

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

For the Fiscal Year Ended June 30, 2007

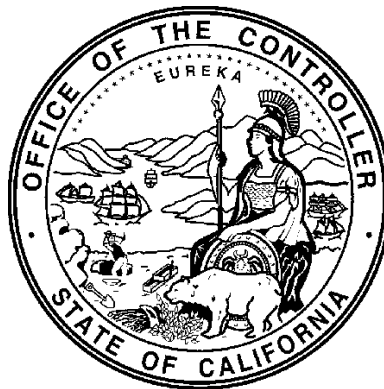


Controller *John Chiang*
California State Controller's Office

STATE OF CALIFORNIA

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For the Year Ended
June 30, 2007



*Prepared by
The Office of the State Controller*

*JOHN CHIANG
California State Controller*

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Introductory Section





JOHN CHIANG
California State Controller



JOHN CHIANG
California State Controller

March 28, 2008

**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 year ended June 30, 2007. 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 of America (GAAP) and contains information to help readers gain a reasonable understanding of the State's financial activities.

The news in California is similar to that throughout the nation: the mortgage meltdown and higher energy costs are dragging down operating revenues. The slowing of the economy has depressed the State's Big Three tax revenues – personal income, sales and use, and corporate taxes, which are the major source of funding for government operations.

California's tax structure relies heavily on personal income taxes paid by its wealthiest residents; over 54% of the 2006-07 fiscal year General Fund revenues came from personal income taxes. This dependency leaves the State budget especially vulnerable to fluctuations in capital gains and dividends. The State's fiscal year closed with \$91.0 billion from its Big Three tax revenues and a General Fund deficit of \$1.9 billion, down from the \$2.7 billion balance at the end of the 2005-06 fiscal year.

We are continuing to see less tax revenues in the current fiscal year. I refer you to my monthly cash report, available at www.sco.ca.gov, for the status of the State's General Fund receipts and disbursements as compared to the 2007-08 fiscal year budget estimates. As chairman of the California Franchise Tax Board, I recently asked staff to study how we can hold tax receipts generated in good economic times to help fill the budget holes when economic conditions decline dramatically.

Despite slowing budgetary resources, we must stay focused on targeting spending for programs that reflect the priorities of the people of California. Although the Governor proposes across-the-board reductions in his 2008-09 budget proposal, an approach that prioritizes programs and maximizes the use of increasingly scarce resources from all sources seems more fiscally prudent. Decision-makers must carefully choose from a wide range of options and seek actions that will have positive long-term results, not merely shift current budgetary problems to future years.

Several major infrastructure projects have commenced using the bond financing approved by the State's voters in November 2006. The Legislature has appropriated a portion of these funds that my office is auditing to ensure that state agencies maintain proper oversight of the intended use of taxpayer dollars.

In 2007, I commissioned California's first actuarial report on Other Post-Employment Benefits (OPEB), mainly healthcare benefits for retired state workers. Following the requirements of Governmental

Accounting Standards Board Statement No. 45, this actuarial valuation disclosed that the State faces a \$47.9 billion unfunded liability that must be addressed. I believe it is imperative that the Administration and Legislature begin to consider some level of pre-funding to help reduce the existing liability of retiree health care benefits for police officers, firefighters, teachers, and others who dedicate themselves to public service. A responsible prefunding plan will take advantage of interest earnings, thereby offsetting the State's cash outlay in future years. In January 2008, the California Public Employee Post-Employment Benefits Commission, appointed by the Legislature and Governor, also unanimously recommended that the state and local governments "prefund" retiree health benefits by setting aside and investing funds as employees earn OPEB benefits.

Introduction to the Report

Responsibility for the accuracy, completeness, and fairness of data presented in the CAFR, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and the operations of the primary government and its component units.

State statutes require an annual audit of the basic financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements 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 auditor's report on the basic financial statements and the combining and individual fund statements and schedules is included in the CAFR.

The State of California is also required to undergo an annual single audit in conformity with the provisions of the United States Office of Management and Budget's (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In conducting the engagement, the State Auditor used auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Information related to this single audit—including a schedule of federal assistance, the independent auditor's report on requirements applicable to each major program and on internal controls over compliance in accordance with OMB Circular A-133, and a schedule of findings and questioned costs—is included in a separately issued report.

The CAFR contains three sections: Introductory, Financial, and Statistical. The Introductory Section is designed to provide the background and context that readers need to benefit fully from the information presented in the Financial Section. The Financial Section contains the independent auditor's report, management's discussion and analysis, the basic financial statements, the required supplementary information, the combining and individual fund statements, and the budgetary comparison schedule for nonmajor governmental cost funds. The Statistical Section provides a history of selected financial and demographic information.

The State's 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. Our MD&A provides a narrative introduction to the detailed financial statements and notes contained in the CAFR.

Profile of the Government

Reporting Entity

The financial reporting entity of the State includes all of the funds of the primary government and of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported in the capital projects funds of the primary government. The lease agreements between the building authorities and the primary government, amounting to \$568 million, have been eliminated from the balance sheet. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide statements. The Golden State Tobacco Securitization Corporation and the California State University, Channel Islands Site and Financing authorities are reported in the special revenue funds of the primary government.

Discretely presented component units are reported separately in the government-wide financial statements, in order to emphasize that they are legally separate from the primary government and to differentiate their financial position and results of operations from those of the primary government. Additional information on the reporting entity is included in Note 1, Summary of Significant Accounting Policies.

Budgetary Controls

The State Legislature prepares 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. Throughout the fiscal year, adjustments, in the form of budget revisions, executive orders, and financial legislation agreed to by the Governor and the Legislature, are made to the budget. The State Controller is statutorily responsible for control over revenues due the primary government and for expenditures of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The State's accounting system provides the State Controller's Office with a centrally controlled record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized, meaning the detail of each control account is maintained by each state agency. During the fiscal year, the control accounts and the agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The State Controller's Office combines its control account balances with the agency accrual reports to prepare California's *Budgetary/Legal Basis Annual Report* and the *Budgetary/Legal Basis Annual Report Supplement*. State laws and regulations that, in some cases, do not fully agree with GAAP govern the methods of accounting for expenditures and revenues in these reports.

The information in the CAFR represents a consolidation of the amounts in the *Budgetary/Legal Basis Annual Report* and adjustments to the account balances to conform to GAAP. 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 that follows the Notes to the Financial Statements.

Internal Controls

An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in accordance with legal requirements and GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Legislature and Governor.

Financial Condition

Economic Outlook

As 2008 began, more turmoil hit the stock and bond markets as the problems of risky debt enveloped more parts of the financial community. Both the Federal Reserve and Congress have stepped in to try to give a floor to the damage done by the credit crisis. The Federal Reserve reduced interest rates by an unprecedented 1.25% in January 2008. A federal tax rebate, approved by Congress, should reach taxpayers beginning in May 2008.

To help the housing market, especially in California, the \$417,000 caps on Freddie Mac and Fannie Mae loans were raised for one year. Freddie Mac and Fannie Mae are government-sponsored entities that provide money to the mortgage market by purchasing loans made by banks and other financing agencies. It is hoped these actions will provide enough economic stimulus to avoid a national recession in 2008.

The UCLA Anderson Forecast is expecting a slow California economy in 2008, but no recession. Personal income growth is expected to be only 3.5%, compared to 5.6% in 2007. Employment growth for California is expected to be only 0.5% and the unemployment rate will average 6.0 %.

Budget Outlook

2007-08 Fiscal Year

The 2007 Budget Act was enacted on August 24, 2007, and authorized total spending of \$145.5 billion: \$102.2 billion from the General Fund, \$29.2 billion from special funds, and \$14.1 billion from bond funds. Total General Fund resources in this budget are projected to be \$105.6 billion. Kindergarten through Grade 12 education spending remains the largest area of the budget. However, the bulk of new education spending is for a 4.53% cost-of-living adjustment. The fastest growing area is correctional programs spending. New costs are necessary to comply with various health care court cases and implementation of Proposition 83, also known as "Jessica's Law", which addresses monitoring of high-level sex offenders.

Since enactment of the budget, negative budgetary developments, declining receipts and increasing expenditures have significantly eroded the planned General Fund budgetary reserve of \$4.1 billion to an estimated \$872 million. In February 2008, the State sold \$3.2 billion of Economic Recovery Bonds to help keep a positive budget reserve. Nevertheless, the administration now estimates that there will be a \$14.5 billion General Fund deficit by the end of the 2008-09 fiscal year if no actions are taken to reduce spending.

2008-09 Fiscal Year

The Governor's Budget for the 2008-09 fiscal year, released on January 10, 2008, seeks total spending (before proposed budget balancing reductions) of \$151.7 billion: \$110.1 billion from the General Fund, \$27.7 billion from special funds, and \$13.9 billion from bond funds. The proposed 2008-09 General Fund expenditures are \$6.5 billion higher (6.3%) than 2007-08 fiscal year enacted budget amounts. The Administration proposes a 10% across-the-board budget reductions to agencies, departments, and programs which, if adopted, would amount to approximately \$9.1 billion in reduced spending in 2008-09.

Concurrent with the release of his budget proposal, the Governor declared a fiscal emergency and called for a special session of the Legislature, as authorized by the state Constitution pursuant to Proposition 58 (March 2004), to address the projected 2008-09 budget shortfall and to prevent a cash shortage. To date, total approved budget solutions enacted during fiscal year 2007-08 amount to \$4.8 billion, including the \$3.2 billion additional revenues obtained from the February 14, 2008, sale of deficit financing bonds.

California Strategic Growth Plan

Maintaining and improving the highly valued quality of life and economic growth in California will require additional investments in the State's infrastructure. The administration proposes to place bond measures on the ballot in the 2008 and 2010 general elections for voters to consider authorizing \$48.1 billion of new general obligation bonds for various education, water management, transportation, court and state facility infrastructure projects. The creation of a Strategic Growth Council is also proposed to coordinate activities and investment of funds in state-owned and state-funded infrastructure.

