6,576,903
—	—	—	—	—	15,774	15,774
—	—	—	—	—	—	8,329
—	—	—	—	—	2,312	2,312
134,941	157,940	1,872	324,516	30,264	10,545	660,487
9,252	3,672	11	50,282	—	—	63,217
(112,282)	(116,709)	(888)	(278,786)	(30,264)	(6,511)	(545,849)
—	234	—	—	—	140	941,386
—	—	91,167	—	—	—	91,167
<u>31,911</u>	<u>45,137</u>	<u>92,162</u>	<u>96,012</u>	<u>—</u>	<u>22,260</u>	<u>8,216,120</u>
<u>271,125</u>	<u>255,538</u>	<u>145,535</u>	<u>312,391</u>	<u>114,550</u>	<u>440,096</u>	<u>13,730,849</u>
—	—	—	—	—	—	118,169
<u>\$ 271,125</u>	<u>\$ 255,538</u>	<u>\$ 145,535</u>	<u>\$ 312,391</u>	<u>\$ 114,550</u>	<u>\$ 440,096</u>	<u>\$ 13,849,018</u>

## Combining Statement of Net Position

### Internal Service Funds

**June 30, 2014**

(amounts in thousands)

	<b>Public Buildings Construction</b>	<b>Architecture Revolving</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 168,622	\$ 18,259
Due to other funds .....	10,534	429
Due to other governments .....	194	—
Revenues received in advance .....	5,787	285,376
Deposits .....	—	—
Contracts and notes payable .....	—	—
Interest payable .....	118,944	—
Current portion of long-term obligations .....	500,790	—
Other liabilities .....	93,239	1,615
<b>Total current liabilities</b> .....	<b>898,110</b>	<b>305,679</b>
Noncurrent liabilities:		
Interfund payables .....	—	—
Compensated absences payable .....	—	8,405
Workers' compensation benefits payable .....	—	1,007
Revenue bonds payable .....	10,822,897	—
Net other postemployment benefits obligation .....	—	12,944
Other noncurrent liabilities .....	—	—
<b>Total noncurrent liabilities</b> .....	<b>10,822,897</b>	<b>22,356</b>
<b>Total liabilities</b> .....	<b>11,721,007</b>	<b>328,035</b>
<b>NET POSITION</b>		
Net investment in capital assets .....	—	—
Restricted – expendable:		
Construction .....	282,605	—
Debt service .....	4,796	—
<b>Total expendable</b> .....	<b>287,401</b>	<b>—</b>
Unrestricted .....	—	(26,660)
<b>Total net position (deficits)</b> .....	<b>287,401</b>	<b>(26,660)</b>
<b>Total liabilities and net position</b> .....	<b>\$ 12,008,408</b>	<b>\$ 301,375</b>

<u>Service Revolving</u>	<u>Prison Industries</u>	<u>Financial Information Systems</u>	<u>Technology Services Revolving</u>	<u>Water Resources Revolving</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 42,171	\$ 8,193	\$ 39,714	\$ 118,341	\$ 19,497	\$ 88,400	\$ 503,197
56,710	7,399	4,426	—	—	21,139	100,637
162	—	—	458	4	61	879
22,918	895	—	—	46	—	315,022
429	—	—	—	—	—	429
615	—	—	14,587	—	—	15,202
—	—	—	—	—	—	118,944
—	3,197	856	—	—	—	504,843
4,854	2,031	—	—	486	3,337	105,562
<u>127,859</u>	<u>21,715</u>	<u>44,996</u>	<u>133,386</u>	<u>20,033</u>	<u>112,937</u>	<u>1,664,715</u>
3,826	—	37,650	1,750	95,208	172	138,606
64,388	9,577	1,970	30,259	50,699	1,425	166,723
20,763	14,485	—	6,782	—	—	43,037
—	—	—	—	—	—	10,822,897
226,449	46,808	—	72,051	—	86,060	444,312
—	—	—	21,329	—	—	21,329
<u>315,426</u>	<u>70,870</u>	<u>39,620</u>	<u>132,171</u>	<u>145,907</u>	<u>87,657</u>	<u>11,636,904</u>
<b><u>443,285</u></b>	<b><u>92,585</u></b>	<b><u>84,616</u></b>	<b><u>265,557</u></b>	<b><u>165,940</u></b>	<b><u>200,594</u></b>	<b><u>13,301,619</u></b>
31,911	45,137	92,162	69,743	—	6,486	245,439
—	—	—	—	—	—	282,605
—	—	—	—	—	—	4,796
—	—	—	—	—	—	287,401
<u>(204,071)</u>	<u>117,816</u>	<u>(31,243)</u>	<u>(22,909)</u>	<u>(51,390)</u>	<u>233,016</u>	<u>14,559</u>
<b><u>(172,160)</u></b>	<b><u>162,953</u></b>	<b><u>60,919</u></b>	<b><u>46,834</u></b>	<b><u>(51,390)</u></b>	<b><u>239,502</u></b>	<b><u>547,399</u></b>
<b><u>\$ 271,125</u></b>	<b><u>\$ 255,538</u></b>	<b><u>\$ 145,535</u></b>	<b><u>\$ 312,391</u></b>	<b><u>\$ 114,550</u></b>	<b><u>\$ 440,096</u></b>	<b><u>\$ 13,849,018</u></b>

# Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

## Internal Service Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Public Buildings Construction</b>	<b>Architecture Revolving</b>
<b>OPERATING REVENUES</b>		
Services and sales .....	\$ —	\$ 177,428
Investment and interest .....	8,173	—
Rent .....	418,574	—
Other .....	5,143	—
<b>Total operating revenues .....</b>	<b>431,890</b>	<b>177,428</b>
<b>OPERATING EXPENSES</b>		
Personal services .....	—	28,832
Supplies .....	—	—
Services and charges .....	14,403	148,931
Depreciation .....	—	—
Interest expense .....	439,888	—
Amortization of long-term prepaid charges .....	1,496	—
Other .....	9,393	—
<b>Total operating expenses .....</b>	<b>465,180</b>	<b>177,763</b>
Operating income (loss) .....	(33,290)	(335)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment and interest income .....	—	—
Interest expense and fiscal charges .....	—	—
Loss on early extinguishment of debt .....	(54,537)	—
Other .....	—	—
<b>Total nonoperating revenues (expenses) .....</b>	<b>(54,537)</b>	<b>—</b>
Income (loss) before transfers .....	(87,827)	(335)
Transfers in .....	6,649	—
Transfers out .....	—	—
Change in net position .....	(81,178)	(335)
<b>Total net position (deficit) – beginning .....</b>	<b>368,579</b> *	<b>(26,325)</b>
<b>Total net position (deficit) – ending .....</b>	<b>\$ 287,401</b>	<b>\$ (26,660)</b>

\* Restated

<sup>1</sup> The Financial Information Systems Fund was included in the Other Internal Service Programs column in the prior fiscal year and the Office of Systems Integration Fund that was reported in its own column in the prior fiscal year is now included in the Other Internal Service Programs column.

<u>Service Revolving</u>	<u>Prison Industries</u>	<u>Financial Information Systems</u>	<u>Technology Services Revolving</u>	<u>Water Resources Revolving</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 770,972	\$ 220,322	\$ 84,663	\$ 554,828	\$ 395,536	\$ 339,344	\$ 2,543,093
—	—	—	—	—	—	8,173
—	—	—	—	—	—	418,574
—	—	—	—	—	—	5,143
<b>770,972</b>	<b>220,322</b>	<b>84,663</b>	<b>554,828</b>	<b>395,536</b>	<b>339,344</b>	<b>2,974,983</b>
245,860	62,867	396	163,715	382,909	29,327	913,906
—	3,525	—	—	4,988	1,308	9,821
505,474	159,845	40,973	464,749	—	253,337	1,587,712
9,591	6,135	302	30,275	1,349	251	47,903
—	—	—	412	—	—	440,300
—	—	—	—	—	—	1,496
—	—	—	—	—	—	9,393
<b>760,925</b>	<b>232,372</b>	<b>41,671</b>	<b>659,151</b>	<b>389,246</b>	<b>284,223</b>	<b>3,010,531</b>
10,047	(12,050)	42,992	(104,323)	6,290	55,121	(35,548)
—	168	—	112	—	295	575
—	(3)	—	—	—	—	(3)
—	—	—	—	—	—	(54,537)
—	(485)	—	(1,070)	—	—	(1,555)
—	<b>(320)</b>	—	<b>(958)</b>	—	<b>295</b>	<b>(55,520)</b>
10,047	(12,370)	42,992	(105,281)	6,290	55,416	(91,068)
—	—	3,394	63,614	—	3,000	76,657
(38,676)	—	—	—	—	(71,194)	(109,870)
(28,629)	(12,370)	46,386	(41,667)	6,290	(12,778)	(124,281)
<b>(143,531)</b>	<b>175,323</b>	<b>14,533</b> *	<b>88,501</b>	<b>(57,680)</b>	<b>252,280</b> <sup>1</sup>	<b>671,680</b>
<b>\$ (172,160)</b>	<b>\$ 162,953</b>	<b>\$ 60,919</b>	<b>\$ 46,834</b>	<b>\$ (51,390)</b>	<b>\$ 239,502</b>	<b>\$ 547,399</b>

## Combining Statement of Cash Flows

### Internal Service Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Public Buildings Construction</b>	<b>Architecture Revolving</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers .....	\$ 764,575	\$ 184,493
Receipts from interfund services provided .....	—	10,342
Payments to suppliers .....	(879)	(148,737)
Payments to employees .....	—	(27,931)
Payments for interfund services used .....	—	—
Other receipts (payments) .....	(450,930)	11
<b>Net cash provided by (used in) operating activities .....</b>	<b>312,766</b>	<b>18,178</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Changes in interfund payables and loans payable .....	—	—
Interest paid on operating debt .....	—	—
Transfers in .....	6,649	—
Transfers out .....	—	—
<b>Net cash provided by (used in) noncapital financing activities .....</b>	<b>6,649</b>	<b>—</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets .....	(1,217,406)	—
Proceeds from sale of capital assets .....	—	—
Proceeds from revenue bonds .....	2,323,173	—
Retirement of revenue bonds .....	(412,085)	—
<b>Net cash used in capital and related financing activities .....</b>	<b>693,682</b>	<b>—</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Earnings on investments .....	—	—
<b>Net cash provided by (used in) investing activities .....</b>	<b>—</b>	<b>—</b>
Net increase (decrease) in cash and pooled investments .....	1,013,097	18,178
<b>Cash and pooled investments – beginning .....</b>	<b>2,728,900</b>	<b>256,790</b>
<b>Cash and pooled investments – ending .....</b>	<b>\$ 3,741,997</b>	<b>\$ 274,968</b>



<u>Service Revolving</u>	<u>Prison Industries</u>	<u>Financial Information Systems</u>	<u>Technology Services Revolving</u>	<u>Water Resources Revolving</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 782,741	\$ 220,589	\$ 86,769	\$ 551,645	\$ 397,849	\$ 339,531	\$ 3,328,192
—	6,407	16,145	2,834	90	95,995	131,813
(498,158)	(154,781)	(28,808)	(404,713)	(3,135)	(324,301)	(1,563,512)
(217,607)	(54,123)	—	(138,615)	(389,192)	(15,533)	(843,001)
(30,613)	(10,340)	—	(47,330)	—	(5,212)	(93,495)
(5,356)	(139)	—	9,216	(1,175)	(3,131)	(451,504)
<b>31,007</b>	<b>7,613</b>	<b>74,106</b>	<b>(26,963)</b>	<b>4,437</b>	<b>87,349</b>	<b>508,493</b>
(556)	—	—	(112)	(7)	1,242	567
—	(3)	—	(412)	—	—	(415)
—	—	3,394	63,614	—	3,000	76,657
(38,676)	—	—	—	—	(71,194)	(109,870)
<b>(39,232)</b>	<b>(3)</b>	<b>3,394</b>	<b>63,090</b>	<b>(7)</b>	<b>(66,952)</b>	<b>(33,061)</b>
(21,159)	(9,220)	(41,058)	(48,273)	(1,348)	(29)	(1,338,493)
167	586	—	17,805	—	—	18,558
—	—	—	—	—	—	2,323,173
—	—	—	—	—	—	(412,085)
(20,992)	(8,634)	(41,058)	(30,468)	(1,348)	(29)	591,153
—	169	—	112	—	295	576
—	<b>169</b>	—	<b>112</b>	—	<b>295</b>	<b>576</b>
(29,217)	(855)	36,442	5,771	3,082	20,663	1,067,161
<b>112,102</b>	<b>169,364</b>	<b>7,576</b>	<b>42,202</b>	<b>10,971</b>	<b>342,006</b>	<b>3,669,911</b>
<b>\$ 82,885</b>	<b>\$ 168,509</b>	<b>\$ 44,018</b>	<b>\$ 47,973</b>	<b>\$ 14,053</b>	<b>\$ 362,669</b>	<b>\$ 4,737,072</b>

(continued)

## Combining Statement of Cash Flows (continued)

### Internal Service Funds

#### Year Ended June 30, 2014

(amounts in thousands)

	<b>Public Buildings Construction</b>	<b>Architecture Revolving</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>		
<b>PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss) .....	\$ (33,290)	\$ (335)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest expense on operating debt .....	—	—
Depreciation .....	—	—
Amortization of premiums and discounts .....	(44,113)	—
Amortization of long-term prepaid charges.....	18,058	—
Other.....	21,738	—
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:		
Receivables .....	—	54
Due from other funds .....	(43,651)	10,865
Due from other governments .....	—	—
Prepaid items .....	—	(1,979)
Inventories .....	8,094	—
Net investment in direct financing leases .....	389,895	—
Accounts payable .....	(312)	2,173
Due to other funds .....	557	(523)
Due to component units .....	(837)	—
Due to other governments .....	—	—
Deposits .....	—	—
Contracts and notes payable .....	—	—
Interest payable .....	(3,370)	—
Revenues received in advance .....	(3)	7,011
Other current liabilities .....	—	(42)
Benefits payables .....	—	1,792
Compensated absences payable .....	—	(838)
Other noncurrent liabilities .....	—	—
Total adjustments .....	<u>346,056</u>	<u>18,513</u>
<b>Net cash provided by (used in) operating activities .....</b>	<b><u>\$ 312,766</u></b>	<b><u>\$ 18,178</u></b>
<b>Noncash investing, capital, and financing activities</b>		
Debt restructure and termination of direct financing leases .....	\$ 114,285	\$ —

<u>Service Revolving</u>	<u>Prison Industries</u>	<u>Financial Information Systems</u>	<u>Technology Services Revolving</u>	<u>Water Resources Revolving</u>	<u>Other Internal Service Programs</u>	<u>Total</u>
\$ 10,047	\$ (12,050)	\$ 42,992	\$ (104,323)	\$ 6,290	\$ 55,121	\$ (35,548)
—	—	—	412	—	—	412
9,591	6,135	302	30,275	1,349	251	47,903
—	—	—	—	—	—	(44,113)
—	—	—	—	—	—	18,058
—	(13,140)	—	—	—	—	8,598
10,644	(873)	—	(3,183)	2,348	187	9,177
(2,195)	2,332	2,106	(222,565)	95	324,097	71,084
(12,712)	(103)	18,390	(268)	—	5	5,312
(9,801)	(101)	(4,128)	(94)	401	1,016	(14,686)
1,061	3,004	—	3,931	214	—	16,304
—	—	—	—	—	—	389,895
934	(2,994)	16,293	56,199	1,238	(70,736)	2,795
(13,296)	17,250	(2,245)	178,069	(5)	(238,851)	(59,044)
—	—	—	(1,191)	—	(31)	(2,059)
162	—	—	451	(28)	—	585
(47)	—	—	—	—	—	(47)
593	—	—	3,894	—	—	4,487
—	—	—	—	—	—	(3,370)
1,125	(1,090)	—	—	(35)	—	7,008
4,835	1,437	(691)	(4,277)	(1,147)	(1,421)	(1,306)
37,507	—	—	22,967	—	2,705	64,971
(7,441)	(695)	1,087	8,915	(6,283)	(338)	(5,593)
—	8,501	—	3,825	—	15,344	27,670
<u>20,960</u>	<u>19,663</u>	<u>31,114</u>	<u>77,360</u>	<u>(1,853)</u>	<u>32,228</u>	<u>544,041</u>
<u>\$ 31,007</u>	<u>\$ 7,613</u>	<u>\$ 74,106</u>	<u>\$ (26,963)</u>	<u>\$ 4,437</u>	<u>\$ 87,349</u>	<u>\$ 508,493</u>
						(concluded)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 114,285

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# Nonmajor Enterprise Funds

*Enterprise funds* account for operations that are financed and operated in a manner similar to private business enterprises, in which the costs of providing goods or services to the general public on a continuing basis are intended to be financed or recovered primarily through user charges. Following are brief descriptions of nonmajor enterprise funds.

The **High Technology Education Fund** accounts for construction and renovation of public buildings for educational and research purposes related to specific fields of high technology. During the fiscal year, all outstanding revenue bonds were defeased and the related lease receivable was terminated. The fund's remaining assets were transferred to an escrow account with the State Treasurer and the fund was dissolved.

The **State Water Pollution Control Revolving Fund** accounts for loans to finance the construction of publicly owned water pollution control facilities.

The **Housing Loan Fund** accounts for financing and contracts for the sale of properties to eligible California veterans.

**Other enterprise program funds** account for all other goods or services provided to the general public on a continuing basis when all or most of the cost involved is to be financed by user charges, or when periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

## Combining Statement of Net Position

### Nonmajor Enterprise Funds

**June 30, 2014**

(amounts in thousands)

	<b>High Technology Education</b>	<b>State Water Pollution Control Revolving</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments .....	\$ —	\$ 309,447
Restricted assets:		
Cash and pooled investments .....	—	25,975
Due from other governments .....	—	20,182
Receivables (net) .....	—	—
Due from other funds .....	—	382
Due from other governments .....	—	205,886
Prepaid items .....	—	—
Inventories .....	—	—
Total current assets .....	<u>—</u>	<u>561,872</u>
Noncurrent assets:		
Restricted assets:		
Loans receivable .....	—	305,278
Investments .....	—	—
Interfund receivables .....	—	4,000
Loans receivable .....	—	2,853,583
Capital assets:		
Land .....	—	—
Buildings and other depreciable property .....	—	—
Intangible assets – amortizable .....	—	—
Less: accumulated depreciation/amortization .....	—	—
Intangible assets – non-amortizable .....	—	—
Other noncurrent assets .....	—	—
Total noncurrent assets .....	<u>—</u>	<u>3,162,861</u>
<b>Total assets .....</b>	<b><u>\$ —</u></b>	<b><u>\$ 3,724,733</u></b>

<u>Housing Loan</u>	<u>Other Enterprise Programs</u>	<u>Total</u>
\$ 101,681	\$ 252,288	\$ 663,416
—	—	25,975
—	—	20,182
32,096	225	32,321
63	227	672
—	612	206,498
—	27	27
—	3,124	3,124
<u>133,840</u>	<u>256,503</u>	<u>952,215</u>
—	—	305,278
25,202	—	25,202
—	1,600	5,600
801,845	120,159	3,775,587
443	829	1,272
16,260	1,878	18,138
—	1,500	1,500
(15,827)	(1,486)	(17,313)
—	222	222
5,586	—	5,586
<u>833,509</u>	<u>124,702</u>	<u>4,121,072</u>
<u>\$ 967,349</u>	<u>\$ 381,205</u>	<u>\$ 5,073,287</u>

(continued)

## Combining Statement of Net Position (continued)

### Nonmajor Enterprise Funds

**June 30, 2014**

(amounts in thousands)

	<b>High Technology Education</b>	<b>State Water Pollution Control Revolving</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ —	\$ —
Due to other funds .....	—	162
Due to other governments .....	—	—
Revenues received in advance .....	—	7
Interest payable .....	—	469
Current portion of long-term obligations .....	—	14,339
Other current liabilities .....	—	—
<b>Total current liabilities</b> .....	<b>—</b>	<b>14,977</b>
Noncurrent liabilities:		
Compensated absences payable .....	—	—
General obligation bonds payable .....	—	—
Revenue bonds payable .....	—	44,897
Net other postemployment benefits obligation .....	—	—
Other noncurrent liabilities .....	—	—
<b>Total noncurrent liabilities</b> .....	<b>—</b>	<b>44,897</b>
<b>Total liabilities</b> .....	<b>—</b>	<b>59,874</b>
<b>NET POSITION</b>		
Net investment in capital assets .....	—	—
Restricted – expendable:		
Debt service .....	—	25,975
Security for revenue bonds .....	—	325,460
Other purposes .....	—	—
<b>Total expendable</b> .....	<b>—</b>	<b>351,435</b>
Unrestricted .....	—	3,313,424
<b>Total net position</b> .....	<b>—</b>	<b>3,664,859</b>
<b>Total liabilities and net position</b> .....	<b>\$ —</b>	<b>\$ 3,724,733</b>



<u>Housing Loan</u>	<u>Other Enterprise Programs</u>	<u>Total</u>
\$ —	\$ 2,637	\$ 2,637
198	1,192	1,552
—	7	7
—	25	32
10,975	—	11,444
—	11,917	26,256
—	126	126
<u>11,173</u>	<u>15,904</u>	<u>42,054</u>
—	2,739	2,739
432,357	—	432,357
370,750	—	415,647
1,538	6,867	8,405
623	73,086	73,709
<u>805,268</u>	<u>82,692</u>	<u>932,857</u>
<b><u>816,441</u></b>	<b><u>98,596</u></b>	<b><u>974,911</u></b>
876	2,948	3,824
—	—	25,975
—	—	325,460
<u>150,032</u>	<u>204,383</u>	<u>354,415</u>
150,032	204,383	705,850
—	75,278	3,388,702
<u>150,908</u>	<u>282,609</u>	<u>4,098,376</u>
<b><u>\$ 967,349</u></b>	<b><u>\$ 381,205</u></b>	<b><u>\$ 5,073,287</u></b>

(concluded)

# Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

## Nonmajor Enterprise Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>High Technology Education</b>	<b>State Water Pollution Control Revolving</b>
<b>OPERATING REVENUES</b>		
Services and sales .....	\$ —	\$ 8,018
Investment and interest .....	27	54,112
Rent .....	397	—
Other .....	—	—
<b>Total operating revenues .....</b>	<b>424</b>	<b>62,130</b>
<b>OPERATING EXPENSES</b>		
Personal services .....	—	816
Services and charges .....	—	2,969
Depreciation .....	—	—
Interest expense .....	847	—
Other .....	—	923
<b>Total operating expenses .....</b>	<b>847</b>	<b>4,708</b>
Operating income (loss) .....	(423)	57,422
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment and interest income .....	—	855
Interest expense and fiscal charges .....	—	(355)
Loss on early extinguishment of debt.....	(26,913)	—
Other .....	—	(9)
<b>Total nonoperating revenues (expenses) .....</b>	<b>(26,913)</b>	<b>491</b>
Income (loss) before capital contributions and transfers .....	(27,336)	57,913
Capital contributions .....	—	80,903
Transfers out .....	(6,649)	—
Change in net position .....	(33,985)	138,816
<b>Total net position – beginning .....</b>	<b>33,985</b>	<b>3,526,043</b>
<b>Total net position – ending .....</b>	<b>\$ —</b>	<b>\$ 3,664,859</b>

<u>Housing Loan</u>	<u>Other Enterprise Programs</u>	<u>Total</u>
\$ 1,220	\$ 74,286	\$ 83,524
62,442	96	116,677
—	647	1,044
1,585	2,222	3,807
<b>65,247</b>	<b>77,251</b>	<b>205,052</b>
8,431	5,714	14,961
10,453	73,581	87,003
115	346	461
37,639	—	38,486
568	—	1,491
<b>57,206</b>	<b>79,641</b>	<b>142,402</b>
8,041	(2,390)	62,650
—	420	1,275
—	—	(355)
—	—	(26,913)
—	—	(9)
—	<b>420</b>	<b>(26,002)</b>
8,041	(1,970)	36,648
—	—	80,903
—	(199)	(6,848)
8,041	(2,169)	110,703
<b>142,867</b>	<b>284,778</b>	<b>3,987,673</b>
<b>\$ 150,908</b>	<b>\$ 282,609</b>	<b>\$ 4,098,376</b>

## Combining Statement of Cash Flows

### Nonmajor Enterprise Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>High Technology Education</b>	<b>State Water Pollution Control Revolving</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers/employers .....	\$ —	\$ 51,417
Receipts from interfund services provided .....	—	—
Payments to suppliers .....	—	(3,891)
Payments to employees .....	—	(816)
Payments for interfund services used .....	—	(60)
Other receipts (payments) .....	11,006	(169,328)
<b>Net cash provided by (used in) operating activities .....</b>	<b>11,006</b>	<b>(122,678)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Retirement of general obligation bonds .....	—	—
Retirement of revenue bonds .....	(24,771)	(13,000)
Interest paid on operating debt .....	—	(2,080)
Transfers out .....	(6,649)	—
<b>Net cash provided by (used in) noncapital financing activities .....</b>	<b>(31,420)</b>	<b>(15,080)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets .....	—	—
Grants received .....	—	82,351
<b>Net cash provided by (used in) capital and related financing activities .....</b>	<b>—</b>	<b>82,351</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments .....	—	—
Earnings (loss) on investments .....	—	890
<b>Net cash provided by (used in) investing activities .....</b>	<b>—</b>	<b>890</b>
Net increase (decrease) in cash and pooled investments .....	(20,414)	(54,517)
<b>Cash and pooled investments – beginning .....</b>	<b>20,414</b>	<b>389,939</b>
<b>Cash and pooled investments – ending .....</b>	<b>\$ —</b>	<b>\$ 335,422</b>

<u>Housing Loan</u>	<u>Other Enterprise Programs</u>	<u>Total</u>
\$ 239,470	\$ 76,648	\$ 367,535
—	419	419
(6,869)	(74,778)	(85,538)
(8,431)	(4,286)	(13,533)
—	(890)	(950)
(112,274)	10,498	(260,098)
<b>111,896</b>	<b>7,611</b>	<b>7,835</b>
(151,715)	—	(151,715)
(47,620)	—	(85,391)
—	—	(2,080)
—	(199)	(6,848)
<b>(199,335)</b>	<b>(199)</b>	<b>(246,034)</b>
(128)	(302)	(430)
—	—	82,351
<b>(128)</b>	<b>(302)</b>	<b>81,921</b>
(2,500)	—	(2,500)
—	420	1,310
<b>(2,500)</b>	<b>420</b>	<b>(1,190)</b>
(90,067)	7,530	(157,468)
<b>191,748</b>	<b>244,758</b>	<b>846,859</b>
<b>\$ 101,681</b>	<b>\$ 252,288</b>	<b>\$ 689,391</b>

(continued)

## Combining Statement of Cash Flows (continued)

### Nonmajor Enterprise Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<u>High Technology Education</u>	<u>State Water Pollution Control Revolving</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</b>		
<b>PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating income (loss) .....	\$ (423)	\$ 57,422
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation .....	—	—
Provisions and allowances .....	—	—
Amortization of premiums and discounts .....	4	—
Amortization of long-term prepaid charges .....	948	—
Other .....	1,797	(10,846)
Change in assets, deferred outflows of resources, and liabilities, deferred inflows of resources:		
Receivables .....	298	—
Due from other funds .....	20	(3)
Due from other governments .....	—	715
Prepaid items .....	—	—
Inventories .....	—	—
Net investment in direct financing leases .....	8,468	—
Other current assets .....	—	—
Loans receivable .....	—	(169,911)
Accounts payable .....	—	—
Due to other funds .....	—	(58)
Due to other governments .....	—	—
Interest payable .....	(106)	—
Revenues received in advance .....	—	—
Other current liabilities .....	—	3
Benefits payables .....	—	—
Compensated absences payable .....	—	—
Other noncurrent liabilities .....	—	—
Total adjustments .....	<u>11,429</u>	<u>(180,100)</u>
<b>Net cash provided by (used in) operating activities .....</b>	<b>\$ 11,006</b>	<b>\$ (122,678)</b>
Debt restructure and termination of direct financing leases .....	\$ 22,006	\$ —

<b>Housing Loan</b>	<b>Other Enterprise Programs</b>	<b>Total</b>
\$ 8,041	\$ (2,390)	\$ 62,650
115	346	461
(3,586)	—	(3,586)
501	—	505
—	—	948
569	—	(8,480)
1,856	54	2,208
(14)	8	11
64	671	1,450
—	(26)	(26)
—	(425)	(425)
—	—	8,468
98	—	98
105,200	882	(63,829)
—	(1,662)	(1,662)
27	(935)	(966)
—	4	4
—	—	(106)
—	(11)	(11)
(1,199)	11,940	10,744
(26)	106	80
—	24	24
250	(975)	(725)
103,855	10,001	(54,815)
<b>\$ 111,896</b>	<b>\$ 7,611</b>	<b>\$ 7,835</b>
		(concluded)
\$ —	\$ —	\$ 22,006

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# Private Purpose Trust Funds

*Private purpose trust funds* account for all trust arrangements, other than those properly reported in pension and other employee benefit trust funds or investment trust funds, under which both principal and income benefit individuals, private organizations, or other governments. Following are brief descriptions of private purpose trust funds.

The **Scholarshare Program Trust Fund** accounts for money received from participants to fund their beneficiaries' higher-education expenses at certain postsecondary educational institutions.

The **Unclaimed Property Fund** accounts for unclaimed money and properties held in trust by the State.

**Other private purpose trust funds** account for other assets held in a trustee capacity when both principal and income benefit individuals, private organizations, or other governments.

## Combining Statement of Fiduciary Net Position

### Private Purpose Trust Funds

**June 30, 2014**

(amounts in thousands)

	<b>Scholarshare Program Trust</b>	<b>Unclaimed Property</b>	<b>Other Private Purpose Trust</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 6	\$ 32,457	\$ 17,433	\$ 49,896
Investments, at fair value:				
Equity securities .....	3,218,383	—	—	3,218,383
Debt securities .....	1,844,304	—	—	1,844,304
Real estate .....	188,273	—	—	188,273
Other .....	777,884	—	—	777,884
Total investments .....	6,028,844	—	—	6,028,844
Receivables (net) .....	8,482	17	—	8,499
Due from other funds .....	—	85,919	10	85,929
Other assets .....	—	172,661	—	172,661
<b>Total assets .....</b>	<b>6,037,332</b>	<b>291,054</b>	<b>17,443</b>	<b>6,345,829</b>
<b>LIABILITIES</b>				
Accounts payable .....	9,008	6,991	15,336	31,335
Deposits .....	—	172,661	—	172,661
Other liabilities .....	—	—	938	938
<b>Total liabilities .....</b>	<b>9,008</b>	<b>179,652</b>	<b>16,274</b>	<b>204,934</b>
<b>NET POSITION</b>				
<b>Held in trust for benefits and other purposes .....</b>	<b>\$ 6,028,324</b>	<b>\$ 111,402</b>	<b>\$ 1,169</b>	<b>\$ 6,140,895</b>

## Combining Statement of Changes in Fiduciary Net Position

### Private Purpose Trust Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Scholarshare Program Trust</b>	<b>Unclaimed Property</b>	<b>Other Private Purpose Trust</b>	<b>Total</b>
<b>ADDITIONS</b>				
Investment income:				
Net appreciation in fair value of investments .....	\$ 512,830	\$ —	\$ —	\$ 512,830
Interest, dividends, and other investment income .....	244,806	—	—	244,806
Less: investment expense .....	(4,023)	—	—	(4,023)
Net investment income .....	753,613	—	—	753,613
Receipts from depositors .....	2,753,223	290,820	15,712	3,059,755
<b>Total additions .....</b>	<b>3,506,836</b>	<b>290,820</b>	<b>15,712</b>	<b>3,813,368</b>
<b>DEDUCTIONS</b>				
Administrative expenses .....	—	—	3	3
Payments to and for depositors .....	2,534,290	277,365	15,471	2,827,126
<b>Total deductions .....</b>	<b>2,534,290</b>	<b>277,365</b>	<b>15,474</b>	<b>2,827,129</b>
Change in net position .....	972,546	13,455	238	986,239
<b>Net position – beginning .....</b>	<b>5,055,778</b>	<b>97,947</b>	<b>931</b>	<b>5,154,656</b>
<b>Net position – ending .....</b>	<b>\$ 6,028,324</b>	<b>\$ 111,402</b>	<b>\$ 1,169</b>	<b>\$ 6,140,895</b>

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# Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

*Pension and other employee benefit trust funds* account for transactions, assets, liabilities, and net position available for pension and other employee benefits of the two public employees' retirement systems that are fiduciary component units and for other primary government employee benefit programs. Following are brief descriptions of pension and other employee benefit trust funds.

**Defined Benefit Pension Plans** are pension plans that are used to provide defined benefit pensions to employees after separation from service:

The **Public Employees' Retirement Fund** is administered by the California Public Employees' Retirement System (CalPERS) and accounts for the employee and employer contributions of the agent multiple-employer retirement plan that provides pension benefits to employees of the State of California, non-teaching school employees, and employees of California public agencies.

The **State Teachers' Retirement Fund** is administered by the California State Teachers' Retirement System (CalSTRS) and accounts for the employee, employer, and primary government contributions of the cost-sharing multiple-employer retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected prior to November 9, 1994.

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to judges of the California Supreme Court, courts of appeal, and superior courts who were appointed or elected on or subsequent to November 9, 1994.

The **Legislators' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the single-employer retirement plan that provides pension benefits to members of the Legislature serving prior to November 7, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

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The **Deferred Compensation Fund** accounts for monies withheld from the salaries of participants per Internal Revenue Code sections 401(k), 457, and 403(b). The monies are invested until the employee retires or resigns, at which time all money withdrawn, including investment income, is subject to income taxes.

**Other pension and other employee benefit trust funds** account for funds contributed to smaller retirement plans and programs that are not defined benefit pension plans: Annuitants' Health Care Coverage Fund, Teachers' Health Benefits Fund, State Peace Officers' and Firefighters' Defined Contribution Plan Fund, Supplemental Contributions Program Fund, Boxers' Pension Fund, and Flexelect Benefit Fund.