Awards and Acknowledgments

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, 2006. 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.

This CAFR could not have been prepared without the assistance and cooperation of all state agencies and universities. We wish to thank the State Auditor and her staff for their audit of the financial statements contained in this report. I am also grateful to the members of my staff for their dedicated efforts and professionalism.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

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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, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

President

Jeffrey R. Emswiler

Executive Director

Principal Officials of the State of California

Executive Branch

Arnold Schwarzenegger
Governor

John Garamendi
Lieutenant Governor

John Chiang
State Controller

Edmund G. Brown Jr.
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Jack O'Connell
Superintendent of Public Instruction

Steve Poizner
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
Bill Leonard, Member, Second District
Michelle Steel, Member, Third District
Judy May Chu, Member, Fourth District

Legislative Branch

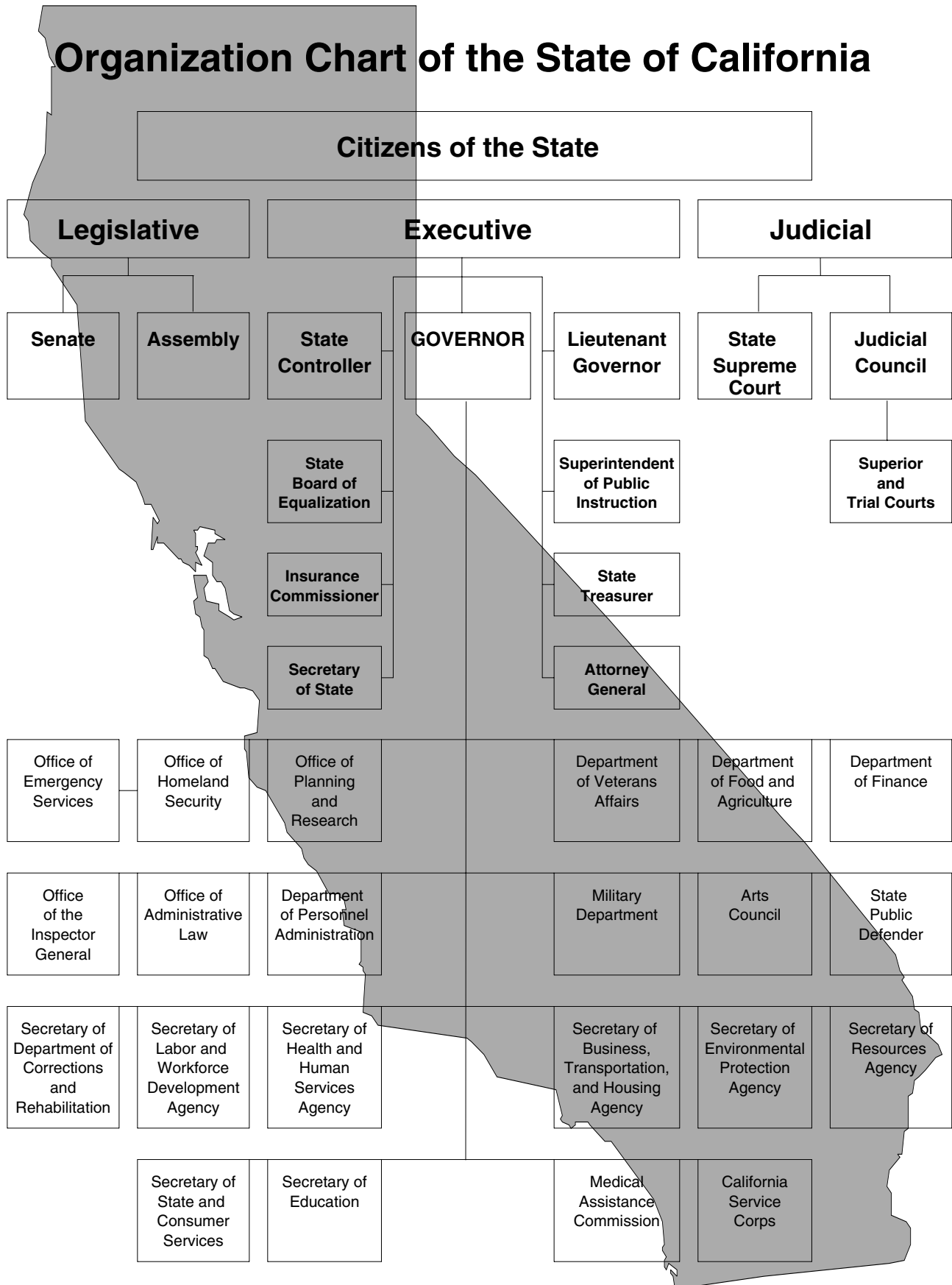
Don Perata
President pro Tempore, Senate

Fabian Núñez
Speaker of the Assembly

Judicial Branch

Ronald M. George
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

THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF CALIFORNIA

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, 2007, which collectively comprise the State of California's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of California's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the following significant amounts in the financial statements of:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 82 percent, 42 percent, and 56 percent, respectively, of the assets, net assets, and revenues of the business-type activities.
- The University of California, State Compensation Insurance Fund, California Housing Finance Agency, Public Employees' Benefits, and certain other funds that, in the aggregate, represent over 99 percent of the assets, net assets, and revenues of the discretely presented component units.

Fund Financial Statements

- The following major enterprise funds: Electric Power fund, Water Resources fund, Public Building Construction fund, and State Lottery fund.
- Certain nonmajor enterprise funds that represent 89 percent, 79 percent, and 88 percent, respectively, of the assets, net assets, and revenues of the nonmajor enterprise funds.
- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System that, in the aggregate, represent 93 percent, 94 percent, and 75 percent, respectively, of the assets, net assets, and additions of the fiduciary funds and similar component units.
- The discretely presented component units noted above.

Those 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, is based 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of California's basic financial statements. The combining financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

BUREAU OF STATE AUDITS



JOHN F. COLLINS II, CPA
Deputy State Auditor

March 3, 2008

Management's Discussion and Analysis

The following Management's Discussion and Analysis is a required supplement 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, 2007. 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

The economic growth that the State experienced in recent years began to slow down in the 2006-07 fiscal year, resulting in a smaller increase in general revenues, primarily in personal income, corporate, and sales tax revenues. However, the growth in expenses for the State's governmental activities continued. In fact, expenses for governmental activities exceeded revenues for the year, resulting in a decrease in net assets. Total expenses for the State's business-type activities also exceeded revenues for the year; therefore, net assets for the 2006-07 fiscal year for both governmental and business-type activities decreased by 2.6% from last year.

Net Assets — The primary government's net assets as of June 30, 2007, were \$46.6 billion. After the total net assets are reduced by \$81.6 billion for investment in capital assets (net of related debt) and by \$19.1 billion for restricted net assets, the resulting unrestricted net assets were a negative \$54.1 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Two-thirds of the negative \$54.1 billion consists of \$36.3 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 assets; however, local governments, not the State, record the capital assets that would offset this reduction.

Changes in Net Assets — The primary government's total net assets decreased by \$1.2 billion (2.6%) during the year ended June 30, 2007. Net assets of governmental activities decreased by \$1.1 billion (3.0%), while net assets of business-type activities decreased by \$140 million (1.2%).

Fund Highlights

Governmental Funds — As of June 30, 2007, the primary government's governmental funds reported a combined ending fund balance of \$18.0 billion, an increase of \$635 million from the previous fiscal year. After the total fund balance is reduced by \$24.5 billion in reserves, the unreserved fund balance totaled a negative \$6.5 billion.

Proprietary Funds — As of June 30, 2007, the primary government's proprietary funds reported combined ending net assets of \$11.6 billion, a decrease of \$411 million from the previous fiscal year. After the total net assets are reduced by \$370 million for investment in capital assets (net of related debt) and expendable restrictions of \$8.6 billion, the unrestricted net assets totaled \$2.6 billion.

Noncurrent Assets and Liabilities

As of June 30, 2007, the primary government's noncurrent assets totaled \$123.5 billion, of which \$98.1 billion is related to capital assets. State highway infrastructure assets of \$56.0 billion represent the largest part of the State's capital assets.

The primary government's noncurrent liabilities totaled \$98.8 billion, which consists of \$50.0 billion in general obligation bonds, \$29.8 billion in revenue bonds, and \$19.0 billion in all other noncurrent liabilities.

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 Assets and the Statement of Activities.

- The *Statement of Net Assets* presents all of the State's assets and liabilities and reports the difference between the two as net assets. Over time, increases or decreases in net assets indicate whether the financial position of the State is improving or deteriorating.
- The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. The State reports changes in net assets 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 health and human services, education (public kindergarten through 12th grade [K-12] schools and institutions of higher education),

business and transportation, correctional programs, general government, resources, tax relief, state and consumer services, 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 building aid to school districts, providing services to California State University students, leasing public assets, 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; the California State University, Channel Islands Site and Financing authorities; and certain building authorities that are blended component units of the State are included in the 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 Public Employees' Retirement System and the 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.

Information on how to obtain financial statements of the individual component units is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250.

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 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

As discussed previously, 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 to 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 trust funds, information on infrastructure assets based on the modified approach, a budgetary comparison schedule, and a separate reconciliation of the statutory fund balance for budgetary purposes and the fund balance 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, proprietary funds, fiduciary funds, and nonmajor component units. The basic financial statements present only summary information for these entities.

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased 2.6%, from \$47.8 billion as restated at June 30, 2006, to \$46.6 billion a year later.

The primary government's \$81.6 billion investment in capital assets, such as land, building, equipment, and infrastructure (roads, bridges, and other immovable assets), comprise a significant portion of its net assets. 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 in this publication net of related debt, please note that the resources needed to repay this debt must come from other sources because the State cannot use the capital assets themselves to pay off the liabilities.

Another \$19.1 billion of the primary government's net assets 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 assets. The State may use a positive balance of unrestricted net assets of governmental activities to meet its ongoing obligations to citizens and creditors. As of June 30, 2007, governmental activities showed an unrestricted net assets deficit of \$56.5 billion and business-type activities showed unrestricted net assets of \$2.4 billion.