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## Combining Statement of Fiduciary Net Position

### Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

**June 30, 2014**

(amounts in thousands)

	<b>Defined Benefit</b>	
	<b>Public Employees' Retirement</b>	<b>State Teachers' Retirement</b>
<b>ASSETS</b>		
Cash and pooled investments .....	\$ 2,149,212	\$ 457,219
Investments, at fair value:		
Short-term .....	8,232,423	4,371,070
Equity securities .....	158,161,501	102,089,007
Debt securities .....	72,465,033	31,972,479
Real estate .....	29,580,354	23,673,246
Other .....	31,512,577	29,614,996
Securities lending collateral .....	17,249,281	22,303,191
Total investments .....	317,201,169	214,023,989
Receivables (net) .....	1,775,492	3,102,990
Due from other funds .....	500,614	66,894
Due from other governments .....	—	18,491
Loans receivable .....	—	21,620
Other assets .....	701,798	229,079
<b>Total assets</b> .....	<b>322,328,285</b>	<b>217,920,282</b>
<b>LIABILITIES</b>		
Accounts payable .....	16,203	2,944,928
Benefits payable .....	1,505,516	1,120,499
Securities lending obligations .....	17,089,383	22,311,298
Loans payable .....	—	944,269
Other liabilities .....	1,955,644	125,272
<b>Total liabilities</b> .....	<b>20,566,746</b>	<b>27,446,266</b>
<b>NET POSITION</b>		
<b>Restricted for pension benefits, pool participants, and other employee benefits ...</b>	<b>\$ 301,761,539</b>	<b>\$ 190,474,016</b>



<b>Pension Plans</b>				<b>Other Pension and Other Employee Benefit Trust</b>	<b>Total</b>
<b>Judges' Retirement</b>	<b>Judges' Retirement II</b>	<b>Legislators' Retirement</b>	<b>Deferred Compensation</b>		
\$ 3,933	\$ 2,963	\$ 1,233	\$ 16,439	\$ 56,934	\$ 2,687,933
51,155	5	4	237,585	118,296	13,010,538
—	739,691	55,582	6,722,789	3,089,827	270,858,397
—	260,112	73,735	3,606,373	1,105,488	109,483,220
—	—	—	—	—	53,253,600
—	—	—	1,751,529	—	62,879,102
—	78,033	8,581	—	60,551	39,699,637
51,155	1,077,841	137,902	12,318,276	4,374,162	549,184,494
2,886	10,979	596	16,464	107,328	5,016,735
13	4	—	10	17	567,552
—	—	—	10	—	18,501
—	—	—	385	—	22,005
—	—	—	—	—	930,877
<b>57,987</b>	<b>1,091,787</b>	<b>139,731</b>	<b>12,351,584</b>	<b>4,538,441</b>	<b>558,428,097</b>
—	147	—	1,883	3,141	2,966,302
10	—	649	421	28,210	2,655,305
—	77,478	8,520	—	60,120	39,546,799
—	—	—	—	—	944,269
778	323	208	3,884	4,509	2,090,618
<b>788</b>	<b>77,948</b>	<b>9,377</b>	<b>6,188</b>	<b>95,980</b>	<b>48,203,293</b>
<b>\$ 57,199</b>	<b>\$ 1,013,839</b>	<b>\$ 130,354</b>	<b>\$ 12,345,396</b>	<b>\$ 4,442,461</b>	<b>\$ 510,224,804</b>

## Combining Statement of Changes in Fiduciary Net Position

### Fiduciary Funds and Similar Component Units – Pension and Other Employee Benefit Trust Funds

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Public Employees' Retirement</b>	<b>Defined Benefit State Teachers' Retirement</b>
<b>ADDITIONS</b>		
Contributions:		
Employer .....	\$ 8,777,602	\$ 3,655,634
Plan member .....	3,775,038	2,263,613
Total contributions .....	12,552,640	5,919,247
Investment income:		
Net appreciation (depreciation) in fair value of investments .....	44,413,007	26,092,999
Interest, dividends, and other investment income .....	2,641,267	4,613,173
Less: investment expense .....	(1,463,801)	(304,269)
Net investment income .....	45,590,473	30,401,903
Other .....	7,571	2,055
<b>Total additions .....</b>	<b>58,150,684</b>	<b>36,323,205</b>
<b>DEDUCTIONS</b>		
Distributions to beneficiaries .....	17,760,584	11,927,565
Refunds of contributions .....	236,968	107,600
Administrative expense .....	381,497	162,933
Interest expense .....	—	—
Payments to and for depositors .....	—	—
<b>Total deductions .....</b>	<b>18,379,049</b>	<b>12,198,098</b>
Change in net position .....	39,771,635	24,125,107
<b>Net position – beginning .....</b>	<b>261,989,904</b>	<b>166,348,909</b>
<b>Net position – ending .....</b>	<b>\$ 301,761,539</b>	<b>\$ 190,474,016</b>

<sup>1</sup> Judges' Retirement, Judges' Retirement II, and Legislators' Retirement funds were included in the Other Pension and Other Employee Benefit Trust funds column in the prior year.

<b>Pension Plans</b>					<b>Other Pension and Other Employee Benefit Trust</b>	<b>Total</b>
<b>Judges' Retirement</b>	<b>Judges' Retirement II</b>	<b>Legislators' Retirement</b>	<b>Deferred Compensation</b>			
\$ 191,148	\$ 57,027	\$ 565	\$ 900	\$ 1,714,491	\$ 14,397,367	
4,724	20,413	113	863,633	31,457	6,958,991	
195,872	77,440	678	864,533	1,745,948	21,356,358	
—	149,975	15,379	221,370	587,615	71,480,345	
59	629	51	1,325,402	427	8,581,008	
(5)	(436)	(58)	(802)	(1,761)	(1,771,132)	
54	150,168	15,372	1,545,970	586,281	78,290,221	
2,529	—	—	12,482	7,815	32,452	
<b>198,455</b>	<b>227,608</b>	<b>16,050</b>	<b>2,422,985</b>	<b>2,340,044</b>	<b>99,679,031</b>	
193,925	8,865	7,482	22,531	1,085,134	31,006,086	
10	85	—	99,956	—	444,619	
1,141	785	362	12,948	5,546	565,212	
—	—	—	—	—	—	
—	—	—	580,203	38,598	618,801	
<b>195,076</b>	<b>9,735</b>	<b>7,844</b>	<b>715,638</b>	<b>1,129,278</b>	<b>32,634,718</b>	
3,379	217,873	8,206	1,707,347	1,210,766	67,044,313	
<b>53,820</b> <sup>1</sup>	<b>795,966</b> <sup>1</sup>	<b>122,148</b> <sup>1</sup>	<b>10,638,049</b> <sup>1</sup>	<b>3,231,695</b> <sup>1</sup>	<b>443,180,491</b>	
<b>\$ 57,199</b>	<b>\$ 1,013,839</b>	<b>\$ 130,354</b>	<b>\$ 12,345,396</b>	<b>\$ 4,442,461</b>	<b>\$ 510,224,804</b>	

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# Agency Funds

*Agency funds* account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, for distribution to other governmental units or other organizations. Following are brief descriptions of agency funds.

The **Receipting and Disbursing Fund** accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from many state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The **Deposit Fund** accounts for various deposits, such as those from condemnation and litigation proceedings.

**Other agency activity funds** account for other assets held by the State, which acts as an agent for individuals, private organizations, and other governments.

# Combining Statement of Fiduciary Assets and Liabilities

## Agency Funds

**June 30, 2014**

(amounts in thousands)

	<b>Receipting and Disbursing</b>	<b>Deposit</b>	<b>Other Agency Activities</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 2,190,374	\$ 1,467,960	\$ 23,893	\$ 3,682,227
Receivables (net) .....	2,019,572	108,472	1,518	2,129,562
Due from other funds .....	20,690,185	2,755	769	20,693,709
Due from other governments .....	7,652	10	—	7,662
Prepaid items .....	28,734	194	—	28,928
Loans receivable .....	—	—	7,257	7,257
Other assets .....	55	38	—	93
<b>Total assets .....</b>	<b>\$ 24,936,572</b>	<b>\$ 1,579,429</b>	<b>\$ 33,437</b>	<b>\$ 26,549,438</b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 14,886,495	\$ 52,793	\$ 3,081	\$ 14,942,369
Due to other governments .....	9,974,859	2,329	7,045	9,984,233
Tax overpayments .....	4,632	—	—	4,632
Revenues received in advance .....	21,053	1,072	—	22,125
Deposits .....	39,160	940,470	7,973	987,603
Other liabilities .....	10,373	582,765	15,338	608,476
<b>Total liabilities .....</b>	<b>\$ 24,936,572</b>	<b>\$ 1,579,429</b>	<b>\$ 33,437</b>	<b>\$ 26,549,438</b>

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# Combining Statement of Changes in Fiduciary Assets and Liabilities

## Agency Funds

### Year Ended June 30, 2014

(amounts in thousands)

#### Receipting and Disbursing Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 2,369,714	\$ 154,687,200	\$ 154,866,540	\$ 2,190,374
Receivables (net) .....	1,377,732	3,490,419	2,848,579	2,019,572
Due from other funds .....	18,212,542	22,905,077	20,427,434	20,690,185
Due from other governments .....	20,763	583	13,694	7,652
Prepaid items .....	11,867	28,734	11,867	28,734
Other assets .....	55	—	—	55
<b>Total assets .....</b>	<b>\$ 21,992,673</b>	<b>\$ 181,112,013</b>	<b>\$ 178,168,114</b>	<b>\$ 24,936,572</b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 10,013,095	\$ 45,988,721	\$ 41,115,321	\$ 14,886,495
Due to other governments .....	11,685,759	29,189,519	30,900,419	9,974,859
Tax overpayments .....	684	76,390	72,442	4,632
Benefits payable .....	220,767	—	220,767	—
Revenues received in advance .....	17,688	3,393	28	21,053
Deposits .....	40,547	—	1,387	39,160
Other liabilities .....	14,133	—	3,760	10,373
<b>Total liabilities .....</b>	<b>\$ 21,992,673</b>	<b>\$ 75,258,023</b>	<b>\$ 72,314,124</b>	<b>\$ 24,936,572</b>

#### Deposit Fund

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 1,569,454	\$ 18,576,666	\$ 18,678,160	\$ 1,467,960
Receivables (net) .....	98,485	219,384	209,397	108,472
Due from other funds .....	57,832	318	55,395	2,755
Due from other governments .....	285	391	666	10
Prepaid items .....	166	28	—	194
Other assets .....	32	21	15	38
<b>Total assets .....</b>	<b>\$ 1,726,254</b>	<b>\$ 18,796,808</b>	<b>\$ 18,943,633</b>	<b>\$ 1,579,429</b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 69,213	\$ 568,579	\$ 584,999	\$ 52,793
Due to other governments .....	1,910	3,496	3,077	2,329
Revenues received in advance .....	813	14,211	13,952	1,072
Deposits .....	943,471	633,530	636,531	940,470
Other liabilities .....	710,847	17,977,336	18,105,418	582,765
<b>Total liabilities .....</b>	<b>\$ 1,726,254</b>	<b>\$ 19,197,152</b>	<b>\$ 19,343,977</b>	<b>\$ 1,579,429</b>



**Other Agency Activity Funds**

	<b>Balance</b> <b>July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b> <b>June 30, 2014</b>
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 29,377	\$ 2,578	\$ 8,062	\$ 23,893
Receivables (net) .....	1,514	4	—	1,518
Due from other funds .....	690	79	—	769
Loans receivable .....	7,153	104	—	7,257
<b>Total assets .....</b>	<b>\$ 38,734</b>	<b>\$ 2,765</b>	<b>\$ 8,062</b>	<b>\$ 33,437</b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 2,619	\$ 462	\$ —	\$ 3,081
Due to other governments .....	14,666	2	7,623	7,045
Deposits .....	5,500	2,473	—	7,973
Other liabilities .....	15,949	—	611	15,338
<b>Total liabilities .....</b>	<b>\$ 38,734</b>	<b>\$ 2,937</b>	<b>\$ 8,234</b>	<b>\$ 33,437</b>

**Total Agency Funds**

	<b>Balance</b> <b>July 1, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance</b> <b>June 30, 2014</b>
<b>ASSETS</b>				
Cash and pooled investments .....	\$ 3,968,545	\$ 173,266,444	\$ 173,552,762	\$ 3,682,227
Receivables (net) .....	1,477,731	3,709,807	3,057,976	2,129,562
Due from other funds .....	18,271,064	22,905,474	20,482,829	20,693,709
Due from other governments .....	21,048	974	14,360	7,662
Prepaid items .....	12,033	28,762	11,867	28,928
Loans receivable .....	7,153	104	—	7,257
Other assets .....	87	21	15	93
<b>Total assets .....</b>	<b>\$ 23,757,661</b>	<b>\$ 199,911,586</b>	<b>\$ 197,119,809</b>	<b>\$ 26,549,438</b>
<b>LIABILITIES</b>				
Accounts payable .....	\$ 10,084,927	\$ 46,557,762	\$ 41,700,320	\$ 14,942,369
Due to other governments .....	11,702,335	29,193,017	30,911,119	9,984,233
Tax overpayments .....	684	76,390	72,442	4,632
Benefits payable .....	220,767	—	220,767	—
Revenues received in advance .....	18,501	17,604	13,980	22,125
Deposits .....	989,518	636,003	637,918	987,603
Other liabilities .....	740,929	17,977,336	18,109,789	608,476
<b>Total liabilities .....</b>	<b>\$ 23,757,661</b>	<b>\$ 94,458,112</b>	<b>\$ 91,666,335</b>	<b>\$ 26,549,438</b>

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# Nonmajor Component Units

*Nonmajor component units* are legally separate entities that are discretely presented in the State's financial statements in accordance with Generally Accepted Accounting Principles (GAAP). The inclusion of component units in the State's financial statements reflects the State's financial accountability or relationships with these organizations such that exclusion would cause the State's financial statements to be misleading. Following are brief descriptions of the nonmajor consolidated component unit segments.

**California State University Auxiliary organizations** provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

**Financing authorities** provide financing for transportation, business development and public improvements, and coastal and inland urban waterfront restoration projects. These agencies include: California Alternative Energy and Advanced Transportation Financing Authority, California Infrastructure and Economic Development Bank, and the California Urban Waterfront Area Restoration Financing Authority.

**District agricultural associations** were created to exhibit all of the industries, industrial enterprises, resources, and products of the State. The financial information presented is as of and for the year ended December 31, 2013.

**Other component units** provide legal education programs, financial assistance to businesses, and health benefits for state employees and annuitants. These entities include: University of California Hastings College of the Law; State Assistance Fund for Enterprise, Business and Industrial Development Corporation; and Public Employees' Contingency Reserve.

# Combining Statement of Net Position

## Nonmajor Component Units

**June 30, 2014**

(amounts in thousands)

	<b>Financing Authorities</b>	<b>California State University Auxiliary Organizations</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments .....	\$ 32,309	\$ 405,558
Investments .....	—	399,561
Restricted assets:		
Cash and pooled investments .....	124,554	—
Investments .....	8,941	—
Receivables (net) .....	17,667	390,597
Due from primary government .....	—	—
Prepaid items .....	—	—
Other current assets .....	—	31,919
<b>Total current assets</b> .....	<b>183,471</b>	<b>1,227,635</b>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments .....	—	26,725
Investments .....	9,586	—
Investments .....	—	1,771,674
Receivables (net) .....	—	237,243
Loans receivable .....	278,257	—
Capital assets:		
Land .....	—	111,745
Collections – nondepreciable .....	—	8,401
Buildings and other depreciable property .....	1,700	1,159,412
Intangible assets – amortizable .....	841	10,686
Less: accumulated depreciation/amortization .....	(2,541)	(493,812)
Construction in progress .....	—	9,891
Intangible assets – non-amortizable .....	—	5,082
Other noncurrent assets .....	—	42,245
<b>Total noncurrent assets</b> .....	<b>287,843</b>	<b>2,889,292</b>
<b>Total assets</b> .....	<b>471,314</b>	<b>4,116,927</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b> .....	<b>865</b>	<b>5,204</b>
<b>Total assets and deferred outflows of resources</b> .....	<b>\$ 472,179</b>	<b>\$ 4,122,131</b>

<b>District Agricultural Associations</b>	<b>Other Component Units</b>	<b>Total</b>
\$ 81,769	\$ 429,521	\$ 949,157
4,839	—	404,400
1,058	2,905	128,517
6,988	—	15,929
4,549	34,619	447,432
—	1,212	1,212
647	95	742
430	—	32,349
100,280	468,352	1,979,738
—	—	26,725
4,700	—	14,286
—	69,360	1,841,034
—	15,387	252,630
—	7,197	285,454
22,232	5,089	139,066
—	—	8,401
694,056	139,959	1,995,127
—	1,051	12,578
(422,693)	(53,656)	(972,702)
9,323	143	19,357
—	—	5,082
—	8,506	50,751
307,618	193,036	3,677,789
<b>407,898</b>	<b>661,388</b>	<b>5,657,527</b>
—	—	6,069
<b>\$ 407,898</b>	<b>\$ 661,388</b>	<b>\$ 5,663,596</b>

(continued)

# Combining Statement of Net Position (continued)

## Nonmajor Component Units

**June 30, 2014**

(amounts in thousands)

	<b>Financing Authorities</b>	<b>California State University Auxiliary Organizations</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable .....	\$ 29,196	\$ 81,173
Due to other governments .....	—	—
Revenues received in advance .....	—	62,110
Deposits .....	—	—
Contracts and notes payable .....	—	7,110
Interest payable .....	2,251	—
Current portion of long-term obligations .....	5,014	241,249
Other current liabilities .....	5,987	88,307
<b>Total current liabilities</b> .....	<b>42,448</b>	<b>479,949</b>
Noncurrent liabilities:		
Compensated absences payable .....	162	3,471
Workers' compensation benefits payable .....	—	—
Certificates of participation, commercial paper, and other borrowings .....	—	20,255
Capital lease obligations.....	—	360,020
Revenue bonds payable .....	141,508	47,717
Net other postemployment benefits obligation .....	1,300	96,293
Other noncurrent liabilities .....	665	491,609
<b>Total noncurrent liabilities</b> .....	<b>143,635</b>	<b>1,019,365</b>
<b>Total liabilities</b> .....	<b>186,083</b>	<b>1,499,314</b>
<b>DEFERRED INFLOWS OF RESOURCES</b> .....	<b>—</b>	<b>1,561</b>
<b>Total liabilities and deferred inflows of resources</b> .....	<b>186,083</b>	<b>1,500,875</b>
<b>NET POSITION</b>		
Net investment in capital assets .....	—	181,825
Restricted:		
Nonexpendable – endowments.....	—	924,853
Expendable:		
Endowments and gifts .....	—	—
Education .....	—	906,097
Statute .....	281,696	—
Other purposes .....	4,479	—
<b>Total expendable</b> .....	<b>286,175</b>	<b>906,097</b>
Unrestricted .....	(79)	608,481
<b>Total net position</b> .....	<b>286,096</b>	<b>2,621,256</b>
<b>Total liabilities, deferred inflows of resources, and net position</b> .....	<b>\$ 472,179</b>	<b>\$ 4,122,131</b>

District Agricultural Associations	Other Component Units	Total
\$ 6,705	\$ 148,916	\$ 265,990
—	54,967	54,967
2,994	1,135	66,239
1,245	304	1,549
118	9,098	16,326
513	—	2,764
1,788	50,705	298,756
3,272	191,281	288,847
<u>16,635</u>	<u>456,406</u>	<u>995,438</u>
8,524	534	12,691
283	—	283
—	—	20,255
6	—	360,026
26,226	21,752	237,203
6,293	13,763	117,649
15,370	8,306	515,950
<u>56,702</u>	<u>44,355</u>	<u>1,264,057</u>
<u>73,337</u>	<u>500,761</u>	<u>2,259,495</u>
—	—	1,561
<u>73,337</u>	<u>500,761</u>	<u>2,261,056</u>
263,260	70,229	515,314
—	21,044	945,897
—	9,378	9,378
—	18,666	924,763
—	—	281,696
20,198	1,092	25,769
20,198	29,136	1,241,606
51,103	40,218	699,723
<u>334,561</u>	<u>160,627</u>	<u>3,402,540</u>
<u>\$ 407,898</u>	<u>\$ 661,388</u>	<u>\$ 5,663,596</u>