A large portion of the negative unrestricted net assets of governmental activities comprises \$36.3 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 assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

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

Table 1

Net Assets – Primary Government

June 30, 2006 and 2007

(amounts in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007 | 2006* | 2007 | 2006* | 2007 | 2006* |
| ASSETS | | | | | | |
| Current and other assets | \$ 51,048 | \$ 50,240 | \$ 34,234 | \$ 34,683 | \$ 85,282 | \$ 84,923 |
| Capital assets | 91,818 | 89,763 | 6,267 | 5,849 | 98,085 | 95,612 |
| Total assets | 142,866 | 140,003 | 40,501 | 40,532 | 183,367 | 180,535 |
| LIABILITIES | | | | | | |
| Noncurrent liabilities | 72,970 | 69,382 | 25,849 | 26,093 | 98,819 | 95,475 |
| Other liabilities | 34,519 | 33,411 | 3,438 | 3,097 | 37,957 | 36,508 |
| Total liabilities | 107,489 | 102,793 | 29,287 | 29,190 | 136,776 | 131,983 |
| NET ASSETS | | | | | | |
| Investment in capital assets net of related debt | 81,353 | 83,489 | 208 | 818 | 81,561 | 84,307 |
| Restricted | 10,543 | 8,431 | 8,575 | 8,723 | 19,118 | 17,154 |
| Unrestricted | (56,519) | (54,710) | 2,431 | 1,801 | (54,088) | (52,909) |
| Total net assets | \$ 35,377 | \$ 37,210 | \$ 11,214 | \$ 11,342 | \$ 46,591 | \$ 48,552 |

* Not restated

Changes in Net Assets

The expenses of the primary government totaled \$194.5 billion for the year ended June 30, 2007. Of this amount, \$84.2 billion (43.3%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving \$110.3 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of \$109.1 billion were less than the unfunded expenses. As a result, during the year, total net assets decreased by \$1.2 billion, or 2.6%.

Of the total decrease, net assets for governmental activities decreased by \$1.1 billion, while those for business-type activities decreased by \$140 million. The decrease in governmental activities is primarily due to increased spending for health and human services, resources, and correctional programs that caused total expenses to increase more than revenue increased. The decrease in business-type activities is mainly due to unemployment benefit payments exceeding employer contributions and other revenue for unemployment programs.

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

Table 2

Changes in Net Assets – Primary Government

Year ended June 30, 2006 and 2007

(amounts in millions)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| REVENUES | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 18,822 | \$ 19,188 | \$ 20,614 | \$ 21,540 | \$ 39,436 | \$ 40,728 |
| Operating grants and contributions | 43,440 | 42,254 | — | — | 43,440 | 42,254 |
| Capital grants and contributions | 1,165 | 1,273 | 183 | 57 | 1,348 | 1,330 |
| General revenues: | | | | | | |
| Taxes | 108,016 | 100,461 | — | — | 108,016 | 100,461 |
| Investment and interest | 730 | 505 | — | — | 730 | 505 |
| Miscellaneous | 334 | 292 | — | — | 334 | 292 |
| Total revenues | 172,507 | 163,973 | 20,797 | 21,597 | 193,304 | 185,570 |
| EXPENSES | | | | | | |
| Program expenses: | | | | | | |
| General government | 13,314 | 9,675 | — | — | 13,314 | 9,675 |
| Education | 61,542 | 62,653 | — | — | 61,542 | 62,653 |
| Health and human services | 69,980 | 65,763 | — | — | 69,980 | 65,763 |
| Resources | 5,317 | 4,162 | — | — | 5,317 | 4,162 |
| State and consumer services | 1,215 | 596 | — | — | 1,215 | 596 |
| Business and transportation | 9,763 | 8,809 | — | — | 9,763 | 8,809 |
| Correctional programs | 8,945 | 7,299 | — | — | 8,945 | 7,299 |
| Tax relief | 948 | 704 | — | — | 948 | 704 |
| Interest on long-term debt | 2,596 | 2,894 | — | — | 2,596 | 2,894 |
| Electric Power | — | — | 5,865 | 5,342 | 5,865 | 5,342 |
| Water Resources | — | — | 952 | 950 | 952 | 950 |
| Public Building Construction | — | — | 335 | 334 | 335 | 334 |
| State Lottery | — | — | 3,471 | 3,912 | 3,471 | 3,912 |
| Unemployment Programs | — | — | 9,136 | 8,585 | 9,136 | 8,585 |
| Nonmajor enterprise | — | — | 1,148 | 814 | 1,148 | 814 |
| Total expenses | 173,620 | 162,555 | 20,907 | 19,937 | 194,527 | 182,492 |
| Excess (deficiency) before transfers ... | (1,113) | 1,418 | (110) | 1,660 | (1,223) | 3,078 |
| Transfers | 30 | 23 | (30) | (23) | — | — |
| Special item..... | — | 1,218 | — | — | — | 1,218 |
| Change in net assets | (1,083) | 2,659 | (140) | 1,637 | (1,223) | 4,296 |
| Net assets, beginning of year (restated) ... | 36,460 | 34,551 | 11,354 | 9,705 | 47,814 | 44,256 |
| Net assets, end of year | \$ 35,377 | \$ 37,210 | \$ 11,214 | \$ 11,342 | \$ 46,591 | \$ 48,552 |

Governmental Activities

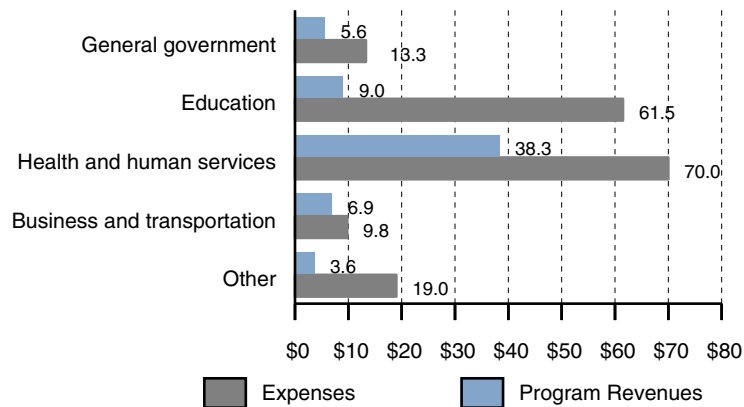
Governmental activities expenses totaled \$173.6 billion. Program revenues, including \$44.6 billion received in federal grants, funded \$63.4 billion (36.5%) of that amount, leaving \$110.2 billion to be funded with general revenues (mainly taxes). However, general revenues and transfers for governmental activities totaled only \$109.1 billion, so governmental activities' total net assets decreased by \$1.1 billion, or 3.0%, during the year ended June 30, 2007. The State used reserves to meet its cash flow needs.

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, 2007
(amounts in billions)



For the year ended June 30, 2007, total state tax revenues collected for governmental activities increased by 7.5% over the prior year. The largest increase in state tax revenue occurred in other taxes. Fuel tax revenue previously reported as additions in an agency fund is now reported as other taxes. Certain fuel tax revenue was reclassified from sales and use taxes to other taxes. Personal income, corporation, and sales tax revenue also increased modestly during the year, due to job growth and increased personal income and retail sales.

Overall expenses for governmental activities increased by \$11.0 billion (6.8%) over the prior year. The largest increases in expenses were a \$4.2 billion increase in health and human services spending and a \$3.6 billion increase in general government. The increase in health and human services spending was the result of increased costs and use of medical services, increased rates for physicians and certain other providers, significant policy changes in Medi-Cal, and ongoing growth in caseloads. The increase in general government spending was the result of the inclusion of fuel tax revenue apportionment payments to local governments previously reported as deductions in an agency fund.

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, 2007
(as a percent)

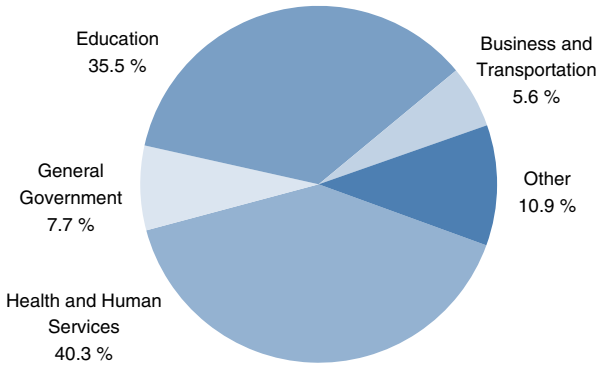
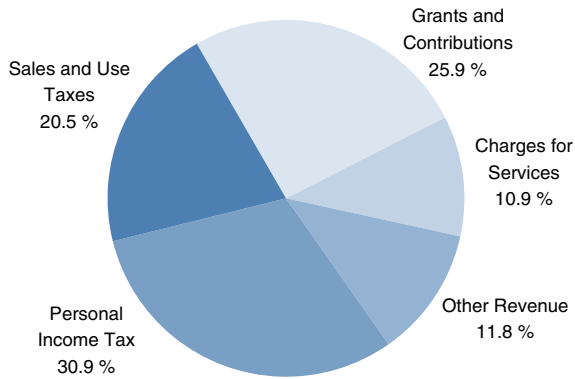


Chart 3

Revenues by Source
Year ended June 30, 2007
(as a percent)



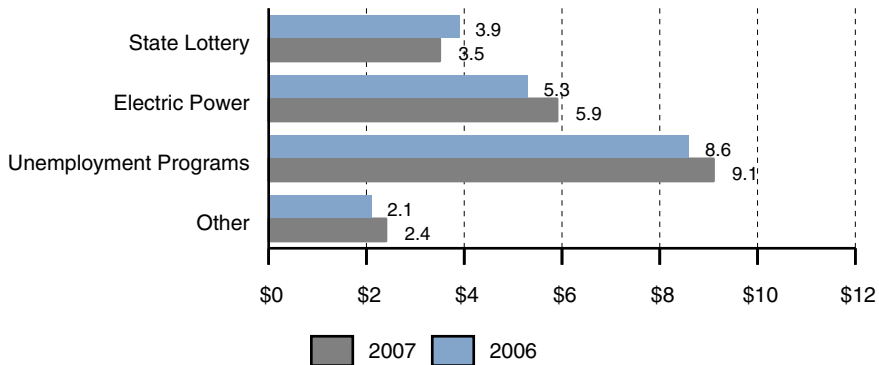
Business-type Activities

Business-type activities expenses totaled \$20.9 billion. Program revenues of \$20.8 billion were generated primarily from charges for services that fully paid these expenses. Consequently, business-type activities' total net assets decreased by \$140 million, or 1.2%, during the year ended June 30, 2007. Most of the decrease was due to a \$118 million decrease in the unemployment programs' net assets, discussed in more detail in the Fund Financial Analysis section under Proprietary Funds.

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
Years Ended June 30, 2006 and 2007
(amounts in billions)



Fund Financial Analysis

The State's slowing economy primarily affected governmental funds, which rely heavily on taxes to support the majority of the State's services and programs. Although tax revenue increased during the year, the increase was lower than the dramatic increases the State experienced in the last three years. The expenditures of the governmental funds increased at a higher rate than revenues. On the other hand, none of the major proprietary funds had total revenues that were significantly different from total expenses during the year ended June 30, 2007; however, increased unemployment did result in Unemployment Programs Fund expenses exceeding its revenues.

Governmental Funds

The governmental funds' Balance Sheet reported \$55.4 billion in assets, \$37.4 billion in liabilities, and \$18.0 billion in fund balance as of June 30, 2007. The largest change in account balances was a \$1.1 billion decrease in cash and pooled investments. This decrease is mainly the result of the timing of receipts and disbursement at year end and of Assembly Bill 1802, enacted in July 2006, that authorized all student fees for California State University programs previously deposited in the State Treasury (cash and pooled investments) to be deposited in local banks (investments). This bill also results in increased investments for the universities reported in nonmajor governmental funds. Within the total fund balance, \$24.5 billion has been set aside in reserve. The reserved amounts are not available for new spending because they have been committed for outstanding contracts and purchase orders (\$6.5 billion), noncurrent interfund receivables and loans receivable (\$5.0 billion), continuing appropriations (\$11.9 billion), and debt service (\$1.1 billion). The unreserved balance of the governmental funds is a negative \$6.5 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows \$172.3 billion in revenues, \$182.2 billion in expenditures, and a net \$10.5 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2007, was \$18.0 billion, a \$635 million increase over the previous year's restated ending fund balance of \$17.4 billion. Although the State's economy showed signs of slowing in the 2006-07 fiscal year, there was enough growth in personal income and taxable sales to result in increased personal income and sales and use taxes in the governmental funds. Personal income taxes, which account for 49.4% of tax revenues and 30.9% of total governmental fund revenues, increased by \$2.5 billion over the previous fiscal year. Sales and use taxes, which account for 32.9% of tax revenues and 20.6% of total governmental fund revenues, increased by \$1.2 billion.

The State's major governmental funds are the General Fund, the Federal Fund, and the Transportation Construction Fund. The General Fund ended the fiscal year with a fund deficit of \$1.9 billion. The Federal Fund and the Transportation Construction Fund ended the fiscal year with fund balances of \$38 million and \$5.9 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of \$14.0 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 \$16.5 billion, liabilities of \$18.4 billion, and fund balance reserves of \$2.6 billion, leaving the General Fund with an unreserved fund deficit of \$4.5 billion. The largest change in asset accounts was in cash and pooled investments, which decreased from \$11.7 billion to \$6.0 billion. In addition to the change for California State University student fees discussed above, the decrease in cash and pooled investments is also due to current-year expenditures and transfers exceeding revenue collections.

The largest change in liability account balances was a decrease in the amount due to other governments (from \$4.6 billion to \$4.1 billion). The decrease in the amount due to other governments was caused mainly by the inflation of last year's balance for the accrual of larger-than-usual state-mandated cost reimbursements to schools and other local governments paid in the 2006-07 fiscal year budget.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had \$96.3 billion in revenues, \$96.2 billion in expenditures, and a net \$4.7 billion disbursement from other financing sources (uses) for the year ended June 30, 2007. The largest source of General Fund revenue was \$93.7 billion in taxes, comprised primarily of personal income taxes (\$52.4 billion) and sales and use taxes (\$27.4 billion).

The taxes with the largest increase in revenues were personal income taxes, which increased by \$2.4 billion (4.9%). This increase can be attributed to a small growth in the job market and increased personal income. Corporation taxes also increased by \$500 million (4.7%), to \$11.2 billion. The decrease in sales and use tax revenue in the General Fund is mainly due to amounts that were previously reported in the General Fund being reported in nonmajor governmental funds for the repayment of the deficit-financing bonds and deferred Proposition 42 transfers for transportation projects.

General Fund expenditures increased by \$7.0 billion, to \$96.2 billion. The programs with the largest increases were education, which increased by \$2.7 billion, to \$49.3 billion, and health and human services, which increased by \$2.8 billion, to \$28.9 billion. The transfers out of the General Fund to other funds increased by \$3.3 billion, to \$6.5 billion. The General Fund's ending fund balance (including reserves) for the year ended June 30, 2007, was a negative \$1.9 billion, a decrease of \$4.6 billion over the previous year's ending fund balance of \$2.7 billion.

The increase in education expenditures consists of increased funding for enrollment growth and cost-of-living adjustments; elimination of deficit funding and other historical revenue-limit reductions; and expansion of after school, child care, and preschool programs. Health and human service expenditures increased, primarily due to ongoing growth in medical and social services caseloads, increases in costs and use of medical services, rate increases for physicians and certain other providers, and a number of significant policy changes in Medi-Cal. Transfers out of the General Fund increased mainly as a result of the partial repayment of deferred Proposition 42 transfers to the Transportation Construction Fund. Proposition 42 required, beginning in 2003-04, that revenue from the sales tax on gasoline that previously went to the General Fund be transferred to the Transportation Construction Fund for state and local transportation projects. However, the General Fund transfers were partially suspended in 2003-04 and fully suspended in 2004-05, as allowed by Proposition 42, because the transfers would have had a negative fiscal impact on the General Fund.

Federal Fund: This fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these program areas is health and human services, which accounted for \$32.4 billion (74.1%) of the total \$43.7 billion in 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 fund's expenditures—\$6.7 billion (15.3%)—most of which were apportionments made to local educational agencies (school districts, county offices of education, community colleges, etc.). The Federal Fund's revenues and expenditures increased by approximately the same amount, with revenues increasing slightly more than expenditures, resulting in a \$3 million increase in fund balance from the prior year.

Transportation Construction Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used for highway and passenger rail construction. Expenditures increased by 62.3%, while revenues increased by 48.1% from the prior year. The increased revenues and a majority of the increased expenditures is attributable to the inclusion of certain fuel tax revenue and apportionment payments to local governments that were

previously accounted for as additions and deductions in an agency fund rather than as revenues and expenditures. The remaining increase in expenditures is caused by the reclassification of certain nonmajor governmental funds. Fund expenditures of \$7.3 billion exceeded revenues by \$1.8 billion. However, the fund balance increased by \$1.5 billion, due to the increase in previously deferred Proposition 42 transfers from the General Fund.

Proprietary Funds

Enterprise Funds: In general, the slowing economy did not have as significant an effect on enterprise funds as it did on governmental funds. Most major enterprise funds' activity remained stable, as revenues approximated expenses, resulting in only a \$140 million decrease in net assets.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were \$41.0 billion as of June 30, 2007. Of this amount, current assets totaled \$13.4 billion and noncurrent assets totaled \$27.6 billion. The largest change in asset account balances was a \$726 million decrease in noncurrent recoverable power costs (costs that are recoverable through future billings) in the Electric Power Fund. This decrease was due to current year collections of recoverable power costs exceeding current year costs, reducing recoveries due in future billing periods. The total liabilities of the enterprise funds were \$29.8 billion. The largest liability accounts were revenue bonds payable of \$21.9 billion and general obligation bonds payable of \$1.8 billion. Although there was activity during the year—new bonds issued, redemptions, and defeasances—the change in the ending balance of these accounts was minimal.

Total net assets of the enterprise funds were \$11.2 billion as of June 30, 2007. Total net assets consisted of three segments: expendable restricted net assets of \$8.6 billion; investment in capital assets (net of related debt) of \$208 million; and unrestricted net assets of \$2.4 billion. The Unemployment Programs Fund had the largest net assets, with \$5.6 billion (50% of the enterprise funds' total net assets). The expendable restricted net assets of the Unemployment Programs Fund decreased by \$118 million.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of \$19.1 billion, operating expenses of \$18.4 billion, and net disbursements from other transactions of \$985 million. The largest sources of operating revenue were unemployment and disability insurance receipts of \$8.6 billion in the Unemployment Programs Fund and power sales of \$4.8 billion collected by the Electric Power Fund. The largest operating expenses were distributions to beneficiaries of \$8.9 billion by the Unemployment Programs Fund and power purchases (net of recoverable costs) of \$4.8 billion by the Electric Power Fund. The ending net assets of the enterprise funds for the year ended June 30, 2007, were \$11.2 billion, or \$140 million less than the previous year's restated ending fund balance of \$11.4 billion. The decrease was mainly caused by an excess of unemployment claim payments over unemployment insurance receipts as a result of the State's increased unemployment. The employer's contribution rate is currently set at the highest rate allowed, so future increases in unemployment would continue to deplete the current reserves in the Unemployment Programs Fund.