(concluded)

## Combining Statement of Activities

### Nonmajor Component Units

**Year Ended June 30, 2014**

(amounts in thousands)

	<b>Financing Authorities</b>	<b>California State University Auxiliary Organizations</b>
<b>OPERATING EXPENSES</b>		
Personal services .....	\$ 2,208	\$ 365,497
Scholarships and fellowships .....	—	51,190
Supplies .....	—	—
Services and charges .....	131,666	997,601
Depreciation .....	229	48,386
Interest expense and fiscal charges .....	5,031	27,047
Other .....	31	66,957
<b>Total operating expenses .....</b>	<b>139,165</b>	<b>1,556,678</b>
<b>PROGRAM REVENUES</b>		
Charges for services .....	99,756	681,398
Operating grants and contributions .....	28,275	526,329
Capital grants and contributions .....	—	8,166
<b>Total program revenues .....</b>	<b>128,031</b>	<b>1,215,893</b>
Net revenues (expenses) .....	(11,134)	(340,785)
<b>GENERAL REVENUES</b>		
Investment and interest income .....	11,336	230,362
Other .....	683	415,751
<b>Total general revenues .....</b>	<b>12,019</b>	<b>646,113</b>
Change in net position .....	885	305,328
<b>Net position – beginning .....</b>	<b>285,211 *</b>	<b>2,315,928 *</b>
<b>Net position – ending .....</b>	<b>\$ 286,096</b>	<b>\$ 2,621,256</b>

\* Restated



District Agricultural Associations	Other Component Units	Total
\$ 98,073	\$ 34,712	\$ 500,490
—	3,748	54,938
—	10,726	10,726
107,518	35,532	1,272,317
22,878	3,043	74,536
1,334	1,483	34,895
2	2,487	69,477
<b>229,805</b>	<b>91,731</b>	<b>2,017,379</b>
223,091	65,664	1,069,909
—	9,915	564,519
441	540	9,147
<b>223,532</b>	<b>76,119</b>	<b>1,643,575</b>
(6,273)	(15,612)	(373,804)
73	11,979	253,750
8,313	9,115	433,862
<b>8,386</b>	<b>21,094</b>	<b>687,612</b>
2,113	5,482	313,808
<b>332,448</b> *	<b>155,145</b>	<b>3,088,732</b>
<b>\$ 334,561</b>	<b>\$ 160,627</b>	<b>\$ 3,402,540</b>

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# Statistical Section



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# Financial Trends

*Financial trend* schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time. This section includes the following financial trend schedules.

Schedule of Net Position by Component

Schedule of Changes in Net Position

Schedule of Fund Balances – Governmental Funds

Schedule of Changes in Fund Balances – Governmental Funds

Sources: The information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

## Schedule of Net Position by Component

### For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Governmental activities</b>				
Net investment in capital assets .....	\$ 79,579,676	\$ 83,489,137	\$ 81,352,744	\$ 84,255,048
Restricted – Expendable.....	7,631,057	8,431,279	10,543,602	10,148,648
Unrestricted <sup>1</sup> .....	<u>(52,631,090)</u>	<u>(54,710,847)</u>	<u>(56,519,478)</u>	<u>(69,346,950)</u>
<b>Total governmental activities net position .....</b>	<b><u>\$ 34,579,643</u></b>	<b><u>\$ 37,209,569</u></b>	<b><u>\$ 35,376,868</u></b>	<b><u>\$ 25,056,746</u></b>
<b>Business-type activities</b>				
Net investment in capital assets .....	\$ 836,524	\$ 818,405	\$ 208,268	\$ 49,510
Restricted – Nonexpendable .....	—	—	—	—
Restricted – Expendable.....	7,235,373	8,722,865	8,574,932	6,853,621
Unrestricted .....	<u>1,566,246</u>	<u>1,801,304</u>	<u>2,430,492</u>	<u>3,009,297</u>
<b>Total business-type activities net position .....</b>	<b><u>\$ 9,638,143</u></b>	<b><u>\$ 11,342,574</u></b>	<b><u>\$ 11,213,692</u></b>	<b><u>\$ 9,912,428</u></b>
<b>Primary government</b>				
Net investment in capital assets .....	\$ 80,416,200	\$ 84,307,542	\$ 81,561,012	\$ 84,304,558
Restricted – Nonexpendable .....	—	—	—	—
Restricted – Expendable.....	14,866,430	17,154,144	19,118,534	17,002,269
Unrestricted .....	<u>(51,064,844)</u>	<u>(52,909,543)</u>	<u>(54,088,986)</u>	<u>(66,337,653)</u>
<b>Total primary government net position .....</b>	<b><u>\$ 44,217,786</u></b>	<b><u>\$ 48,552,143</u></b>	<b><u>\$ 46,590,560</u></b>	<b><u>\$ 34,969,174</u></b>

<sup>1</sup> Governmental activities' unrestricted net position reflects a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities.

<sup>2</sup> In fiscal year 2011, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the \$1.2 billion beginning net position of the California State University Fund from a governmental fund to an enterprise fund.

<sup>3</sup> In fiscal year 2014, the net position of governmental activities and business-type activities changed primarily as a result of the reclassification of the \$380 million beginning net position of the Public Buildings Construction Fund from an enterprise fund to an internal service fund.

<u>2009</u>	<u>2010</u>	<u>2011<sup>2</sup></u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>3</sup></u>
\$ 83,285,184	\$ 84,085,632	\$ 85,460,957	\$ 80,768,527	\$ 84,931,030	\$ 94,001,659
8,391,814	14,987,867	27,865,821	24,871,510	24,315,913	24,950,740
(86,302,434)	(103,272,097)	(123,783,314)	(123,897,753)	(117,383,903)	(116,948,128)
<u><b>\$ 5,374,564</b></u>	<u><b>\$ (4,198,598)</b></u>	<u><b>\$ (10,456,536)</b></u>	<u><b>\$ (18,257,716)</b></u>	<u><b>\$ (8,136,960)</b></u>	<u><b>\$ 2,004,271</b></u>
\$ (130,634)	\$ 89,334	\$ 1,382,957	\$ 1,561,258	\$ 1,718,648	\$ 2,065,550
—	—	21,812	21,584	20,627	16,219
3,855,051	3,404,682	3,615,945	4,571,036	5,151,915	4,897,314
717,740	(4,250,609)	(4,214,494)	(3,346,849)	(2,824,738)	(1,661,692)
<u><b>\$ 4,442,157</b></u>	<u><b>\$ (756,593)</b></u>	<u><b>\$ 806,220</b></u>	<u><b>\$ 2,807,029</b></u>	<u><b>\$ 4,066,452</b></u>	<u><b>\$ 5,317,391</b></u>
\$ 83,154,550	\$ 84,174,966	\$ 86,843,914	\$ 82,329,785	\$ 86,649,678	\$ 96,067,209
—	—	21,812	21,584	20,627	16,219
12,246,865	18,392,549	31,481,766	29,442,546	29,467,828	29,848,054
(85,584,694)	(107,522,706)	(127,997,808)	(127,244,602)	(120,208,641)	(118,609,820)
<u><b>\$ 9,816,721</b></u>	<u><b>\$ (4,955,191)</b></u>	<u><b>\$ (9,650,316)</b></u>	<u><b>\$ (15,450,687)</b></u>	<u><b>\$ (4,070,508)</b></u>	<u><b>\$ 7,321,662</b></u>

## Schedule of Changes in Net Position

### For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008
<b>Governmental activities</b>				
<b>Expenses</b>				
General government <sup>1</sup> .....	\$ 10,965,932	\$ 10,379,122	\$ 14,261,590	\$ 13,187,080
Education .....	53,152,986	62,652,997	61,542,105	65,130,420
Health and human services .....	62,016,344	65,763,380	69,979,980	74,309,784
Resources .....	4,160,949	4,161,814	5,316,769	6,333,252
State and consumer services .....	1,038,327	595,602	1,214,740	1,129,063
Business and transportation .....	7,142,209	8,809,236	9,763,200	13,068,043
Correctional programs .....	6,611,219	7,299,124	8,945,325	10,504,182
Interest on long-term debt .....	2,408,246	2,893,537	2,596,316	4,184,631
<b>Total expenses</b> .....	<b>147,496,212</b>	<b>162,554,812</b>	<b>173,620,025</b>	<b>187,846,455</b>
<b>Program revenues</b>				
Charges for services:				
General government <sup>1</sup> .....	4,733,155	4,620,030	4,495,166	4,404,126
Education .....	2,936,693	3,360,919	2,689,906	3,343,205
Health and human services .....	3,280,970	4,554,673	4,751,011	5,191,548
Resources .....	1,934,532	2,198,886	2,110,593	2,648,952
State and consumer services .....	601,322	640,088	704,512	692,348
Business and transportation .....	2,541,072	3,776,098	4,040,268	3,987,958
Correctional programs .....	12,354	37,203	30,821	27,702
Operating grants/contributions .....	41,135,441	42,254,065	43,440,102	45,849,413
Capital grants/contributions .....	1,090,419	1,272,506	1,164,526	1,207,101
<b>Total program revenues</b> .....	<b>58,265,958</b>	<b>62,714,468</b>	<b>63,426,905</b>	<b>67,352,353</b>
<b>Total governmental activities net program expenses</b> .....	<b>(89,230,254)</b>	<b>(99,840,344)</b>	<b>(110,193,120)</b>	<b>(120,494,102)</b>
<b>General revenues and other changes in net position</b>				
General revenues:				
Personal income taxes .....	42,504,352	51,251,266	53,272,229	55,355,266
Sales and use taxes .....	32,488,563	34,162,177	35,427,013	34,856,824
Corporation taxes .....	11,174,937	10,735,792	11,211,267	11,207,468
Motor vehicle excise taxes <sup>2</sup> .....	—	—	—	—
Insurance taxes .....	2,231,060	2,212,916	2,165,567	2,190,870
Other taxes <sup>2</sup> .....	2,507,729	2,099,075	5,939,890	5,594,970
Investment and interest .....	289,363	504,655	730,066	639,059
Escheat .....	525,897	291,549	334,002	282,287
Transfers .....	27,727	23,259	29,855	54,994
Special item <sup>3</sup> .....	—	1,218,311	—	—
<b>Total general revenues</b>				
<b>and other changes in net position</b> .....	<b>91,749,628</b>	<b>102,499,000</b>	<b>109,109,889</b>	<b>110,181,738</b>
<b>Total governmental activities change in net position</b> .....	<b>\$ 2,519,374</b>	<b>\$ 2,658,656</b>	<b>\$ (1,083,231)</b>	<b>\$ (10,312,364)</b>

<sup>1</sup> Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.

<sup>2</sup> Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with "Other taxes" in prior years.

<sup>3</sup> In fiscal year 2006, a related organization assumed debt on the State's behalf. In fiscal year 2014, a component unit assumed debt on behalf of the primary government.

<sup>4</sup> In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

<sup>5</sup> In fiscal year 2014, the Public Buildings Construction Fund was reclassified from an enterprise fund to an internal service fund.



<u>2009</u>	<u>2010</u>	<u>2011<sup>4</sup></u>	<u>2012</u>	<u>2013</u>	<u>2014<sup>5</sup></u>
\$ 13,895,948	\$ 12,454,969	\$ 13,520,557	\$ 14,411,737	\$ 15,390,100	\$ 14,292,179
65,643,486	61,764,385	56,486,944	51,288,647	50,586,387	54,719,677
79,077,015	80,799,454	92,475,364	89,939,730	94,069,749	105,037,102
5,626,359	6,019,104	5,853,278	5,950,635	5,670,922	5,854,685
1,518,402	979,962	1,405,019	1,241,269	1,475,486	589,715
11,980,315	14,155,767	11,119,644	13,719,927	12,836,192	13,427,229
10,835,203	10,310,229	10,295,564	10,343,574	10,081,736	11,234,705
3,801,283	4,146,259	4,377,064	4,365,181	4,349,632	4,699,265
<b>192,378,011</b>	<b>190,630,129</b>	<b>195,533,434</b>	<b>191,260,700</b>	<b>194,460,204</b>	<b>209,854,557</b>
4,781,126	4,918,132	5,057,082	6,841,334	6,196,586	5,994,608
3,483,072	4,231,692	110,423	81,212	64,480	67,165
4,256,069	3,769,794	8,471,261	4,940,650	8,761,781	7,961,897
2,578,738	2,597,712	2,797,264	2,866,232	3,269,315	3,403,524
658,486	654,034	660,196	724,222	682,503	586,055
4,210,461	5,420,261	4,010,433	4,342,668	4,082,616	4,247,258
21,592	18,097	14,981	16,757	45,153	13,645
57,828,622	75,469,783	67,849,215	58,777,006	60,943,536	69,861,130
1,142,691	962,388	1,272,326	2,193,189	1,669,021	1,515,890
<b>78,960,857</b>	<b>98,041,893</b>	<b>90,243,181</b>	<b>80,783,270</b>	<b>85,714,991</b>	<b>93,651,172</b>
<b>(113,417,154)</b>	<b>(92,588,236)</b>	<b>(105,290,253)</b>	<b>(110,477,430)</b>	<b>(108,745,213)</b>	<b>(116,203,385)</b>
45,709,344	43,866,857	51,719,107	54,368,347	67,502,738	68,793,292
31,244,979	33,784,106	33,521,221	31,216,438	33,839,065	36,477,724
10,741,140	9,472,611	9,384,416	8,629,935	7,289,910	9,102,128
—	—	—	5,263,435	5,219,605	5,777,167
2,063,555	2,235,251	2,311,880	2,408,473	2,295,579	3,359,043
5,264,685	5,234,531	7,768,010	2,368,748	2,498,248	2,302,231
175,584	114,933	62,946	72,237	57,285	80,969
315,642	149,996	229,146	372,215	551,580	487,937
21,015	(13,441,875)	(3,251,598)	(2,031,032)	(1,997,759)	(2,296,010)
—	—	—	—	—	(54,537)
<b>95,535,944</b>	<b>81,416,410</b>	<b>101,745,128</b>	<b>102,668,796</b>	<b>117,256,251</b>	<b>124,029,944</b>
<b>\$ (17,881,210)</b>	<b>\$ (11,171,826)</b>	<b>\$ (3,545,125)</b>	<b>\$ (7,808,634)</b>	<b>\$ 8,511,038</b>	<b>\$ 7,826,559</b>

(continued)

## Schedule of Changes in Net Position (continued)

### For the Past Ten Fiscal Years

(accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008
<b>Business-type activities</b>				
<b>Expenses</b>				
Electric Power .....	\$ 5,655,000	\$ 5,342,000	\$ 5,865,000	\$ 5,362,000
Water Resources .....	731,393	949,691	951,590	1,009,214
Public Buildings Construction <sup>5</sup> .....	299,900	334,094	334,777	371,904
State Lottery .....	3,493,984	3,911,717	3,470,615	3,173,060
Unemployment Programs .....	8,939,654	8,584,521	9,136,218	10,622,582
California State University <sup>4</sup> .....	—	—	—	—
High Technology Education .....	33,690	30,871	22,704	16,916
Toll Facilities .....	20,861	18,265	—	—
State University Dormitory Building				
Maintenance and Equipment .....	449,080	491,914	844,798	699,018
State Water Pollution Control Revolving .....	14,638	20,427	12,702	13,056
Housing Loan .....	142,085	138,988	127,206	132,101
Other enterprise programs .....	86,612	113,976	141,859	122,921
<b>Total expenses</b> .....	<b>19,866,897</b>	<b>19,936,464</b>	<b>20,907,469</b>	<b>21,522,772</b>
<b>Program revenues</b>				
Charges for services:				
Electric Power .....	5,655,000	5,342,000	5,865,000	5,362,000
Water Resources .....	750,282	949,691	951,590	1,009,214
Public Buildings Construction <sup>5</sup> .....	315,718	384,442	396,895	384,816
State Lottery .....	3,512,126	3,740,041	3,461,699	3,242,828
Unemployment Programs .....	10,459,688	10,263,447	9,017,969	8,829,018
California State University <sup>4</sup> .....	—	—	—	—
High Technology Education .....	36,737	26,508	22,966	20,600
Toll Facilities .....	66	21	—	—
State University Dormitory Building				
Maintenance and Equipment .....	395,396	512,231	554,851	640,208
State Water Pollution Control Revolving .....	55,218	64,740	78,564	71,404
Housing Loan .....	121,063	127,733	130,293	130,139
Other enterprise programs .....	115,901	129,048	134,018	137,476
Operating grants/contributions .....	—	—	—	—
Capital grants/contributions .....	73,182	56,942	182,989	189,064
<b>Total program revenues</b> .....	<b>21,490,377</b>	<b>21,596,844</b>	<b>20,796,834</b>	<b>20,016,767</b>
<b>Total business-type activities</b>				
<b>net program revenues (expenses)</b> .....	<b>1,623,480</b>	<b>1,660,380</b>	<b>(110,635)</b>	<b>(1,506,005)</b>
<b>Other changes in net position</b>				
Transfers .....	(27,727)	(23,259)	(29,855)	(54,994)
Special item <sup>3</sup> .....	—	—	—	—
<b>Total business-type activities change in net position</b> .....	<b>1,595,753</b>	<b>1,637,121</b>	<b>(140,490)</b>	<b>(1,560,999)</b>
<b>Total primary government change in net position</b> .....	<b>\$ 4,115,127</b>	<b>\$ 4,295,777</b>	<b>\$ (1,223,721)</b>	<b>\$ (11,873,363)</b>