Internal Service Funds: Total net assets of the internal service funds were \$394 million as of June 30, 2007. These net assets consist of two segments: investment in capital assets (net of related debt) of \$162 million and unrestricted net assets of \$232 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 assets of \$2.7 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of \$432.3 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of \$19.7 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2007, the fiduciary funds' combined net assets were \$455 billion, a \$73.5 billion increase from prior year net assets. The increase in net assets was mainly attributable to investment income and an increase in the fair value of investments of retirement funds.

The Economy for the Year Ending June 30, 2007

As the 2006-07 fiscal year began, the economy was slowing down, but still moving. Several of the indicators of the slowdown were signaling the way: interest rates had been rising as a result of tightening in the previous year by the Federal Reserve, oil and gasoline prices were continuing a general rise, and residential construction was down 38% from the prior year. Surprisingly though, the overall employment appeared relatively solid. In July 2006, California's year-over-year employment growth was 1.7%, while the State's unemployment rate, at 4.8%, was the lowest since March of 2001.

In December 2006, employment was still growing by 1.3% on a year-over-year comparison, but problems in the real estate market had started to emerge. Housing sales were down 22% compared to December 2005, but statewide prices continued to rise—though by only a modest 3.5% increase. In some regions of California, and particularly in San Diego, prices were beginning to decline. More troubling signs were also being seen, as foreclosures in California more than doubled in the last quarter of 2006 compared to the last quarter of 2005. The problems were concentrated in the subprime portion of the market—loans made to high-risk borrowers. In particular, those subprime loans that were experiencing a “reset” to higher interest rates were seeing escalating delinquency rates.

Evidence of a major crack in the foundations of the real estate boom appeared in February 2007. New Century Financial, a California company that was the nation's second-largest player in subprime lending, announced “accounting errors” that would require the restatement of its 2006 earnings and a loss for the final quarter of 2006. By early April, the company had filed for bankruptcy.

California was at the center of the real estate and financial turmoil as the fiscal year ended in June 2007. The California Association of Realtors reported that in the second quarter of 2007, an estimated 15% of all mortgages in California were subprime. Around the same time period, the Mortgage Bankers Association reported that California represented 17% of subprime loans and over 19% of the foreclosure starts on subprime loans.

Nevertheless, it still appeared that the damage from real estate activities would be confined to real estate sales, construction, and the subprime market. As the fiscal year ended, employment was growing at 1.1%; unemployment was increasing, but was still low at 5.3%. Most of the employment growth was in Education and Health services, Leisure and Hospitality services, and Professional and Business Services.

General Fund Budget Highlights

The original General Fund budget of \$102.1 billion was increased by \$865 million due to miscellaneous augmentations for emergencies. During the 2006-07 fiscal year, General Fund actual expenditures were \$101.5 billion, \$1.5 billion less than the final budgeted amounts.

Table 3

General Fund Original and Final Budgets

Year ended June 30, 2007

(amounts in millions)

| | Original | Final | Increase/ (Decrease) |
|-----------------------------------|-------------------|-------------------|-------------------------|
| Budgeted amounts | | | |
| State and consumer services | \$ 645 | \$ 602 | \$ (43) |
| Business and transportation | 2,649 | 2,649 | 0 |
| Resources | 1,824 | 1,720 | (104) |
| Health and human services | 29,526 | 29,866 | 340 |
| Correctional programs | 8,786 | 9,289 | 503 |
| Education | 49,251 | 49,321 | 70 |
| General government: | | | |
| Tax relief | 977 | 981 | 4 |
| Debt service | 3,388 | 3,402 | 14 |
| Other general government | 5,084 | 5,165 | 81 |
| Total | \$ 102,130 | \$ 102,995 | \$ 865 |

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, 2007, amounted to \$98.1 billion (net of accumulated depreciation). This investment in capital assets includes land, state highway infrastructure, collections, buildings and other depreciable property, and construction in progress. Depreciable property includes buildings, improvements other than buildings, equipment, personal property, intangible assets, certain infrastructure assets, certain books, and other capitalized and depreciable property. Infrastructure assets are items that are normally immovable and can be preserved for a greater number of years than most capital assets. Infrastructure assets include roads, bridges, streets and sidewalks, drainage systems, and lighting systems.

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

Table 4**Capital Assets**

Year ended June 30, 2007

(amounts in millions)

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|------------------|
| Land | \$ 15,510 | \$ 47 | \$ 15,557 |
| State highway infrastructure | 55,991 | — | 55,991 |
| Collections – nondepreciable | 21 | — | 21 |
| Buildings and other depreciable property | 21,009 | 8,662 | 29,671 |
| Less: accumulated depreciation | (8,590) | (3,618) | (12,208) |
| Construction in progress | 7,877 | 1,177 | 9,054 |
| Total | \$ 91,818 | \$ 6,268 | \$ 98,086 |

The budget authorized \$2.1 billion for the State's capital outlay program in the 2006-07 fiscal year, not including funding for state highway infrastructure, K-12 schools, state conservancies, and state water projects. State highway infrastructure assets are discussed in more detail in the Required Supplementary Information that follows the notes to the financial statements. Of the \$2.1 billion authorized, \$234 million was from the General Fund; \$393 million was from lease-revenue bonds; \$1.3 billion was from proceeds of various general obligation bonds; and \$236 million was from reimbursements, federal funds, and special funds. The major capital projects authorized include:

- \$1.2 billion for numerous construction projects within the University of California, the California State University, and the California Community Colleges;
- \$217 million for the Department of Corrections and Rehabilitation for waste-water and potable water treatment projects; housing for inmates with mental health needs; and critical fire, life, and safety projects;
- \$161 million for the Department of Forestry and Fire Protection to replace 14 fire stations and two conservation camps, address other significant health and safety issues, and remedy critical infrastructure deficiencies at emergency response facilities; and
- \$102 million for the Department of Developmental Services for improvements at Porterville Developmental Center.

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

Modified Approach for Infrastructure Assets

The State has adopted the Modified Approach as an alternative to depreciating the cost of its infrastructure (state roadways and bridges). Under the Modified Approach, the State will not report depreciation expense for roads and bridges but will capitalize all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs will be expensed and not capitalized. Under the Modified Approach, the State must maintain an asset management system and demonstrate that it is preserving the infrastructure at or above established condition levels. The State is responsible for maintaining 49,477 lane miles and 12,155 bridges.

During the 2006-07 fiscal year, the actual amount spent on preservation was 74.1% 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 conditions of the State’s bridges and roadways are better than the established condition baselines.

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

Debt Administration

At June 30, 2007, the primary government had total bonded debt outstanding of \$83.2 billion. Of this amount, \$52.2 billion (62.8%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the \$52.2 billion of general obligation bonds is \$9.0 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 \$2.2 billion and the long-term portion is \$50.0 billion. The remaining \$31.0 billion (37.2%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is \$1.2 billion and the long-term portion is \$29.8 billion.

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

Table 5

Long-term Obligations

Year ended June 30, 2007
(amounts in millions)

| | Governmental Activities | Business-type Activities | Total |
|--|------------------------------------|-------------------------------------|-------------------|
| Government-wide noncurrent liabilities | | | |
| General obligation bonds | \$ 48,224 | \$ 1,818 | \$ 50,042 |
| Revenue bonds | 7,883 | 21,891 | 29,774 |
| Certificates of participation and commercial paper | 106 | 180 | 286 |
| Capital lease obligations | 4,047 | — | 4,047 |
| Other noncurrent liabilities | 12,710 | 1,960 | 14,670 |
| Total noncurrent liabilities | 72,970 | 25,849 | 98,819 |
| Current portion of long-term obligations | 4,576 | 1,842 | 6,418 |
| Total long-term obligations | \$ 77,546 | \$ 27,691 | \$ 105,237 |

The primary government’s total long-term obligations increased during the year ended June 30, 2007. The largest change in governmental activities’ long-term obligations is an increase of \$3.3 billion in general obligation bonds payable.

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

The State's general obligation bond credit ratings remained unchanged during fiscal year 2006-07. The current ratings from the three credit rating agencies are as follows: Standard & Poor's – "A+", Moody's – "A1", and Fitch – "A+".

Recent Economic Events and Future Budgets

Recent Economic Conditions

Real estate market troubles continue to dominate the economic news of both California and the nation. Since the beginning of the 2007-08 fiscal year, the problems of the real estate market have spread into the larger U.S. financial market and even into global financial markets.

In late July 2007, a California-based business, Countrywide Financial—the largest mortgage lender in the nation—sent a tremor through the stock and bond markets when it revealed that delinquencies in both its prime and subprime borrowers were rising. Rising concerns among investors about the risks associated with mortgages and mortgage-backed securities threatened to freeze credit markets.

The Federal Reserve responded and took a series of quick actions to try to calm the markets. On August 10, 2007, the Federal Reserve said it was "providing liquidity to facilitate the orderly functioning of financial markets." On August 17, 2007, the Federal Reserve reduced interest rates by 0.5% and assured banks that they could come to the Federal Reserve to alleviate funding needs caused by "dislocations in money and credit markets." On September 18, 2007, the Federal Reserve dropped interest rates another 0.5%, followed by 0.25% reductions at each of its Federal Open Market Committee meetings in October and December 2007.

By fall 2007, the turmoil in U.S. markets was mirrored in European markets. A British bank, Northern Rock, had to be bailed out by British regulators in September due to its investments in the U.S. subprime market.

As 2007 closed, employment growth in California was slowing and unemployment was rising. By the end of December 2007, employment growth in California had fallen to 0.6% from the 1.1% seen in July 2007, while unemployment had risen to 5.9% from the 5.4% of July.

As 2008 opened, more turmoil hit the stock and bond markets as the problems of risky debt affected more parts of the financial community. Both the Federal Reserve and Congress have stepped in to try to give a floor to the damage done by the credit crisis. The Federal Reserve reduced interest rates by an unprecedented 1.25% in January 2008. A federal tax rebate was approved by Congress, the proceeds of which should reach taxpayers in May 2008. Also to help the housing market, especially in California, the caps on Freddie Mac and Fannie Mae loans were raised for one year. It is hoped that these actions will be enough of an economic stimulus to avoid a national recession in 2008.

California's Future Budgets

California's 2007-08 Budget Act was enacted on August 24, 2007. The total spending plan adopted for the State was \$145.5 billion, including the General Fund, special funds, and bond funds. The General Fund's available resources and expenditures were projected to be \$105.6 billion and \$102.2 billion, respectively. The adopted budget included the largest reserve of any budget act in State history—a \$4.1 billion reserve (Reserve for Economic Uncertainties of \$2.6 billion and \$1.5 billion in the Budget Stabilization Account). However, a current projection by the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, shows that rather than ending the 2007-08 fiscal year with a \$4.1 billion reserve, the General Fund will have an

estimated deficit of \$106 million. The deterioration of the budget outlook is due to a worsening economy, lower-than-expected revenue collections, delayed benefits from one-time budget-balancing solutions, and higher costs.

General Fund revenues come predominately from taxes, with personal income taxes expected to provide 54% of the revenues. California's major taxes (personal income, sales, and corporation taxes) are projected to supply approximately 94% of the General Fund's budgeted resources in the 2007-08 fiscal year. Since the enactment of the budget, the State's weakening economy—particularly the depressed real estate market and high energy and gasoline prices—has caused year-to-date cash receipts for tax revenues to fall considerably short of budget estimates

Governor's Proposed Budget for 2008-09

The Governor released his proposed budget on January 10, 2008. The 2008-09 proposed spending plan (assuming all proposed budget reductions are enacted) totals \$141 billion. This spending plan represents estimated General Fund expenditures of \$101 billion, special fund expenditures of \$26.2 billion, and bond fund expenditures of \$13.8 billion. Proposed General Fund expenditures are 2.3% less than the \$103.4 billion expenditures estimated for the 2007-08 fiscal year.

The Governor's budget projects to end the 2007-08 fiscal year with a \$2.8 billion General Fund reserve in the Special Fund for Economic Uncertainties. The Governor suspended the annual transfer to the Budget Stabilization Account required by Proposition 58, passed by California's voters in 2004. Proposition 58 requires that, beginning in the 2007-08 fiscal year, the State transfer into the Budget Stabilization Account by September 30 of each year a specified portion of estimated General Fund revenues until the account balance reaches \$8 billion or 5% of the estimated General Fund revenues, whichever is greater.

In the 2008-09 *Overview of the Governor's Budget*, the LAO states that the Governor's budget revenue forecast is generally reasonable and the spending proposals are built upon solid assumptions about caseload and program requirements. However, the LAO added that, considering recent cash trends and economic reports, there are some risks in the Governor's assumptions. The proposed budget continues to demonstrate an annual operating shortfall, whereby the General Fund's operating expenses exceed its revenue.

Proposed budget-balancing solutions include issuing \$3.2 billion of additional deficit-financing bonds (actually issued on February 14, 2008); suspending the planned supplementary payments for early redemption of \$1.5 billion of outstanding deficit-financing bonds; accruing in fiscal year 2008-09 \$2.0 billion of the personal income and corporation tax revenue that will be received in fiscal year 2009-10; reducing K-14 education spending by \$400 million and suspending the Proposition 98 minimum-funding guarantee, resulting in \$4.0 billion additional savings in education spending; and reducing spending in most state programs through \$4.0 billion in across-the-board reductions.

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 to the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250. This report is also available on the Controller's Office Web site at www.sco.ca.gov.

Basic Financial Statements



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Government-wide Financial Statements



Statement of Net Assets

June 30, 2007

(amounts in thousands)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 23,818,784 | \$ 5,292,421 | \$ 29,111,205 | \$ 2,155,052 |
| Amount on deposit with U.S. Treasury | — | 3,455,035 | 3,455,035 | — |
| Investments | 2,186,949 | 570,525 | 2,757,474 | 12,641,306 |
| Restricted assets: | | | | |
| Cash and pooled investments | — | 1,897,014 | 1,897,014 | 8,316 |
| Investments | — | 636 | 636 | 45,981 |
| Due from other governments | — | 55,965 | 55,965 | — |
| Net investment in direct financing leases | — | 339,025 | 339,025 | — |
| Receivables (net) | 10,241,248 | 558,483 | 10,799,731 | 3,610,632 |
| Internal balances | 91,026 | (91,026) | — | — |
| Due from primary government | — | — | — | 258,295 |
| Due from other governments | 10,120,093 | 162,530 | 10,282,623 | 630,403 |
| Prepaid items | 86,914 | 9,208 | 96,122 | 3,468 |
| Inventories | 28,309 | 22,602 | 50,911 | 143,567 |
| Recoverable power costs (net) | — | 610,000 | 610,000 | — |
| Other current assets | 333,631 | 91,545 | 425,176 | 197,343 |
| Total current assets | 46,906,954 | 12,973,963 | 59,880,917 | 19,694,363 |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Cash and pooled investments | — | 1,116,426 | 1,116,426 | 128,334 |
| Investments | — | 734,112 | 734,112 | 63,184 |
| Loans receivable | — | 512,173 | 512,173 | — |
| Investments | — | 1,533,945 | 1,533,945 | 37,532,121 |
| Net investment in direct financing leases | — | 6,130,815 | 6,130,815 | — |
| Receivables (net) | 1,508,848 | 26,854 | 1,535,702 | 968,072 |
| Loans receivable | 2,557,843 | 3,340,818 | 5,898,661 | 7,487,539 |
| Recoverable power costs (net) | — | 6,503,000 | 6,503,000 | — |
| Deferred charges | 74,615 | 1,354,142 | 1,428,757 | 59,083 |
| Capital assets: | | | | |
| Land | 15,510,432 | 46,766 | 15,557,198 | 762,229 |
| State highway infrastructure | 55,991,217 | — | 55,991,217 | — |
| Collections – nondepreciable | 20,682 | 29 | 20,711 | 270,097 |
| Buildings and other depreciable property | 21,008,680 | 8,661,646 | 29,670,326 | 27,071,887 |
| Less: accumulated depreciation | (8,589,745) | (3,617,654) | (12,207,399) | (12,538,684) |
| Construction in progress | 7,876,896 | 1,176,650 | 9,053,546 | 3,966,242 |
| Other noncurrent assets | — | 6,903 | 6,903 | 354,751 |
| Total noncurrent assets | 95,959,468 | 27,526,625 | 123,486,093 | 66,124,855 |
| Total assets | \$ 142,866,422 | \$ 40,500,588 | \$ 183,367,010 | \$ 85,819,218 |

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 14,272,044 | \$ 701,959 | \$ 14,974,003 | \$ 1,968,021 |
| Due to component units | 252,732 | 5,563 | 258,295 | — |
| Due to other governments | 8,512,815 | 116,274 | 8,629,089 | 38 |
| Dividends payable | — | — | — | 3,100 |
| Deferred revenue | — | 58,360 | 58,360 | 812,025 |
| Tax overpayments | 4,135,882 | — | 4,135,882 | — |
| Deposits | 327,082 | 3,868 | 330,950 | 526,238 |
| Contracts and notes payable | 71,495 | — | 71,495 | 10,598 |
| Advance collections | 649,066 | 25,712 | 674,778 | 140,460 |
| Interest payable | 770,737 | 186,649 | 957,386 | 149,802 |
| Securities lending obligations | — | — | — | 6,720,587 |
| Benefits payable | — | 406,740 | 406,740 | 2,236,720 |
| Current portion of long-term obligations | 4,575,389 | 1,842,565 | 6,417,954 | 1,704,571 |
| Other current liabilities | 951,966 | 90,378 | 1,042,344 | 1,492,033 |
| Total current liabilities | 34,519,208 | 3,438,068 | 37,957,276 | 15,764,193 |
| Noncurrent liabilities: | | | | |
| Loans payable | 925,855 | — | 925,855 | — |
| Benefits payable | — | 8,881 | 8,881 | 17,004,589 |
| Lottery prizes and annuities | — | 1,382,603 | 1,382,603 | — |
| Compensated absences payable | 1,900,114 | 27,578 | 1,927,692 | 212,883 |
| Certificates of participation, commercial paper, and other borrowings | 106,119 | 179,782 | 285,901 | 128,925 |
| Capital lease obligations | 4,047,186 | — | 4,047,186 | 2,115,552 |
| General obligation bonds payable | 48,224,339 | 1,817,790 | 50,042,129 | — |
| Revenue bonds payable | 7,882,593 | 21,891,372 | 29,773,965 | 14,171,930 |
| Other noncurrent liabilities | 9,884,140 | 540,822 | 10,424,962 | 1,665,706 |
| Total noncurrent liabilities | 72,970,346 | 25,848,828 | 98,819,174 | 35,299,585 |
| Total liabilities | 107,489,554 | 29,286,896 | 136,776,450 | 51,063,778 |
| NET ASSETS | | | | |
| Investment in capital assets, net of related debt | 81,352,744 | 208,268 | 81,561,012 | 9,973,008 |
| Restricted: | | | | |
| Nonexpendable – endowments | — | — | — | 3,295,495 |
| Expendable: | | | | |
| Endowments and gifts | — | — | — | 7,675,480 |
| Business and transportation | 767,878 | 140,750 | 908,628 | 1,392,047 |
| Resources | 1,822,499 | 1,701,060 | 3,523,559 | — |
| Health and human services | 2,639,357 | 93,036 | 2,732,393 | — |
| Education | 1,721,735 | 341,686 | 2,063,421 | 1,591,151 |
| General government | 3,493,338 | 678,372 | 4,171,710 | 852,703 |
| Unemployment programs | 98,795 | 5,620,028 | 5,718,823 | — |
| Workers' compensation liability | — | — | — | 3,808,975 |
| Total expendable | 10,543,602 | 8,574,932 | 19,118,534 | 15,320,356 |
| Unrestricted | (56,519,478) | 2,430,492 | (54,088,986) | 6,166,581 |
| Total net assets | 35,376,868 | 11,213,692 | 46,590,560 | 34,755,440 |
| Total liabilities and net assets | \$ 142,866,422 | \$ 40,500,588 | \$ 183,367,010 | \$ 85,819,218 |