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 4,560,000	\$ 3,908,000	\$ 2,317,000	\$ 915,000	\$ 488,000	\$ 835,000
914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
420,465	494,332	390,173	403,853	410,404	—
3,069,365	3,166,447	3,507,524	4,431,709	4,499,451	5,078,935
19,609,068	29,614,598	25,619,138	21,111,658	17,599,219	13,673,403
—	—	5,851,355	6,181,397	6,196,541	6,544,936
15,590	15,025	9,590	7,778	6,568	847
—	—	—	—	—	—
486,349	856,106	—	—	—	—
12,261	16,893	10,953	8,780	3,698	5,072
130,777	122,114	104,667	89,570	70,356	57,206
147,441	130,329	118,006	78,601	58,578	79,641
<b>29,366,153</b>	<b>39,393,506</b>	<b>39,044,199</b>	<b>34,275,920</b>	<b>30,460,010</b>	<b>27,258,088</b>
4,560,000	3,908,000	2,317,000	915,000	488,000	835,000
914,837	1,069,662	1,115,793	1,047,574	1,127,195	983,048
366,151	430,069	456,467	428,260	616,041	—
3,051,320	3,145,259	3,484,689	4,484,291	4,445,921	5,077,976
14,273,975	11,255,098	24,678,783	21,947,781	18,597,962	15,167,258
—	—	2,505,545	2,915,123	2,891,432	3,014,030
15,975	13,015	10,498	8,452	5,585	424
—	—	—	—	—	—
811,454	599,571	—	—	—	—
59,923	56,121	55,957	57,540	60,173	62,985
109,636	85,321	89,224	84,830	66,050	65,247
124,952	98,957	105,676	74,693	80,540	77,671
—	—	1,216,808	1,249,995	1,323,345	1,491,559
71,882	91,808	86,272	106,057	142,304	80,903
<b>24,360,105</b>	<b>20,752,881</b>	<b>36,122,712</b>	<b>33,319,596</b>	<b>29,844,548</b>	<b>26,856,101</b>
<b>(5,006,048)</b>	<b>(18,640,625)</b>	<b>(2,921,487)</b>	<b>(956,324)</b>	<b>(615,462)</b>	<b>(401,987)</b>
(21,015)	13,441,875	3,251,598	2,031,032	1,997,759	2,296,010
—	—	—	—	—	(26,913)
<b>(5,027,063)</b>	<b>(5,198,750)</b>	<b>330,111</b>	<b>1,074,708</b>	<b>1,382,297</b>	<b>1,867,110</b>
<b>\$ (22,908,273)</b>	<b>\$ (16,370,576)</b>	<b>\$ (3,215,014)</b>	<b>\$ (6,733,926)</b>	<b>\$ 9,893,335</b>	<b>\$ 9,693,669</b>

(concluded)

## Schedule of Fund Balances – Governmental Funds

### For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008
<b>General Fund</b>				
Reserved .....	\$ 1,597,085	\$ 1,999,953	\$ 2,596,537	\$ 2,113,149
Unreserved .....	(1,410,228)	672,862	(4,504,075)	(6,282,018)
Nonspendable .....	—	—	—	—
Restricted .....	—	—	—	—
Committed .....	—	—	—	—
Unassigned .....	—	—	—	—
<b>Total General Fund .....</b>	<b>\$ 186,857</b>	<b>\$ 2,672,815</b>	<b>\$ (1,907,538)</b>	<b>\$ (4,168,869)</b>
<b>All other governmental funds</b>				
Reserved .....	\$ 14,924,365	\$ 16,198,481	\$ 21,955,300	\$ 19,512,083
Unreserved, reported in:				
Special revenue funds .....	(329,018)	(806,558)	(914,843)	(1,817,290)
Capital projects funds .....	(403,106)	(882,550)	(1,128,608)	(837,349)
Nonspendable .....	—	—	—	—
Restricted .....	—	—	—	—
Committed .....	—	—	—	—
Assigned .....	—	—	—	—
Unassigned .....	—	—	—	—
<b>Total all other governmental funds .....</b>	<b>\$ 14,192,241</b>	<b>\$ 14,509,373</b>	<b>\$ 19,911,849</b>	<b>\$ 16,857,444</b>

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 and subsequent fund balance classifications are not comparable to prior years' classifications.

<sup>1</sup> In fiscal year 2011, the California State University Fund, which consisted of \$1.2 billion beginning fund balance, was reclassified from a governmental fund to an enterprise fund.

<u>2009</u>	<u>2010</u>	<u>2011<sup>1</sup></u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 2,260,504	\$ 1,320,782	\$ —	\$ —	\$ —	\$ —
(18,344,400)	(20,929,640)	—	—	—	—
—	—	148,019	7,614	140,107	128,609
—	—	156,496	80,849	178,643	394,246
—	—	29,850	19,600	22,879	125,120
—	—	(20,273,606)	(23,069,351)	(14,596,085)	(8,092,571)
<u><b>\$ (16,083,896)</b></u>	<u><b>\$ (19,608,858)</b></u>	<u><b>\$ (19,939,241)</b></u>	<u><b>\$ (22,961,288)</b></u>	<u><b>\$ (14,254,456)</b></u>	<u><b>\$ (7,444,596)</b></u>
\$ 27,465,566	\$ 41,087,578	\$ —	\$ —	\$ —	\$ —
(3,539,254)	(8,554,611)	—	—	—	—
686,113	838,879	—	—	—	—
—	—	39,448	—	15,022	27,260
—	—	27,709,325	24,790,661	24,137,270	24,269,093
—	—	2,701,702	2,109,089	2,318,035	2,914,747
—	—	268,888	3	209,171	18,857
—	—	(21,847)	(103,177)	(176,066)	(20,145)
<u><b>\$ 24,612,425</b></u>	<u><b>\$ 33,371,846</b></u>	<u><b>\$ 30,697,516</b></u>	<u><b>\$ 26,796,576</b></u>	<u><b>\$ 26,503,432</b></u>	<u><b>\$ 27,209,812</b></u>

## Schedule of Changes in Fund Balances – Governmental Funds

### For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	2005	2006	2007	2008
<b>Revenues</b>				
Personal income taxes .....	\$ 42,595,352	\$ 50,798,418	\$ 53,289,524	\$ 55,197,062
Sales and use taxes .....	32,201,242	34,300,402	35,451,311	34,764,651
Corporation taxes .....	11,191,937	10,709,792	11,210,267	11,201,468
Motor vehicle excise taxes <sup>1</sup> .....	—	—	—	—
Insurance taxes .....	2,231,060	2,212,916	2,165,567	2,190,870
Other taxes <sup>1</sup> .....	2,482,335	2,367,670	5,800,027	5,675,894
Intergovernmental .....	42,933,381	45,466,185	46,442,519	48,969,006
Licenses and permits .....	4,954,025	5,125,223	5,266,142	5,326,854
Charges for services .....	949,147	1,002,410	911,387	1,025,569
Fees and penalties .....	5,388,332	6,008,306	6,093,948	6,800,633
Investment and interest .....	576,097	1,058,119	1,555,202	1,591,025
Escheat .....	525,897	291,549	334,002	282,287
Other .....	3,755,426	4,518,621	3,732,591	4,265,010
<b>Total revenues .....</b>	<b>149,784,231</b>	<b>163,859,611</b>	<b>172,252,487</b>	<b>177,290,329</b>
<b>Expenditures</b>				
General government <sup>2</sup> .....	10,647,740	9,394,308	14,062,920	12,745,860
Education .....	52,242,779	59,768,677	61,103,008	64,367,612
Health and human services .....	62,015,628	65,968,433	70,157,806	74,102,708
Resources .....	4,077,102	4,296,715	5,191,078	6,123,609
State and consumer services .....	973,466	1,111,128	1,214,752	1,239,397
Business and transportation .....	8,556,618	10,370,589	11,485,069	14,747,506
Correctional programs .....	6,658,614	7,552,790	9,030,299	9,972,507
Capital outlay .....	1,534,150	2,128,050	1,345,021	1,724,074
Debt service:				
Bond and commercial paper retirement .....	3,672,119	6,375,607	5,691,791	8,970,533
Interest and fiscal charges .....	2,243,764	3,135,763	2,881,849	3,394,433
<b>Total expenditures .....</b>	<b>152,621,980</b>	<b>170,102,060</b>	<b>182,163,593</b>	<b>197,388,239</b>
Excess (deficiency) of revenues over (under) expenditures..	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)
<b>Other financing sources (uses)</b>				
General obligation bonds and commercial paper issued .....	5,058,339	7,750,500	9,040,500	14,193,760
Revenue bonds issued .....	99,250	—	—	—
Refunding/remarketing debt issued .....	1,937,430	5,086,944	9,098,376	1,798,685
Payment to refund/reremark long-term debt .....	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)
Premium on bonds issued <sup>3</sup> .....	—	—	—	295,439
Proceeds from loans .....	—	—	—	—
Capital leases <sup>4</sup> .....	414,738	748,037	178,936	268,686
Transfers in .....	4,580,201	5,137,895	9,311,462	11,414,132
Transfers out .....	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)
<b>Total other financing sources .....</b>	<b>5,605,736</b>	<b>9,048,325</b>	<b>10,545,882</b>	<b>14,789,932</b>
<b>Total change in fund balance .....</b>	<b>\$ 2,767,987</b>	<b>\$ 2,805,876</b>	<b>\$ 634,776</b>	<b>\$ (5,307,978)</b>
Debt service as a percentage of noncapital expenditures .....	3.9%	5.7%	4.7%	6.3%

<sup>1</sup> Motor vehicle excise taxes, reported separately in fiscal year 2012 due to material increases, were included with “Other taxes” in prior years.

<sup>2</sup> Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.

<sup>3</sup> Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.

<sup>4</sup> In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

2009	2010	2011 <sup>4</sup>	2012	2013	2014
\$ 45,482,726	\$ 43,884,798	\$ 51,691,153	\$ 54,442,733	\$ 67,424,576	\$ 68,771,667
31,425,308	33,696,412	33,488,805	31,205,183	33,869,961	36,409,311
10,738,140	9,467,611	9,433,416	8,609,935	7,261,910	9,242,454
—	—	—	5,263,435	5,219,605	5,777,167
2,063,555	2,235,251	2,311,881	2,408,473	2,295,579	3,359,043
5,245,416	5,235,801	7,829,662	2,306,717	2,425,184	2,297,025
61,053,091	79,183,291	69,160,916	62,235,671	64,418,808	73,000,600
5,805,369	6,900,747	6,767,437	6,600,001	6,659,078	6,957,117
986,773	974,181	1,008,647	728,980	741,201	769,302
6,204,288	7,291,894	10,262,387	8,315,452	10,673,104	9,757,476
1,108,058	281,881	212,116	175,898	135,928	137,754
315,642	149,996	229,146	372,215	551,580	488,945
3,933,035	3,555,282	2,941,484	2,542,505	3,227,347	2,903,335
<b>174,361,401</b>	<b>192,857,145</b>	<b>195,337,050</b>	<b>185,207,198</b>	<b>204,903,861</b>	<b>219,871,196</b>
13,075,901	12,036,503	12,997,651	13,484,305	15,748,069	14,778,214
63,857,066	59,229,726	55,547,139	50,362,337	49,692,763	53,309,436
78,731,136	80,321,470	91,941,309	89,473,391	94,621,630	104,781,494
5,209,684	5,456,904	5,254,757	5,358,575	5,318,332	5,508,860
1,266,068	1,088,494	1,183,536	1,219,499	1,259,392	621,037
13,803,518	14,083,790	13,181,390	15,684,611	15,008,671	15,721,532
9,883,593	9,553,992	9,253,791	9,805,846	9,681,086	10,395,234
1,432,376	1,691,674	1,128,011	1,296,413	1,222,342	1,909,010
5,131,600	3,259,203	3,118,906	4,435,992	5,189,150	7,002,941
3,584,358	4,022,922	4,355,110	4,453,643	4,363,260	4,321,040
<b>195,975,300</b>	<b>190,744,678</b>	<b>197,961,600</b>	<b>195,574,612</b>	<b>202,104,695</b>	<b>218,348,798</b>
(21,613,899)	2,112,467	(2,624,550)	(10,367,414)	2,799,166	1,522,398
16,764,085	12,039,472	4,525,000	4,165,515	4,038,095	5,082,305
97,635	—	—	—	—	—
—	4,176,050	—	4,300,555	4,634,365	2,077,330
—	(4,221,604)	—	(4,508,834)	(3,174,613)	(328,024)
126,107	267,980	32,607	667,931	964,211	505,026
—	1,996,737	35,538	—	—	—
364,813	811,816	204,631	528,804	710,440	1,486,204
6,776,476	6,548,447	8,705,229	5,523,644	2,957,762	4,041,250
(6,689,658)	(19,952,766)	(11,902,800)	(7,499,131)	(4,898,754)	(6,304,047)
<b>17,439,458</b>	<b>1,666,132</b>	<b>1,600,205</b>	<b>3,178,484</b>	<b>5,231,506</b>	<b>6,560,044</b>
<b>\$ (4,174,441)</b>	<b>\$ 3,778,599</b>	<b>\$ (1,024,345)</b>	<b>\$ (7,188,930)</b>	<b>\$ 8,030,672</b>	<b>\$ 8,082,442</b>
4.5%	3.9%	3.8%	4.6%	4.8%	5.2%

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# Revenue Capacity

**Revenue capacity** schedules contain information to help the reader assess the State's capacity to raise revenue and the sources of that revenue. This section includes the following revenue capacity schedules.

Schedule of Revenue Base

Schedule of Revenue Payers by Industry/Income Level

Schedule of Personal Income Tax Rates

## Schedule of Revenue Base

### For the Past Ten Calendar Years

(amounts in thousands)

	2004	2005	2006	2007
<b>Personal Income by Industry</b> (all items restated as footnoted) <sup>1</sup>				
Farm earnings .....	\$ 12,322,433	\$ 12,293,563	\$ 10,502,902	\$ 12,863,060
Forestry, fishing, and other natural resources .....	5,294,017	5,297,340	6,066,166	6,233,699
Mining .....	3,043,981	3,424,432	4,165,677	4,176,102
Construction and utilities .....	78,401,346	83,625,469	88,987,518	84,582,353
Manufacturing .....	113,519,462	117,178,686	122,230,122	124,761,057
Wholesale trade .....	47,430,783	50,654,666	54,567,859	58,438,881
Retail trade .....	70,716,361	73,229,969	75,214,254	75,601,717
Transportation and warehousing .....	29,476,808	30,156,650	31,592,849	32,801,341
Information, finance, and insurance .....	118,186,279	123,795,537	128,340,864	131,366,347
Real estate .....	30,195,066	29,891,241	27,965,840	21,311,535
Services .....	345,247,755	361,118,487	389,562,325	409,727,938
Federal, civilian .....	19,817,459	20,752,518	20,978,437	21,578,358
Military .....	11,934,474	12,363,039	12,812,404	13,447,304
State and local government .....	149,072,533	155,244,124	164,416,341	176,638,739
Other <sup>2</sup> .....	287,156,727	316,966,493	361,905,283	390,760,904
<b>Total personal income .....</b>	<b><u>\$ 1,321,815,484</u></b>	<b><u>\$ 1,395,992,214</u></b>	<b><u>\$ 1,499,308,841</u></b>	<b><u>\$ 1,564,289,335</u></b>
Average effective rate <sup>3</sup> .....	4.5%	4.6%	5.1%	5.0%

Source: Bureau of Economic Analysis, U.S. Department of Commerce

<sup>1</sup> 2004-2012 information updated.

<sup>2</sup> Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

<sup>3</sup> The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$	11,085,038	\$ 12,113,947	\$ 12,557,572	\$ 15,887,490	\$ 15,724,952	\$ 17,155,685
	6,187,051	6,127,860	6,688,211	6,900,901	7,730,465	8,180,241
	6,137,953	4,001,858	5,050,332	6,134,672	6,767,992	6,892,409
	76,445,719	63,216,733	58,750,008	60,811,474	66,192,913	71,798,914
	122,428,281	113,614,593	116,160,042	120,509,059	125,372,884	126,542,447
	57,837,584	52,413,990	53,651,640	57,504,570	60,346,943	63,119,835
	69,458,834	66,365,074	67,715,988	70,779,805	74,387,050	76,817,610
	32,256,160	30,368,585	31,087,284	33,824,988	35,186,355	36,740,615
	126,010,535	121,932,283	125,369,696	129,712,308	142,161,282	154,146,768
	21,821,327	19,921,652	20,855,431	25,097,591	40,013,799	42,849,117
	429,018,004	412,103,397	423,008,875	450,544,104	483,052,428	501,619,418
	22,347,584	23,426,267	25,978,417	26,293,383	26,450,620	26,072,762
	14,560,197	15,558,704	16,264,215	16,059,376	15,911,335	15,348,981
	185,038,204	184,143,378	185,261,156	189,532,850	188,383,565	191,327,085
	415,597,502	411,786,355	430,154,572	476,042,917	517,511,186	518,002,299
	<u><b>\$ 1,596,229,973</b></u>	<u><b>\$ 1,537,094,676</b></u>	<u><b>\$ 1,578,553,439</b></u>	<u><b>\$ 1,685,635,488</b></u>	<u><b>\$ 1,805,193,769</b></u>	<u><b>\$ 1,856,614,186</b></u>
	5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

(continued)

## Schedule of Revenue Base (continued)

### For the Past Ten Calendar Years

(amounts in thousands)

	2004	2005	2006	2007
<b>Taxable Sales by Industry</b> <sup>1</sup>				
Retail				
Apparel .....	\$ 16,957,137	\$ 18,712,125	\$ 19,829,416	\$ 20,855,890
General merchandise .....	53,939,532	56,787,153	59,264,894	59,897,350
Specialty .....	48,961,996	52,376,758	54,695,680	34,122,471
Food .....	19,825,771	21,128,469	21,864,179	22,461,059
Restaurant and bars .....	43,275,038	46,412,847	49,229,418	51,658,575
Household .....	16,405,347	17,388,704	17,383,449	16,720,852
Building materials .....	34,154,543	36,152,218	36,163,326	32,656,324
Automotive .....	103,528,856	112,167,922	115,154,535	117,864,918
Other .....	13,124,468	14,681,929	15,481,675	30,787,663
Business and personal service .....	22,306,787	23,090,910	23,650,322	23,355,672
All other .....	127,597,308	138,005,393	146,935,543	150,669,375
<b>Total taxable sales .....</b>	<b>\$ 500,076,783</b>	<b>\$ 536,904,428</b>	<b>\$ 559,652,437</b>	<b>\$ 561,050,149</b>
Direct sales tax rate <sup>2</sup> .....	5.25%	5.25%	5.25%	5.25%

### Taxable Sales by Industry (Using NAICS Codes)<sup>1</sup>

Retail and Food Services	
Motor vehicle and parts dealers .....	
Furniture and home furnishings stores .....	
Electronics and appliance stores .....	
Building materials, garden equipment and supplies .....	
Food and beverage .....	
Health and personal care stores .....	
Gasoline stations .....	
Clothing and clothing accessories stores .....	
Sporting goods, hobby, book and music stores .....	
General merchandise stores .....	
Miscellaneous store retailers .....	
Nonstore retailers .....	
Food services and drinking places .....	
All other outlets .....	
<b>Total taxable sales .....</b>	

Direct sales tax rate<sup>2</sup> .....

Source: California State Board of Equalization (BOE)

<sup>1</sup> Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.

<sup>2</sup> The direct sales tax rate used is the state tax rate that provides revenue to the State's General Fund and debt service fund. It does not include the 1% local tax rate that is allocated to cities and counties.

<sup>3</sup> Rate change was effective on April 1, 2009.

<sup>4</sup> Rate change was effective on January 1, 2013.

	2008	2009 <sup>1</sup>	2010	2011	2012	2013
\$	22,120,094					
	56,425,472					
	27,380,740					
	21,504,308					
	52,051,404					
	17,199,187					
	26,647,007					
	106,555,420					
	27,434,795					
	22,045,958					
	152,289,155					
	<b>\$ 531,653,540</b>					

5.25%

\$	44,488,198	\$	47,355,568	\$	53,303,501	\$	61,547,848	\$	67,986,436
	8,481,020		8,742,984		9,280,688		9,937,187		10,645,523
	13,384,338		13,749,019		14,297,402		14,744,723		14,765,485
	23,978,313		24,750,865		26,064,428		27,438,083		29,680,053
	22,546,285		22,787,407		23,606,132		24,511,714		25,289,203
	9,244,958		9,525,910		10,309,491		10,787,801		11,294,049
	39,077,835		45,226,491		55,210,076		58,006,168		56,860,585
	25,641,272		27,267,430		29,600,057		32,357,516		34,918,036
	10,294,172		10,365,480		10,602,711		10,751,814		11,113,831
	44,921,639		46,323,804		48,219,018		49,996,451		51,431,094
	16,385,169		16,569,690		17,187,402		17,880,765		18,382,224
	2,849,864		2,830,615		3,081,188		4,375,432		7,296,839
	49,921,543		51,282,453		54,755,944		59,037,320		62,776,360
	145,278,339		150,570,269		165,050,017		177,014,427		184,399,899
	<b>\$ 456,492,945</b>		<b>\$ 477,347,985</b>		<b>\$ 520,568,055</b>		<b>\$ 558,387,249</b>		<b>\$ 586,839,617</b>

6.25%<sup>3</sup>

6.25%

6.25%

6.25%

6.50%<sup>4</sup>  
(concluded)

## Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2004 and 2012

### Personal Income Tax Filers and Liability by Income Level <sup>1</sup>

		2004			
		Number of Filers	Percent of Total	Tax Liability <sup>2</sup>	Percent of Total
Under	\$ 5,000 .....	1,046,035	7.6 %	\$ 6,556	0.0 %
	5,000 to 9,999 .....	1,127,452	8.2	8,732	0.0
	10,000 to 14,999 .....	1,182,376	8.5	23,624	0.1
	15,000 to 19,999 .....	1,155,257	8.4	56,241	0.2
	20,000 to 24,999 .....	1,000,292	7.2	117,178	0.3
	25,000 to 29,999 .....	946,276	6.8	194,776	0.5
	30,000 to 39,999 .....	1,478,641	10.7	571,029	1.6
	40,000 to 49,999 .....	1,192,237	8.6	861,190	2.4
	50,000 to 99,999 .....	2,960,452	21.4	5,502,410	15.2
	\$ 100,000 and over .....	1,743,792	12.6	28,751,605	79.7
<b>Total</b> .....		<b>13,832,810</b>	<b>100.0 %</b>	<b>\$ 36,093,341</b>	<b>100.0 %</b>

		2012			
		Number of Filers	Percent of Total	Tax Liability <sup>2</sup>	Percent of Total
Under	\$ 5,000 .....	1,099,380	7.2 %	\$ 17,845	0.0 %
	5,000 to 9,999 .....	1,168,312	7.7	10,997	0.0
	10,000 to 14,999 .....	1,258,123	8.3	15,843	0.0
	15,000 to 19,999 .....	1,211,517	8.0	37,876	0.1
	20,000 to 24,999 .....	1,073,926	7.1	77,303	0.1
	25,000 to 29,999 .....	947,288	6.2	134,924	0.2
	30,000 to 39,999 .....	1,529,957	10.1	440,170	0.7
	40,000 to 49,999 .....	1,143,878	7.5	636,952	1.1
	50,000 to 99,999 .....	3,188,832	21.0	5,488,062	9.2
	\$ 100,000 and over .....	2,578,523	16.9	53,055,134	88.6
<b>Total</b> .....		<b>15,199,736</b>	<b>100.0 %</b>	<b>\$ 59,915,106</b>	<b>100.0 %</b>

Source: California Franchise Tax Board

<sup>1</sup> For California resident tax returns. Calendar year 2012 is the most recent year for which data are available.

<sup>2</sup> Amounts are in thousands.

## For Calendar Years 2004 and 2013

### Sales Tax Permits and Tax Liability by Industry

	2004 (Using Business Codes) <sup>1</sup>			
	Number of Permits <sup>2</sup>	Percent of Total	Tax Liability <sup>3</sup>	Percent of Total
Retail:				
Apparel .....	39,018	3.7 %	\$ 890,250	3.4 %
General merchandise .....	15,543	1.5	2,831,825	10.8
Specialty .....	205,644	19.6	2,570,505	9.8
Food .....	24,885	2.4	1,040,853	4.0
Restaurant and bars .....	83,761	8.0	2,271,939	8.7
Household .....	32,371	3.1	861,281	3.3
Building materials .....	10,766	1.1	1,793,114	6.8
Automotive .....	35,828	3.4	5,435,265	20.7
Other .....	22,441	2.1	689,035	2.6
Business and personal service .....	103,873	9.9	1,171,106	4.4
All other .....	474,283	45.2	6,698,859	25.5
<b>Total .....</b>	<b>1,048,413</b>	<b>100.0 %</b>	<b>\$ 26,254,032</b>	<b>100.0 %</b>
	2013 (Using NAICS Codes) <sup>1</sup>			
	Number of Permits <sup>2</sup>	Percent of Total	Tax Liability <sup>3</sup>	Percent of Total
Retail and Food Services:				
Motor vehicle and parts dealers .....	32,324	3.3 %	\$ 4,419,118	11.6 %
Furniture and home furnishings stores .....	17,102	1.7	691,959	1.8
Electronics and appliance stores .....	21,062	2.1	959,757	2.5
Building materials, garden equipment & supplies .....	16,323	1.7	1,929,203	5.1
Food and beverage .....	31,132	3.3	1,643,798	4.3
Health and personal care stores .....	22,589	2.3	734,113	1.9
Gasoline stations .....	9,798	1.1	3,695,938	9.7
Clothing and clothing accessories stores .....	62,164	6.3	2,269,672	6.0
Sporting goods, hobby, book & music stores .....	26,732	2.7	722,399	1.9
General merchandise stores .....	15,031	1.5	3,343,023	8.8
Miscellaneous store retailers .....	112,346	11.4	1,194,845	3.1
Nonstore retailers .....	202,082	20.6	474,295	1.2
Food services and drinking places .....	96,594	9.8	4,080,463	10.7
All other outlets .....	316,477	32.2	11,985,993	31.4
<b>Total .....</b>	<b>981,756</b>	<b>100.0 %</b>	<b>\$ 38,144,576</b>	<b>100.0 %</b>

Source: California State Board of Equalization (BOE)

<sup>1</sup> Due to the BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and forward is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year the BOE used the new format with NAICS codes.

<sup>2</sup> As of July 1.

<sup>3</sup> Calculated by multiplying the taxable sales by industry shown on pages 234 and 235 by the direct sales tax rate. Amounts are in thousands.

## Schedule of Personal Income Tax Rates

### For Calendar Years 2004-2013

Married Filing Jointly and Surviving Spouse				
	2004	2005 <sup>1</sup>	2006	2007
Tax Rate <sup>2</sup>	Income Level	Income Level	Income Level	Income Level
1.0	Up to \$12,294	Up to \$12,638	Up to \$13,244	Up to \$13,654
2.0	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	13,654 – 32,370
4.0	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 – 51,088
6.0	45,994 – 63,850	47,282 – 65,638	49,552 – 68,788	51,088 – 70,920
8.0	63,850 – 80,692	65,638 – 82,952	68,788 – 86,934	70,920 – 89,628
9.3	\$80,692 and over	82,952 – 999,999	86,934 – 999,999	89,628 – 999,999
10.3	—	\$1 million and over	\$1 million and over	\$1 million and over
11.3	—	—	—	—
12.3	—	—	—	—
13.3	—	—	—	—
Single and Married Filing Separately				
	2004	2005 <sup>1</sup>	2006	2007
Tax Rate <sup>2</sup>	Income Level	Income Level	Income Level	Income Level
1.0	Up to \$6,147	Up to \$6,319	Up to \$6,622	Up to \$6,827
2.0	6,147 – 14,571	6,319 – 14,979	6,622 – 15,698	6,827 – 16,185
4.0	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544
6.0	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460
8.0	31,925 – 40,346	32,819 – 41,476	34,394 – 43,467	35,460 – 44,814
9.3	\$40,346 and over	41,476 – 999,999	43,467 – 999,999	44,814 – 999,999
10.3	—	\$1 million and over	\$1 million and over	\$1 million and over
11.3	—	—	—	—
12.3	—	—	—	—
13.3	—	—	—	—
Head of Household				
	2004	2005 <sup>1</sup>	2006	2007
Tax Rate <sup>2</sup>	Income Level	Income Level	Income Level	Income Level
1.0	Up to \$12,300	Up to \$12,644	Up to \$13,251	Up to \$13,662
2.0	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370
4.0	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728
6.0	37,567 – 46,494	38,619 – 47,796	40,473 – 50,090	41,728 – 51,643
8.0	46,494 – 54,918	47,796 – 56,456	50,090 – 59,166	51,643 – 61,000
9.3	\$54,918 and over	56,456 – 999,999	59,166 – 999,999	61,000 – 999,999
10.3	—	\$1 million and over	\$1 million and over	\$1 million and over
11.3	—	—	—	—
12.3	—	—	—	—
13.3	—	—	—	—

Source: California Franchise Tax Board (FTB)

<sup>1</sup> Beginning in 2005, there is an additional tax of 1% on taxable income over \$1 million for the expansion of mental health services.

<sup>2</sup> FTB tax brackets are indexed to the California Consumer Price Index and are adjusted accordingly on a yearly basis.

### Average Effective Rate

(amounts in thousands)

	2004	2005	2006	2007
Personal income tax revenue <sup>1</sup> .....	\$ 37,722,839	\$ 42,595,352	\$ 50,798,418	\$ 53,289,524
Adjusted gross income <sup>2</sup> .....	\$ 841,229,496	\$ 932,142,017	\$ 990,695,484	\$ 1,059,967,500
Average effective rate <sup>3</sup> .....	4.5%	4.6%	5.1%	5.0%

<sup>1</sup> Personal income tax revenue is reported on a fiscal year basis.

<sup>2</sup> Source: California Franchise Tax Board. Fiscal year 2013 information reflects returns processed as of December 2014.

<sup>3</sup> The average effective rate equals personal income tax revenue divided by adjusted gross income.



Married Filing Jointly and Surviving Spouse					
2008	2009	2010	2011	2012	2013
Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
Up to \$14,336	Up to \$14,120	Up to \$14,248	Up to \$14,632	Up to \$14,910	Up to \$15,164
14,336 – 33,988	14,120 – 33,478	14,248 – 33,780	14,632 – 34,692	14,910 – 35,352	15,164 – 35,952
33,988 – 53,642	33,478 – 52,838	33,780 – 53,314	34,692 – 54,754	35,352 – 55,794	35,952 – 56,742
53,642 – 74,466	52,838 – 73,350	53,314 – 74,010	54,754 – 76,008	55,794 – 77,452	56,742 – 78,768
74,466 – 94,110	73,350 – 92,698	74,010 – 93,532	76,008 – 96,058	77,452 – 97,884	78,768 – 99,548
94,110 – 999,999	92,698 – 999,999	93,532 – 999,999	96,058 – 999,999	97,884 – 500,000	99,548 – 508,500
\$1 million and over	\$1 million and over	\$1 million and over	\$1 million and over	500,000 – 600,000	508,500 – 610,200
—	—	—	—	600,000 – 999,999	610,200 – 999,999
—	—	—	—	\$1 million and over	1,000,000 – 1,017,000
—	—	—	—	—	\$1,017,000 and over

Single and Married Filing Separately					
2008	2009	2010	2011	2012	2013
Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
Up to \$7,168	Up to \$7,060	Up to \$7,124	Up to \$7,316	Up to \$7,455	Up to \$7,582
7,168 – 16,994	7,060 – 16,739	7,124 – 16,890	7,316 – 17,346	7,455 – 17,676	7,582 – 17,976
16,994 – 26,821	16,739 – 26,419	16,890 – 26,657	17,346 – 27,377	17,676 – 27,897	17,976 – 28,371
26,821 – 37,233	26,419 – 36,675	26,657 – 37,005	27,377 – 38,004	27,897 – 38,726	28,371 – 39,384
37,233 – 47,055	36,675 – 46,349	37,005 – 46,766	38,004 – 48,029	38,726 – 48,942	39,384 – 49,774
47,055 – 999,999	46,349 – 999,999	46,766 – 999,999	48,029 – 999,999	48,942 – 250,000	49,774 – 254,250
\$1 million and over	\$1 million and over	\$1 million and over	\$1 million and over	250,000 – 300,000	254,250 – 305,100
—	—	—	—	300,000 – 500,000	305,100 – 508,500
—	—	—	—	\$500,000 and over	508,500 – 999,999
—	—	—	—	—	\$1 million and over

Head of Household					
2008	2009	2010	2011	2012	2013
Income Level	Income Level	Income Level	Income Level	Income Level	Income Level
Up to \$14,345	Up to \$14,130	Up to \$14,257	Up to \$14,642	Up to \$14,920	Up to \$15,174
14,345 – 33,989	14,130 – 33,479	14,257 – 33,780	14,642 – 34,692	14,920 – 35,351	15,174 – 35,952
33,989 – 43,814	33,479 – 43,157	33,780 – 43,545	34,692 – 44,721	35,351 – 45,571	35,952 – 46,346
43,814 – 54,225	43,157 – 53,412	43,545 – 53,893	44,721 – 55,348	45,571 – 56,400	46,346 – 57,359
54,225 – 64,050	53,412 – 63,089	53,893 – 63,657	55,348 – 65,376	56,400 – 66,618	57,359 – 67,751
64,050 – 999,999	63,089 – 999,999	63,657 – 999,999	65,376 – 999,999	66,618 – 340,000	67,751 – 345,780
\$1 million and over	\$1 million and over	\$1 million and over	\$1 million and over	340,000 – 408,000	345,780 – 414,936
—	—	—	—	408,000 – 680,000	414,936 – 691,560
—	—	—	—	\$680,000 and over	691,560 – 999,999
—	—	—	—	—	\$1 million and over

2008	2009	2010	2011	2012	2013
\$ 55,197,062	\$ 45,482,726	\$ 43,884,798	\$ 51,691,153	\$ 54,442,733	\$ 66,220,132
\$ 972,420,100	\$ 881,160,200	\$ 939,888,500	\$ 980,167,100	\$ 1,087,823,400	\$ 1,091,080,300
5.7%	5.2%	4.7%	5.3%	5.0%	6.1%

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# Debt Capacity

*Debt capacity* schedules contain information to help the reader understand the State's outstanding debt, the capacity to repay that debt, and the ability to issue additional debt in the future. This section includes the following debt capacity schedules.

Schedule of Ratios of Outstanding Debt by Type

Schedule of Ratios of General Bonded Debt Outstanding

Schedule of General Obligation Bonds Outstanding

Schedule of Pledged Revenue Coverage

Sources: Unless otherwise noted, the information in the following schedules is derived from the State's Comprehensive Annual Financial Reports.

## Schedule of Ratios of Outstanding Debt by Type

### For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Governmental activities</b>				
General obligation bonds <sup>1</sup> .....	\$ 45,541,417	\$ 47,003,817	\$ 50,269,442	\$ 56,424,532
Revenue bonds <sup>2</sup> .....	8,068,980	7,300,638	8,009,784	7,811,832
Certificates of participation and commercial paper .....	752,013	923,890	1,358,051	1,736,089
Capital lease obligations <sup>3</sup> .....	3,918,560	4,466,828	4,346,179	4,376,410
<b>Total governmental activities</b> .....	<b><u>58,280,970</u></b>	<b><u>59,695,173</u></b>	<b><u>63,983,456</u></b>	<b><u>70,348,863</u></b>
<b>Business-type activities</b>				
General obligation bonds <sup>1</sup> .....	2,090,105	1,963,305	1,954,220	1,907,243
Revenue bonds <sup>2</sup> .....	22,943,536	22,812,509	22,934,094	23,003,097
Certificates of participation and commercial paper .....	51,093	231,121	179,782	67,204
Capital lease obligations .....	—	—	—	—
<b>Total business-type activities</b> .....	<b><u>25,084,734</u></b>	<b><u>25,006,935</u></b>	<b><u>25,068,096</u></b>	<b><u>24,977,544</u></b>
<b>Total primary government</b> .....	<b><u>\$ 83,365,704</u></b>	<b><u>\$ 84,702,108</u></b>	<b><u>\$ 89,051,552</u></b>	<b><u>\$ 95,326,407</u></b>
Debt as a percentage of personal income <sup>4</sup> .....	6.4%	6.1%	6.0%	6.1%
Amount of debt per capita <sup>5</sup> .....	\$ 2,332	\$ 2,354	\$ 2,457	\$ 2,608

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

<sup>1</sup> Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

<sup>2</sup> Prior to fiscal year 2014, the Public Buildings Construction Fund was included in business-type activities.