Statement of Activities

Year Ended June 30, 2007
(amounts in thousands)

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | |
|---|------------------------------|-----------------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary government | | | | |
| Governmental activities: | | | | |
| General government | \$ 13,313,463 | \$ 4,490,117 | \$ 1,086,838 | \$ — |
| Education | 61,542,105 | 2,689,906 | 6,352,236 | — |
| Health and human services | 69,979,980 | 4,751,011 | 33,538,232 | — |
| Resources | 5,316,769 | 2,110,593 | 501,393 | — |
| State and consumer services | 1,214,740 | 704,512 | 31,045 | — |
| Business and transportation | 9,763,200 | 4,040,268 | 1,735,395 | 1,164,526 |
| Correctional programs | 8,945,325 | 30,821 | 194,963 | — |
| Tax relief | 948,127 | 5,049 | — | — |
| Interest on long-term debt | 2,596,316 | — | — | — |
| Total governmental activities | <u>173,620,025</u> | <u>18,822,277</u> | <u>43,440,102</u> | <u>1,164,526</u> |
| Business-type activities: | | | | |
| Electric Power | 5,865,000 | 5,865,000 | — | — |
| Water Resources | 951,590 | 951,590 | — | — |
| Public Building Construction | 334,777 | 396,895 | — | — |
| State Lottery | 3,470,615 | 3,461,699 | — | — |
| Unemployment Programs | 9,136,218 | 9,017,969 | — | — |
| High Technology Education | 22,704 | 22,966 | — | — |
| State University Dormitory Building | | | | |
| Maintenance and Equipment | 844,798 | 554,851 | — | — |
| State Water Pollution Control Revolving | 12,702 | 78,564 | — | 182,989 |
| Housing Loan | 127,206 | 130,293 | — | — |
| Other enterprise programs | 141,859 | 134,018 | — | — |
| Total business-type activities | <u>20,907,469</u> | <u>20,613,845</u> | <u>—</u> | <u>182,989</u> |
| Total primary government | <u>\$ 194,527,494</u> | <u>\$ 39,436,122</u> | <u>\$ 43,440,102</u> | <u>\$ 1,347,515</u> |
| Component units: | | | | |
| University of California | \$ 19,572,249 | \$ 10,714,361 | \$ 7,475,951 | \$ 216,783 |
| State Compensation Insurance Fund | 3,791,291 | 3,477,665 | — | — |
| California Housing Finance Agency | 536,157 | 516,398 | 114,235 | — |
| Public Employees' Benefit Fund | 1,903,139 | 1,649,056 | — | — |
| Nonmajor component units | 1,961,587 | 1,187,287 | 518,346 | 14,780 |
| Total component units | <u>\$ 27,764,423</u> | <u>\$ 17,544,767</u> | <u>\$ 8,108,532</u> | <u>\$ 231,563</u> |
| General revenues: | | | | |
| Personal income taxes | | | | |
| Sales and use taxes | | | | |
| Corporation taxes | | | | |
| Insurance taxes | | | | |
| Other taxes | | | | |
| Investment and interest | | | | |
| Escheat | | | | |
| Other | | | | |
| Transfers | | | | |
| Total general revenues and transfers | | | | |
| Change in net assets | | | | |
| Net assets, July 1, 2006 | | | | |
| Net assets, June 30, 2007 | | | | |

* Restated

| Net (Expenses) Revenues and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|----------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (7,736,508) | | \$ (7,736,508) | |
| (52,499,963) | | (52,499,963) | |
| (31,690,737) | | (31,690,737) | |
| (2,704,783) | | (2,704,783) | |
| (479,183) | | (479,183) | |
| (2,823,011) | | (2,823,011) | |
| (8,719,541) | | (8,719,541) | |
| (943,078) | | (943,078) | |
| (2,596,316) | | (2,596,316) | |
| <u>(110,193,120)</u> | | <u>(110,193,120)</u> | |
| | \$ — | — | |
| | — | — | |
| | 62,118 | 62,118 | |
| | (8,916) | (8,916) | |
| | (118,249) | (118,249) | |
| | 262 | 262 | |
| | (289,947) | (289,947) | |
| | 248,851 | 248,851 | |
| | 3,087 | 3,087 | |
| | (7,841) | (7,841) | |
| | <u>(110,635)</u> | <u>(110,635)</u> | |
| <u>(110,193,120)</u> | <u>(110,635)</u> | <u>(110,303,755)</u> | |
| | | | \$ (1,165,154) |
| | | | (313,626) |
| | | | 94,476 |
| | | | (254,083) |
| | | | <u>(241,174)</u> |
| | | | <u>(1,879,561)</u> |
| 53,272,229 | — | 53,272,229 | — |
| 35,427,013 | — | 35,427,013 | — |
| 11,211,267 | — | 11,211,267 | — |
| 2,165,567 | — | 2,165,567 | — |
| 5,939,890 | — | 5,939,890 | — |
| 730,066 | — | 730,066 | 3,310,604 |
| 334,002 | — | 334,002 | — |
| — | — | — | 2,289,508 |
| 29,855 | (29,855) | — | — |
| <u>109,109,889</u> | <u>(29,855)</u> | <u>109,080,034</u> | <u>5,600,112</u> |
| (1,083,231) | (140,490) | (1,223,721) | 3,720,551 |
| <u>36,460,099</u> * | <u>11,354,182</u> * | <u>47,814,281</u> | <u>31,034,889</u> * |
| <u>\$ 35,376,868</u> | <u>\$ 11,213,692</u> | <u>\$ 46,590,560</u> | <u>\$ 34,755,440</u> |

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, 2007
(amounts in thousands)

| | <u>General</u> | <u>Federal</u> | <u>Transportation Construction</u> | <u>Nonmajor Governmental</u> | <u>Total</u> |
|--|----------------------|---------------------|--|----------------------------------|----------------------|
| ASSETS | | | | | |
| Cash and pooled investments | \$ 5,963,406 | \$ 464,518 | \$ 2,858,025 | \$ 13,748,126 | \$ 23,034,075 |
| Investments | — | — | — | 2,186,949 | 2,186,949 |
| Receivables (net) | 8,442,061 | 1,854 | 401,440 | 1,264,137 | 10,109,492 |
| Due from other funds | 1,169,840 | 719 | 1,480,042 | 2,024,215 | 4,674,816 |
| Due from other governments | 695,527 | 9,287,856 | 2,985 | 116,882 | 10,103,250 |
| Interfund receivables | 83,785 | — | 1,699,747 | 726,549 | 2,510,081 |
| Loans receivable | 99,768 | 43,465 | — | 2,347,674 | 2,490,907 |
| Other assets | 36,327 | — | 76,144 | 169,394 | 281,865 |
| Total assets | \$ 16,490,714 | \$ 9,798,412 | \$ 6,518,383 | \$ 22,583,926 | \$ 55,391,435 |
| LIABILITIES | | | | | |
| Accounts payable | \$ 1,093,020 | \$ 1,323,497 | \$ 106,518 | \$ 3,140,801 | \$ 5,663,836 |
| Due to other funds | 4,877,236 | 6,344,969 | 12,458 | 1,321,798 | 12,556,461 |
| Due to component units | 185,327 | — | — | 60,484 | 245,811 |
| Due to other governments | 4,131,316 | 2,006,709 | 305,952 | 2,447,756 | 8,891,733 |
| Interfund payables | 3,350,931 | — | — | 13,849 | 3,364,780 |
| Tax overpayments | 4,126,462 | — | — | 9,420 | 4,135,882 |
| Deposits | 7,615 | — | 10,632 | 302,493 | 320,740 |
| Contracts and notes payable | — | — | — | 65,706 | 65,706 |
| Advance collections | 40,058 | 57,980 | 5,867 | 300,677 | 404,582 |
| Interest payable | 16,782 | 9,130 | — | 200,400 | 226,312 |
| General obligation bonds payable..... | — | — | — | 189,705 | 189,705 |
| Other liabilities | 569,505 | 18,403 | 197,347 | 536,321 | 1,321,576 |
| Total liabilities | 18,398,252 | 9,760,688 | 638,774 | 8,589,410 | 37,387,124 |
| FUND BALANCES | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 746,729 | — | 2,468,256 | 3,246,260 | 6,461,245 |
| Interfund receivables | 83,785 | — | 1,699,747 | 726,549 | 2,510,081 |
| Loans receivable | 99,768 | 43,465 | — | 2,347,674 | 2,490,907 |
| Continuing appropriations | 1,666,255 | — | 4,903,990 | 5,366,369 | 11,936,614 |
| Debt service..... | — | — | — | 1,152,990 | 1,152,990 |
| Unreserved, reported in: | | | | | |
| General Fund | (4,504,075) | — | — | — | (4,504,075) |
| Special revenue funds | — | (5,741) | (3,192,384) | 2,283,282 | (914,843) |
| Capital projects funds | — | — | — | (1,128,608) | (1,128,608) |
| Total fund balances | (1,907,538) | 37,724 | 5,879,609 | 13,994,516 | 18,004,311 |
| Total liabilities and fund balances | \$ 16,490,714 | \$ 9,798,412 | \$ 6,518,383 | \$ 22,583,926 | |

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

(amounts in thousands)

| | |
|---|----------------------|
| Total fund balances – governmental funds | \$ 18,004,311 |
| Amounts reported for governmental activities in the Statement of Net Assets are different from the governmental funds Balance Sheet because: | |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 91,633,168 |
| • Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported. | 1,526,553 |
| • 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 assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. | 393,737 |
| • Bond discounts and premiums are reported as current expenditures in the funds. Deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets. | 74,615 |
| • General obligation bonds totaling \$50,624,162 and revenue bonds totaling \$8,009,784 are not due and payable in the current period and, therefore, are not reported in the funds. | (58,633,946) |
| • Certain long-term liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds: | |
| Compensated absences adjustments | (1,940,167) |
| Certificates of participation and commercial paper adjustments | (1,358,051) |
| Capital lease adjustments | (4,335,561) |
| Other long-term obligations | (9,987,791) |
| | (17,621,570) |
| Net assets of governmental activities | \$ 35,376,868 |