<sup>3</sup> Prior to fiscal year 2014, governmental activities reported a capital lease obligation to the Public Buildings Construction Fund. In fiscal year 2014, the fund was reclassified from an enterprise fund to an internal service fund and the governmental activities' obligation and the fund's net investment in direct financing leases were netted against each other within governmental activities.

<sup>4</sup> Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

<sup>5</sup> Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 68,653,507	\$ 77,745,789	\$ 79,469,085	\$ 81,060,111	\$ 82,346,211	\$ 83,276,347
7,767,855	7,611,939	7,511,092	7,421,198	7,735,053	18,917,443
1,407,908	1,342,119	1,335,340	46,098	538,593	598,094
4,456,039	4,967,290	4,882,233	5,176,341	5,319,487	260,088
<b>82,285,309</b>	<b>91,667,137</b>	<b>93,197,750</b>	<b>93,703,748</b>	<b>95,939,344</b>	<b>103,051,972</b>
1,702,377	1,477,663	1,218,639	1,118,634	887,053	674,192
23,053,114	24,538,094	23,290,315	24,790,918	25,558,129	12,989,916
51,307	64,518	139,974	67,325	77,560	204,647
—	—	791,489	817,687	909,871	1,250,274
<b>24,806,798</b>	<b>26,080,275</b>	<b>25,440,417</b>	<b>26,794,564</b>	<b>27,432,613</b>	<b>15,119,029</b>
<b>\$ 107,092,107</b>	<b>\$ 117,747,412</b>	<b>\$ 118,638,167</b>	<b>\$ 120,498,312</b>	<b>\$ 123,371,957</b>	<b>\$ 118,171,001</b>
6.7%	7.8%	7.6%	7.3%	7.0%	6.4%
\$ 2,906	\$ 3,176	\$ 3,180	\$ 3,207	\$ 3,258	\$ 3,096

## Schedule of Ratios of General Bonded Debt Outstanding

### For the Past Ten Fiscal Years

(amounts in thousands, except per capita)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>Net general bonded debt</b>				
General obligation bonds <sup>1</sup> .....	\$ 36,735,442	\$ 39,034,092	\$ 43,234,702	\$ 47,828,805
Economic Recovery bonds .....	10,896,080	9,933,030	8,988,960	10,502,970
Less: restricted debt service fund .....	—	212,883	792,841	552,326
Net Economic Recovery bonds .....	<b>10,896,080</b>	<b>9,720,147</b>	<b>8,196,119</b>	<b>9,950,644</b>
<b>Net general bonded debt</b> .....	<b><u>\$ 47,631,522</u></b>	<b><u>\$ 48,754,239</u></b>	<b><u>\$ 51,430,821</u></b>	<b><u>\$ 57,779,449</u></b>
 Net general bonded debt as a percentage of personal income <sup>2</sup> .....	3.6%	3.5%	3.4%	3.7%
 Amount of net general bonded debt per capita <sup>3</sup> .....	\$ 1,332	\$ 1,355	\$ 1,419	\$ 1,581

Note: Details regarding the State's general bonded debt outstanding can be found in Note 15 of the financial statements.

<sup>1</sup> Prior to fiscal year 2008, net unamortized bond premiums and refunding gains/losses were not included. Beginning in fiscal year 2013, refunding gains/losses are no longer included in bonds payable, but are shown as deferred inflows and deferred outflows of resources.

<sup>2</sup> Ratio calculated using personal income data shown on pages 252 and 253 for the prior calendar year.

<sup>3</sup> Amount calculated using population data shown on pages 252 and 253 for the prior calendar year.

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$ 61,724,439	\$ 71,284,447	\$ 73,516,674	\$ 75,791,795	\$ 78,001,049	\$ 79,368,794
8,631,445	7,939,005	7,171,050	6,386,950	5,232,215	4,581,745
894	113,172	143,777	330,297	278,425	318,171
<b>8,630,551</b>	<b>7,825,833</b>	<b>7,027,273</b>	<b>6,056,653</b>	<b>4,953,790</b>	<b>4,263,574</b>
<b>\$ 70,354,990</b>	<b>\$ 79,110,280</b>	<b>\$ 80,543,947</b>	<b>\$ 81,848,448</b>	<b>\$ 82,954,839</b>	<b>\$ 83,632,368</b>
4.4%	5.2%	5.1%	5.0%	4.7%	4.5%
\$ 1,909	\$ 2,134	\$ 2,159	\$ 2,179	\$ 2,190	\$ 2,191

## Schedule of General Obligation Bonds Outstanding

**June 30, 2014**

(amounts in thousands)

**Governmental activity**

California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection .....	\$ 2,181,915
California Library Construction and Renovation .....	292,045
California Park and Recreational Facilities .....	13,525
California Parklands .....	2,960
California Safe Drinking Water .....	59,340
California Stem Cell Research and Cures .....	1,453,770
California Wildlife, Coastal, and Park Land Conservation .....	124,555
Children’s Hospital .....	1,201,280
Class Size Reduction Public Education Facilities .....	6,003,820
Clean Air and Transportation Improvement .....	838,975
Clean Water .....	11,255
Clean Water and Water Conservation .....	4,820
Clean Water and Water Reclamation .....	21,970
Community Parklands .....	3,135
County Correctional Facility Capital Expenditure .....	17,535
County Correctional Facility Capital Expenditure and Youth Facility .....	79,935
Disaster Preparedness and Flood Prevention .....	2,231,645
Earthquake Safety and Public Building Rehabilitation .....	87,190
Economic Recovery .....	4,581,745
Fish and Wildlife Habitat Enhancement .....	5,395
Higher Education Facilities .....	424,595
Highway Safety, Traffic Reduction, Air Quality, and Port Security .....	13,248,140
Housing Emergency Shelter .....	2,518,785
Housing and Homeless .....	1,755
Kindergarten-University Public Education Facilities .....	31,350,575
Lake Tahoe Acquisitions .....	300
New Prison Construction .....	42,890
Passenger Rail and Clean Air .....	58,800
Public Education Facilities .....	1,504,030
Safe, Clean, Reliable Water Supply .....	578,960
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection .....	1,444,740
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection .....	2,394,965
Safe Neighborhood Parks .....	1,551,415
Safe, Reliable High-Speed Passenger Train .....	623,705
School Building and Earthquake .....	15,970
School Facilities .....	1,195,840
Seismic Retrofit .....	1,217,410
State, Urban, and Coastal Park .....	4,305
Veterans’ Homes .....	35,205
Voting Modernization .....	36,305
Water Conservation .....	24,245
Water Conservation and Water Quality .....	34,940
Water Security, Clean Drinking Water, Coastal and Beach Protection .....	2,771,185
<b>Total governmental activity .....</b>	<b>80,295,870</b>

**Business-type activity**

California Water Resources Development .....	241,835
Veterans Farm and Home Building .....	433,645
<b>Total business-type activity .....</b>	<b>675,480</b>

**Total outstanding general obligation bonds .....** **80,971,350**

Unamortized bond premium .....

**Total general obligation bonds payable .....** **\$ 83,950,539**

Source: California State Treasurer’s Office



## Schedule of Pledged Revenue Coverage

### For the Past Ten Fiscal Years

(amounts in thousands)

	June 30	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements <sup>3</sup>			Coverage
					Principal	Interest	Total	
Housing Loans	2005	\$ 121,063	\$ 27,687	\$ 93,376	\$ 90,970	\$ 34,813	\$ 125,783	0.74
	2006	127,733	25,654	102,079	25,715	34,949	60,664	1.68
	2007	130,128	19,062	111,066	292,461	33,959	326,420	0.34
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
	2012	84,830	20,322	64,508	88,105	24,914	113,019	0.57
	2013	66,050	18,369	47,681	51,554	16,271	67,825	0.70
	2014	65,247	19,452	45,795	47,620	14,926	62,546	0.73
Water Resources	2005	\$ 750,282	\$ 501,225	\$ 249,057	\$ 56,645	\$ 54,246	\$ 110,891	2.25
	2006	949,691	721,541	228,150	55,461	49,785	105,246	2.17
	2007	951,590	694,060	257,530	70,860	123,376	194,236	1.33
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	117,668	226,538	0.95
	2012	1,045,812	852,404	193,408	116,150	121,804	237,954	0.81
	2013	1,127,195	822,637	304,558	124,155	145,660	269,815	1.13
	2014	973,508	798,653	174,855	114,775	107,727	222,502	0.78
Water Pollution Control	2005	\$ 55,218	\$ 4,082	\$ 51,136	\$ 21,425	\$ 10,424	\$ 31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47
	2012	50,183	2,849	47,334	24,285	4,984	29,269	1.62
	2013	51,642	1,055	50,587	45,755	533	46,288	1.09
	2014	54,968	1,739	53,229	13,000	355	13,355	3.99

(continued)

Source: California State Controllers's Office

<sup>1</sup> Total gross revenue includes non-operating interest revenue. Building authorities' revenue includes operating transfers in. The nature of the revenue pledged for each type of debt is as follows: investment and interest earnings for Housing Loans bonds and Water Pollution Control bonds; charges for services and sales for Water Resources bonds; power sales revenue for Electric Power bonds; rental revenue for Public Buildings Construction bonds, High Technology Education bonds, CSU Channel Island Financing Authority bonds, and building authorities bonds; residence fees for California State University bonds; tobacco settlements and investment earnings for the Golden State Tobacco Securitization Corporation bonds; and federal transportation funds for Grant Anticipation Revenue Vehicles.

<sup>2</sup> Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of long-term prepaid charges. Prior to fiscal year 2012, bond issuance costs were amortized over the term of the bond. Beginning fiscal year 2012, bond issuance costs are operating expenses in the fiscal year incurred.

<sup>3</sup> Debt service requirements include principal and interest of revenue bonds.

<sup>4</sup> All revenue bonds have been redeemed.

<sup>5</sup> In fiscal year 2011, the California State University Fund was reclassified from a governmental fund to an enterprise fund.

<sup>6</sup> Federal transportation funds are the only source of state revenue to pay these bonds, and the state obligation to pay debt service on these bonds is limited to and dependent on receipt of the federal funds.

## Schedule of Pledged Revenue Coverage (continued)

### For the Past Ten Fiscal Years

(amounts in thousands)

	June 30	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements <sup>3</sup>			Coverage
					Principal	Interest	Total	
Electric Power	2005	\$ 5,655,000	\$ 4,714,000	\$ 941,000	\$ 388,000	\$ 480,000	\$ 868,000	1.08
	2006	5,342,000	4,370,000	972,000	436,000	466,000	902,000	1.08
	2007	5,865,000	4,843,000	1,022,000	447,000	448,000	895,000	1.14
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
	2012	915,000	29,000	886,000	556,000	354,000	910,000	0.97
	2013	488,000	(408,000)	896,000	574,000	341,000	915,000	0.98
	2014	835,000	(46,000)	881,000	611,000	312,000	923,000	0.95
Public Buildings Construction	2005	\$ 315,718	\$ 13,837	\$ 301,881	\$ 290,210	\$ 279,474	\$ 569,684	0.53
	2006	384,442	9,832	374,610	332,345	318,098	650,443	0.58
	2007	396,895	3,699	393,196	365,953	324,246	690,199	0.57
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
	2012	426,960	13,211	413,749	405,585	384,400	789,985	0.52
	2013	616,041	13,479	602,562	554,985	395,073	950,058	0.63
	2014	431,890	14,403	417,487	412,085	439,888	851,973	0.49
High Technology Education <sup>4</sup>	2005	\$ 36,737	\$ 3,107	\$ 33,630	\$ 37,060	\$ 30,387	\$ 67,447	0.50
	2006	26,508	2,489	24,019	36,910	19,422	56,332	0.43
	2007	22,966	1,514	21,452	25,624	21,062	46,686	0.46
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
	2012	8,452	—	8,452	21,105	7,754	28,859	0.29
	2013	5,585	—	5,585	22,275	6,568	28,843	0.19
	2014	424	—	424	24,771	847	25,618	0.02
California State University <sup>5</sup>	2005	\$ 395,396	\$ 302,275	\$ 93,121	\$ 90,025	\$ 52,696	\$ 142,721	0.65
	2006	512,231	303,261	208,970	109,354	91,876	201,230	1.04
	2007	554,851	689,223	(134,372)	99,598	31,149	130,747	(1.03)
	2008	640,209	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)
	2012	4,165,118	5,770,880	(1,605,762)	138,535	174,914	313,449	(5.12)
	2013	4,215,258	5,754,800	(1,539,542)	99,340	181,969	281,309	(5.47)
	2014	4,505,589	6,376,502	(1,870,913)	89,453	173,424	262,877	(7.11)

	June 30	Gross Revenue <sup>1</sup>	Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service Requirements <sup>3</sup>			
					Principal	Interest	Total	Coverage
CSU Channel	2005	\$ 8,149	\$ 10	\$ 8,139	\$ —	\$ 5,541	\$ 5,541	1.47
Island Financing Authority <sup>4</sup>	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	2005	\$ 86,624	\$ —	\$ 86,624	\$ 42,296	\$ 38,994	\$ 81,290	1.07
	2006	94,985	—	94,985	43,862	81,253	125,115	0.76
	2007	81,342	68	81,274	45,437	29,228	74,665	1.09
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
	2012	57,386	—	57,386	36,473	22,889	59,362	0.97
	2013	53,441	—	53,441	38,400	18,390	56,790	0.94
	2014	53,157	—	53,157	39,895	29,882	69,777	0.76
Golden State Tobacco Securitization Corporation	2005	\$ 427,159	\$ 305	\$ 426,854	\$ 55,500	\$ 330,652	\$ 386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
	2012	368,853	—	368,853	65,765	312,815	378,580	0.97
	2013	555,392	—	555,392	623,510	308,056	931,566	0.60
	2014	355,918	—	355,918	50,910	325,884	376,794	0.94
Toll Bridge Seismic Retrofit <sup>4</sup>	2005	\$ 131,791	\$ 97,386	\$ 34,405	\$ —	\$ 28,615	\$ 28,615	1.20
Grant Anticipation Revenue Vehicles <sup>6</sup>	2005	\$ 65,134	\$ —	\$ 65,134	\$ 41,545	\$ 23,589	\$ 65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00
	2012	84,290	—	84,290	67,730	16,560	84,290	1.00
	2013	84,296	—	84,296	70,990	13,306	84,296	1.00
	2014	84,289	—	84,289	74,400	9,889	84,289	1.00

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# Demographic and Economic Information

The *demographic and economic* schedules contain trend information to help the reader understand the environment in which the State's financial activities occur. This section includes the following demographic and economic schedules.

Schedule of Demographic and Economic Indicators

Schedule of Employment by Industry

## Schedule of Demographic and Economic Indicators

### For the Past Ten Calendar Years

	2004	2005	2006	2007
<b>Population (in thousands)</b>				
California <sup>1</sup> .....	35,753	35,986	36,247	36,553
% Change .....	1.0%	0.7%	0.7%	0.8%
United States <sup>1</sup> .....	293,046	295,753	298,593	301,580
% Change .....	0.9%	0.9%	1.0%	1.0%
<b>Total personal income (in millions)</b>				
California .....	\$ 1,312,227	\$ 1,387,661	\$ 1,495,533	\$ 1,566,400
% Change .....	6.4%	5.7%	7.8%	4.7%
United States .....	\$ 9,928,790	\$ 10,476,669	\$ 11,256,516	\$ 11,900,562
% Change .....	6.0%	5.5%	7.4%	5.7%
<b>Per capita personal income</b>				
California <sup>2</sup> .....	\$ 36,703	\$ 38,561	\$ 41,259	\$ 42,853
% Change .....	5.3%	5.1%	7.0%	3.9%
United States <sup>2</sup> .....	\$ 33,881	\$ 35,424	\$ 37,699	\$ 39,461
% Change .....	5.0%	4.6%	6.4%	4.7%
<b>Labor force and employment (in thousands)</b>				
California				
Civilian labor force .....	17,444	17,545	17,687	17,921
Employed .....	16,355	16,592	16,821	16,961
Unemployed .....	1,090	953	865	960
Unemployment rate .....	6.2%	5.4%	4.9%	5.4%
United States employment rate .....	5.5%	5.1%	4.6%	4.6%

Source: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, California Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

<sup>1</sup> Some prior years were updated based on more current information.

<sup>2</sup> Calculated by dividing total personal income by population.

<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
36,856	37,077	37,309	37,570	37,867	38,164
0.8%	0.6%	0.6%	0.7%	0.8%	0.8%
304,375	307,007	309,326	311,583	313,874	316,129
0.9%	0.9%	0.8%	0.7%	0.7%	0.7%
\$ 1,610,698	\$ 1,516,677	\$ 1,564,209	\$ 1,645,138	\$ 1,768,039	\$ 1,856,614
2.8%	(5.8%)	3.1%	5.2%	7.5%	5.0%
\$ 12,451,660	\$ 11,852,715	\$ 12,308,496	\$ 12,949,905	\$ 13,729,063	\$ 14,151,427
4.6%	(4.8%)	3.8%	5.2%	6.0%	3.1%
\$ 43,702	\$ 40,906	\$ 41,926	\$ 43,789	\$ 46,477	\$ 48,434
2.0%	(6.4%)	2.5%	4.4%	6.1%	4.2%
\$ 40,909	\$ 38,607	\$ 39,791	\$ 41,560	\$ 43,735	\$ 44,765
3.7%	(5.6%)	3.1%	4.4%	5.2%	2.4%
18,203	18,208	18,316	18,385	18,511	18,573
16,890	16,145	16,052	16,227	16,740	17,044
1,313	2,064	2,265	2,158	1,771	1,530
7.2%	11.3%	12.4%	11.7%	9.6%	8.2%
5.8%	9.3%	9.6%	8.9%	8.1%	7.4%

## Schedule of Employment by Industry

For Calendar Years 2004 and 2013

Industry	2004		2013	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Services .....	5,798,400	38.3 %	6,824,500	43.7 %
Government				
Federal .....	195,400	1.3	185,400	1.2
Military .....	55,600	0.4	60,100	0.4
State and Local .....	2,146,700	14.2	2,124,600	13.7
Retail trade .....	1,617,800	10.7	1,601,400	10.3
Manufacturing .....	1,523,400	10.1	1,250,900	8.0
Information, finance, and insurance .....	1,101,200	7.3	974,300	6.3
Construction and utilities .....	906,500	6.0	695,200	4.5
Wholesale trade .....	653,000	4.3	697,400	4.5
Transportation and warehousing .....	426,700	2.8	444,700	2.9
Farming .....	386,400	2.6	411,400	2.6
Real estate .....	276,400	1.8	258,400	1.7
Natural resources and mining .....	22,800	0.2	30,600	0.2
<b>Total .....</b>	<b>15,110,300</b>	<b>100.0 %</b>	<b>15,558,900</b>	<b>100.0 %</b>

Source: Labor Market Information Division, California Employment Development Department



# Operating Information

The *operating information* schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules.

Schedule of Full-time Equivalent State Employees by Function

Schedule of Operating Indicators by Function

Schedule of Capital Asset Statistics by Function

## Schedule of Full-Time Equivalent State Employees by Function

### For the Past Ten Fiscal Years

Fiscal Year	General	Education	Health and Human	Resources	State and Consumer	Business, Transportation, and Housing	Correctional Programs	Total
	Government		Services		Services			
2005	19,884	119,162	50,490	18,935	15,023	41,450	48,740	313,684
2006	20,336	121,973	49,569	19,076	15,126	41,342	50,171	317,593
2007	21,035	134,974	49,533	19,677	15,530	41,314	53,321	335,384
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,960

Fiscal Year	General <sup>1</sup>	Education	Health and Human	Resources	Business, <sup>1</sup> Consumer Services, and Housing	Transportation <sup>1</sup>	Correctional Programs	Total
	Government		Services					
2012	44,673	131,039	46,431	24,199	6,236	41,758	62,472	356,808
2013 <sup>2</sup>	43,241	132,492	43,431	23,796	5,395	39,222	58,742	346,319
2014	43,858	136,244	44,343	24,156	5,409	39,015	60,871	353,896

Source: Annual Governor’s Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by counting each person who works full time as one full-time equivalent and those who work part time as fractional equivalents based on time worked.

<sup>1</sup> Effective July 1, 2013, under the Governor’s 2012 Reorganization Plan No. 2, a significant reorganization took place that impacted previously reported functions. The Government Operations Agency, including but not limited to Franchise Tax Board, Department of General Services, and the Public Employees’ Retirement System, was created and added to the General Government function. Also, the business and housing components under the previously reported Business, Transportation, and Housing function merged with the State and Consumer Services function and the remaining transportation components now comprise the Transportation Agency. Information reported under the new functions are not comparable to that of prior years.

<sup>2</sup> Some amounts were updated based on more current information.

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## Schedule of Operating Indicators by Function

### For the Past Ten Fiscal Years

	2005	2006	2007	2008
<b>General Government</b>				
<b>State Lottery</b>				
Total revenue <sup>1</sup> .....	\$ 3,334	\$ 3,585	\$ 3,318	\$ 3,050
Allocation to Education Fund <sup>1</sup> .....	\$ 1,149	\$ 1,259	\$ 1,177	\$ 1,069
<b>Judicial Council of California</b>				
Supreme Court <sup>2, 10</sup>				
Cases filed .....	8,990	9,261	8,988	10,521
Cases disposed .....	8,535	9,878	9,247	10,440
Courts of Appeal				
Notices of appeal filed <sup>3, 10</sup>				
Civil .....	6,142	6,018	6,116	5,913
Criminal .....	6,312	6,516	6,508	6,681
Juvenile .....	2,626	2,715	2,880	2,900
Trial Courts				
Total civil cases <sup>4, 10</sup>				
Filings .....	1,426,822	1,418,722	1,462,820	1,582,092
Dispositions .....	1,304,924	1,267,534	1,286,736	1,280,184
<b>Department of Food and Agriculture</b>				
Milk production (million lbs.) <sup>5, 10</sup> .....	37,564	38,830	40,683	41,203
Farm land (thousand acres) <sup>5, 10</sup> .....	25,900	25,700	25,400	25,400
<b>Education</b>				
<b>Public Colleges and Universities</b>				
Fall enrollment <sup>10</sup>				
Community Colleges <sup>10</sup> .....	1,607,458	1,644,104	1,723,782	1,823,736
California State University .....	405,282	417,156	433,017	437,008
University of California <sup>10</sup> .....	209,080	214,298	220,034	226,040
<b>K-12 Schools</b>				
Fall enrollment				
Public .....	6,322,217	6,312,103	6,286,943	6,275,469
Private .....	591,056	594,597	583,794	564,734

Source: California State Lottery; Judicial Council of California; U.S. Department of Agriculture, National Agricultural Statistics Service; California Departments of the California Highway Patrol, Finance, Fish and Wildlife, Education, Public Health, Motor Vehicles, Transportation, and Corrections and Rehabilitation; Employment Development Department; California Energy Commission; and Franchise Tax Board.

<sup>1</sup> Dollars in millions.

<sup>2</sup> Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and State Bar matters.

<sup>3</sup> Includes only one notice of appeal per case.

<sup>4</sup> Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.

<sup>5</sup> Data based on calendar year.

<sup>6</sup> Total nonfarm and farm.

<sup>7</sup> Items reported by license year as of December 2014.

<sup>8</sup> Data compiled from a 10% sample of California licensed drivers.

<sup>9</sup> A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.

<sup>10</sup> Some prior years were updated based on more current information.

<sup>11</sup> Projected

N/A=Not available

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
\$	2,955	\$ 3,041	\$ 3,439	\$ 4,371	\$ 4,446	\$ 5,035
\$	1,028	\$ 1,072	\$ 1,103	\$ 1,300	\$ 1,262	\$ 1,328
	9,274	9,562	10,145	9,237	7,813	N/A
	9,513	9,439	10,063	9,739	8,269	N/A
	5,958	6,122	6,258	6,505	6,052	N/A
	6,819	6,857	6,877	6,387	6,004	N/A
	2,858	2,759	2,106	2,830	2,713	N/A
	1,729,648	1,647,817	1,574,569	1,454,810	1,352,964	N/A
	1,537,243	1,530,502	1,599,388	1,432,231	1,322,639	N/A
	39,512	40,385	41,462	41,801	41,256	N/A
	25,400	25,400	25,400	25,600	25,500	N/A
	1,822,839	1,747,236	1,655,077	1,582,308	1,582,443	N/A
	433,054	412,372	426,534	436,560	446,530	N/A
	231,853	234,464	236,691	238,686	244,126	N/A
	6,252,011	6,190,425	6,217,002	6,220,993	6,226,989	6,236,672
	536,393	531,111	515,143	497,019	516,119	511,286
						(continued)

## Schedule of Operating Indicators by Function (continued)

### For the Past Ten Fiscal Years

	2005	2006	2007	2008
<b>Health and Human Services</b>				
<b>Department of Public Health</b>				
Vital statistics				
Live births <sup>5,10</sup> .....	548,700	562,157	566,137	551,567
<b>Department of Social Services</b>				
Total Food Stamp households (avg. per month) .....	792,617	809,782	823,335	892,992
<b>Employment Development Department</b>				
Number of employed <sup>5, 6, 10</sup> .....	15,440,600	15,613,300	15,691,100	15,142,000
<b>Resources</b>				
<b>Department of Fish and Wildlife</b>				
Sport fishing licenses sold <sup>7, 10</sup> .....	2,870,727	2,924,325	3,003,783	2,857,236
Hunting licenses sold <sup>7, 10</sup> .....	1,625,078	1,655,760	1,718,657	1,670,190
<b>California Energy Commission</b>				
Electrical energy generation plus net imports (gigawatt hours) <sup>10</sup> .....	289,177	298,454	304,823	307,448
<b>State and Consumer Services</b>				
<b>Franchise Tax Board</b>				
Personal Income Tax <sup>5, 10</sup>				
Number of tax returns filed .....	14,087,896	14,382,677	15,016,273	14,806,335
Taxable income <sup>1</sup> .....	\$ 767,877	\$ 812,008	\$ 872,869	\$ 799,490
Total tax liability <sup>1</sup> .....	\$ 43,131	\$ 45,716	\$ 49,693	\$ 41,676
Corporation Tax <sup>5</sup>				
Number of tax returns filed .....	651,060	684,363	709,937	722,358
Income reported for taxation <sup>1</sup> .....	\$ 115,474	\$ 140,325	\$ 121,843	\$ 67,921
Total tax liability <sup>1</sup> .....	\$ 8,680	\$ 9,992	\$ 9,414	\$ 9,106
<b>Business and Transportation</b>				
<b>Department of Motor Vehicles</b>				
Motor vehicle registration .....	33,363,963	33,882,029	32,047,124	31,920,649
License issued by age <sup>5, 8</sup>				
Under age 18 .....	277,168	268,199	262,415	244,481
Between 18-80 .....	22,155,604	22,450,786	22,804,927	22,922,361
Over age 80 .....	494,577	518,102	562,518	552,150
<b>California Highway Patrol</b>				
Total number of DUI arrests <sup>5, 10</sup> .....	89,946	94,251	92,270	97,019
<b>Department of Transportation</b>				
Highway center-line miles – rural <sup>5, 9</sup> .....	11,090	10,821	10,830	10,811
Highway center-line miles – urban <sup>5, 9</sup> .....	4,123	4,422	4,439	4,393
<b>Correctional Programs</b>				
<b>Department of Corrections and Rehabilitation</b>				
Division of Adult Institutions				
Institution population at December 31 each year .....	166,723	171,310	170,452	170,283
Division of Juvenile Justice				
Institution population at June 30 each year .....	3,348	2,962	2,531	1,877

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
526,774	509,979	502,023	503,788	494,390	500,748 <sup>11</sup>
1,067,358	1,340,857	1,576,042	1,757,387	1,898,283	2,004,016
14,326,300	14,476,400	14,614,600	15,240,400	16,109,200	N/A
2,838,776	2,410,008	2,483,680	2,580,762	2,539,244	2,485,293
1,679,864	1,677,864	1,863,200	1,988,753	2,032,792	1,912,151
299,101	291,310	293,875	302,113	296,569	N/A
14,638,204	14,814,427	15,042,359	15,152,800	15,487,100	N/A
\$ 729,658	\$ 794,758	\$ 838,347	\$ 948,523	\$ 949,655	N/A
\$ 38,870	\$ 44,472	\$ 43,921	\$ 58,652	\$ 55,679	N/A
727,675	738,224	754,315	784,086	N/A	N/A
\$ 55,367	\$ 96,965	\$ 93,456	\$ 96,772	N/A	N/A
\$ 7,858	\$ 8,604	\$ 7,808	\$ 6,921	N/A	N/A
31,799,398	31,987,821	31,802,483	31,946,422	32,903,847	N/A
229,545	218,997	227,069	224,809	221,385	N/A
22,910,011	23,001,119	23,150,222	23,462,971	23,824,697	N/A
560,491	579,397	579,207	602,508	597,350	N/A
95,135	89,814	86,901	79,993	76,860	N/A
10,808	10,785	10,780	10,784	10,315	N/A
4,384	4,375	4,353	4,363	4,789	N/A
167,922	162,200	147,181	132,768	134,333	134,431
1,589	1,474	1,263	922	712	675 (concluded)

## Schedule of Capital Asset Statistics by Function

### For the Past Ten Fiscal Years

	2005	2006	2007	2008
<b>General Government</b>				
<b>Department of Food and Agriculture</b>				
Vehicles and mobile equipment <sup>1</sup> .....	903	907	915	818
Square footage of structures (in thousands) .....	467	453	453	453
<b>Department of Justice</b>				
Vehicles and mobile equipment .....	969	968	966	826
<b>Department of Military</b>				
Vehicles and mobile equipment .....	152	210	182	206
Square footage of structures (in thousands) .....	3,348	3,388	3,388	3,387
<b>Department of Veterans Affairs</b>				
Veterans homes .....	3	3	3	3
Vehicles and mobile equipment .....	139	111	248	251
Square footage of structures (in thousands) .....	1,598	1,598	1,598	1,598
<b>Education</b>				
<b>California State University</b>				
Vehicles and mobile equipment <sup>1, 2</sup> .....	N/A	601	3,343	3,994
Campuses .....	23	23	23	23
Square footage of structures (in thousands) .....	59,588	59,921	62,198	63,971
<b>Health and Human Services</b>				
<b>Department of Developmental Services</b>				
Vehicles and mobile equipment .....	836	655	829	839
Developmental centers .....	7	7	7	7
Square footage of structures (in thousands) .....	5,185	5,181	5,181	5,186
<b>Department of State Hospitals <sup>3</sup></b>				
Vehicles and mobile equipment .....	439	655	629	638
State hospitals .....	4	5	5	5
Square footage of structures (in thousands) .....	4,626	4,673	6,359	6,364

Sources: California Department of General Services (DGS)

<sup>1</sup> For fiscal year 2008, DGS was not able to obtain complete data from the agency.

<sup>2</sup> Prior to fiscal year 2006, DGS did not require California State University to report its vehicles.

<sup>3</sup> In fiscal year 2012, portions of the Department of Mental Health became the Department of State Hospitals.

<sup>4</sup> In fiscal year 2008, California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.

<sup>5</sup> In fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

N/A = not available



<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
803	746	809	804	792	747
466	466	466	466	455	455
870	816	677	531	527	520
182	208	249	233	211	211
3,383	3,154	3,530	3,511	3,623	4,019
5	6	6	6	8	8
120	113	132	143	267	285
1,683	1,600	2,086	2,086	2,488	2,543
4,015	4,338	4,415	4,415	4,466	4,619
23	23	23	23	23	23
66,686	69,049	71,287	73,785	73,866	73,316
701	569	818	789	632	424
7	5	5	5	4	4
5,187	5,185	5,294	5,294	5,279	5,308
658	665	709	718	699	886
5	5	5	5	7	7
6,348	6,331	6,331	6,336	6,457	6,460

(continued)

## Schedule of Capital Asset Statistics by Function (continued)

### For the Past Ten Fiscal Years

	2005	2006	2007	2008
<b>Resources</b>				
<b>Department of Fish and Wildlife</b>				
Vehicles and mobile equipment .....	3,157	3,182	3,311	2,868
Square footage of structures (in thousands) .....	1,108	1,112	1,120	1,192
<b>Department of Forestry and Fire</b>				
Vehicles and mobile equipment .....	3,016	2,572	2,945	3,043
Square footage of structures (in thousands) .....	3,892	3,885	3,883	3,869
<b>Department of Parks and Recreation</b>				
Vehicles and mobile equipment .....	3,044	2,742	2,988	3,023
State Parks .....	278	278	276	279
Acres of state park land (in thousands) .....	1,506	1,552	1,235	1,248
Square footage of structures (in thousands) .....	6,348	6,350	6,350	6,350
<b>State Lands Commission</b>				
Vehicles and mobile equipment .....	56	49	51	49
Acres of land (in thousands) .....	4,498	4,496	4,492	4,491
<b>State and Consumer Services</b>				
<b>Department of Consumer Affairs</b>				
Vehicles and mobile equipment .....	628	1,050	640	726
<b>Department of General Services</b>				
Vehicles and mobile equipment .....	6,883	6,894	7,330	7,558
Square footage of structures (in thousands) .....	15,995	17,350	18,084	18,084
<b>Business and Transportation</b>				
<b>California Highway Patrol</b>				
Vehicles and mobile equipment <sup>4</sup> .....	3,930	4,105	4,655	5,228
Square footage of structures (in thousands) .....	1,147	1,087	1,110	1,118
<b>Department of Motor Vehicles</b>				
Vehicles and mobile equipment .....	395	373	458	434
Square footage of structures (in thousands) .....	1,853	1,827	1,866	1,848
<b>Department of Transportation</b>				
Vehicles and mobile equipment .....	10,856	11,048	11,130	11,098
Square footage of structures (in thousands) .....	6,284	6,632	6,618	6,229
<b>Correctional Programs</b>				
<b>Department of Corrections and Rehabilitation</b>				
Vehicles and mobile equipment <sup>1</sup> .....	7,006	6,451	6,657	7,908
Prisons and juvenile facilities <sup>5</sup> .....	32	32	41	41
Square footage of structures (in thousands) .....	40,472	40,622	40,777	40,831

2009	2010	2011	2012	2013	2014
3,640	2,630	3,180	3,012	2,896	2,954
1,269	1,301	1,313	1,317	1,317	1,311
3,067	2,598	2,804	2,810	2,845	2,748
3,851	3,947	3,943	3,935	3,641	3,632
3,220	3,102	3,715	4,200	3,311	3,489
278	278	279	280	280	279
1,331	1,365	1,334	1,333	1,590	1,590
6,350	6,350	6,433	6,623	6,598	6,751
57	47	50	42	42	41
4,491	4,491	4,491	4,491	4,489	4,489
718	574	578	574	518	554
6,736	5,761	5,670	4,991	5,226	5,053
18,084	18,394	18,602	19,180	19,098	19,367
5,914	5,422	5,337	5,013	5,341	5,170
1,118	1,135	1,135	1,149	1,149	1,166
417	366	366	366	294	295
1,855	1,855	1,842	1,842	1,842	1,845
13,346	11,302	12,759	12,690	11,767	11,596
6,434	6,444	6,519	8,131	8,170	7,960
7,778	5,787	5,985	5,952	5,156	5,137
39	39	39	39	37	37
40,852	41,228	41,399	41,399	40,606	40,726
					(concluded)

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