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2007

(amounts in thousands)

| | General | Federal | Transportation Construction | Nonmajor Governmental | Total |
|--|-----------------------|-------------------|--------------------------------|--------------------------|----------------------|
| REVENUES | | | | | |
| Personal income taxes | \$ 52,350,764 | \$ — | \$ — | \$ 938,760 | \$ 53,289,524 |
| Sales and use taxes | 27,402,715 | — | 950,814 | 7,097,782 | 35,451,311 |
| Corporation taxes | 11,210,267 | — | — | — | 11,210,267 |
| Insurance taxes | 2,165,567 | — | — | — | 2,165,567 |
| Other taxes | 537,736 | — | 3,224,021 | 2,038,270 | 5,800,027 |
| Intergovernmental | — | 44,590,863 | — | 1,851,656 | 46,442,519 |
| Licenses and permits | 17,331 | — | 1,006,343 | 4,242,468 | 5,266,142 |
| Charges for services | 168,934 | — | 737 | 741,716 | 911,387 |
| Fees | 586,448 | — | — | 4,746,042 | 5,332,490 |
| Penalties | 50,169 | 1,221 | — | 710,068 | 761,458 |
| Investment and interest | 561,766 | — | 146,166 | 847,270 | 1,555,202 |
| Escheat | 334,002 | — | — | — | 334,002 |
| Other | 923,798 | — | 83,990 | 2,724,803 | 3,732,591 |
| Total revenues | 96,309,497 | 44,592,084 | 5,412,071 | 25,938,835 | 172,252,487 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 2,608,056 | 1,080,787 | 1,139,806 | 8,276,267 | 13,104,916 |
| Education | 49,343,928 | 6,726,053 | 980 | 5,032,047 | 61,103,008 |
| Health and human services | 28,945,062 | 32,376,784 | — | 8,835,960 | 70,157,806 |
| Resources | 1,455,477 | 374,313 | 12 | 3,361,276 | 5,191,078 |
| State and consumer services | 538,343 | 31,033 | — | 645,376 | 1,214,752 |
| Business and transportation | 13,624 | 2,824,607 | 6,112,879 | 2,533,959 | 11,485,069 |
| Correctional programs | 8,811,099 | 199,503 | — | 19,697 | 9,030,299 |
| Tax relief | 958,004 | — | — | — | 958,004 |
| Capital outlay | 178,936 | — | — | 1,166,085 | 1,345,021 |
| Debt service: | | | | | |
| Bond and commercial paper retirement | 1,416,946 | 49,190 | 310 | 4,225,345 | 5,691,791 |
| Interest and fiscal charges | 1,917,108 | 22,959 | 7,110 | 934,672 | 2,881,849 |
| Total expenditures | 96,186,583 | 43,685,229 | 7,261,097 | 35,030,684 | 182,163,593 |
| Excess (deficiency) of revenues over (under) expenditures | 122,914 | 906,855 | (1,849,026) | (9,091,849) | (9,911,106) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| General obligation bonds and commercial paper issued | | | | | |
| Refunding bonds issued | — | — | 310 | 9,040,190 | 9,040,500 |
| Payment to refunding agent | — | — | 302,900 | 8,795,476 | 9,098,376 |
| Capital leases | — | — | (302,900) | (7,537,721) | (7,840,621) |
| Transfers in | 178,936 | — | — | — | 178,936 |
| Transfers out | 1,590,173 | — | 3,385,830 | 4,335,459 | 9,311,462 |
| Transfers out | (6,472,376) | (903,571) | (28,687) | (1,838,137) | (9,242,771) |
| Total other financing sources (uses) ... | (4,703,267) | (903,571) | 3,357,453 | 12,795,267 | 10,545,882 |
| Net change in fund balances | (4,580,353) | 3,284 | 1,508,427 | 3,703,418 | 634,776 |
| Fund balances, July 1, 2006 | 2,672,815 | 34,440 | 4,371,182 * | 10,291,098 * | 17,369,535 |
| Fund balances (deficits), June 30, 2007 | \$ (1,907,538) | \$ 37,724 | \$ 5,879,609 | \$ 13,994,516 | \$ 18,004,311 |

* Restated

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 **\$ 634,776**

Amounts reported for governmental activities in the Statement of Activities are different from 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. This is the amount by which capital outlays exceed depreciation in the current period. 2,752,640

- Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds. 299,451

- 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 Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The following amounts represent the difference between proceeds and repayments.

| | | |
|--|-------------|-------------|
| General obligation bond adjustments | (3,278,017) | |
| Revenue bond adjustments | (900,237) | |
| Certificates of participation and commercial paper adjustments | (434,161) | |
| | | (4,612,415) |

- Some 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 | (226,062) | |
| Lease adjustments | 119,146 | |
| Other long-term obligations | 219,514 | |
| | | 112,598 |

- 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. (270,281)

Change in net assets of governmental activities **\$ (1,083,231)**

Statement of Net Assets

Proprietary Funds

June 30, 2007
(amounts in thousands)

| | <u>Electric Power</u> | <u>Water Resources</u> |
|---|-----------------------|------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and pooled investments | \$ — | \$ 391,517 |
| Amount on deposit with U.S. Treasury | — | — |
| Investments | — | — |
| Restricted assets: | | |
| Cash and pooled investments | 1,716,000 | — |
| Investments..... | — | — |
| Due from other governments | — | — |
| Net investment in direct financing leases | — | — |
| Receivables (net) | — | 151,009 |
| Due from other funds | 41,000 | 8,230 |
| Due from other governments | — | 15,381 |
| Prepaid items | — | — |
| Inventories | — | 12,606 |
| Recoverable power costs (net) | 610,000 | — |
| Other current assets | 91,000 | — |
| Total current assets | 2,458,000 | 578,743 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and pooled investments | 942,000 | 120,703 |
| Investments | 600,000 | 99,958 |
| Loans receivable | — | — |
| Investments | — | — |
| Net investment in direct financing leases | — | — |
| Receivables | — | — |
| Interfund receivables | — | 91,517 |
| Loans receivable | — | 25,928 |
| Recoverable power costs (net) | 6,503,000 | — |
| Deferred charges | — | 1,239,653 |
| Capital assets: | | |
| Land | — | — |
| Collections – nondepreciable..... | — | — |
| Buildings and other depreciable property | — | 4,584,669 |
| Less: accumulated depreciation | — | (1,800,158) |
| Construction in progress | — | 253,152 |
| Other noncurrent assets | — | — |
| Total noncurrent assets | 8,045,000 | 4,615,422 |
| Total assets | \$ 10,503,000 | \$ 5,194,165 |

| Business-type Activities – Enterprise Funds | | | | | Governmental |
|---|---------------------|---------------------|---------------------|----------------------|---------------------|
| Public Building | State | Unemployment | Nonmajor | | Internal |
| Construction | Lottery | Programs | Enterprise | Total | Service Funds |
| \$ — | \$ 350,836 | \$ 2,490,806 | \$ 2,059,262 | \$ 5,292,421 | \$ 784,709 |
| — | — | 3,455,035 | — | 3,455,035 | — |
| — | 314,702 | — | 255,823 | 570,525 | — |
| 109,524 | — | — | 71,490 | 1,897,014 | — |
| 636 | — | — | — | 636 | — |
| — | — | — | 55,965 | 55,965 | — |
| 324,416 | — | — | 14,609 | 339,025 | — |
| 133,157 | 225,278 | 152,488 | 31,079 | 693,011 | 117,209 |
| 28,814 | 6,298 | 36,853 | 31,009 | 152,204 | 328,806 |
| — | — | 30,720 | 116,429 | 162,530 | 16,843 |
| — | 8,630 | — | 578 | 9,208 | 69,209 |
| — | 6,314 | — | 3,682 | 22,602 | 28,309 |
| — | — | — | — | 610,000 | — |
| — | — | — | 545 | 91,545 | 50,751 |
| 596,547 | 912,058 | 6,165,902 | 2,640,471 | 13,351,721 | 1,395,836 |
| 38,353 | — | — | 15,370 | 1,116,426 | — |
| 22,915 | — | — | 11,239 | 734,112 | — |
| — | — | — | 512,173 | 512,173 | — |
| — | 1,472,958 | — | 60,987 | 1,533,945 | — |
| 6,029,202 | — | — | 101,613 | 6,130,815 | — |
| — | — | 26,854 | — | 26,854 | — |
| — | — | — | 2,188 | 93,705 | — |
| — | — | — | 3,314,890 | 3,340,818 | — |
| — | — | — | — | 6,503,000 | — |
| 65,712 | 13,027 | — | 35,750 | 1,354,142 | — |
| — | 4,923 | — | 41,843 | 46,766 | 231 |
| — | — | — | 29 | 29 | — |
| — | 98,398 | 14,458 | 3,964,121 | 8,661,646 | 569,030 |
| — | (53,118) | (4,982) | (1,759,396) | (3,617,654) | (387,803) |
| 676,642 | — | — | 246,856 | 1,176,650 | 3,536 |
| — | — | — | 6,903 | 6,903 | — |
| 6,832,824 | 1,536,188 | 36,330 | 6,554,566 | 27,620,330 | 184,994 |
| \$ 7,429,371 | \$ 2,448,246 | \$ 6,202,232 | \$ 9,195,037 | \$ 40,972,051 | \$ 1,580,830 |

(continued)

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2007

(amounts in thousands)

| | Electric Power | Water Resources |
|--|-----------------------|------------------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 453,000 | \$ 107,968 |
| Due to other funds | — | 195 |
| Due to component units | — | — |
| Due to other governments | — | 99,462 |
| Deferred revenue | — | — |
| Deposits | — | — |
| Contracts and notes payable | — | — |
| Advance collections | — | — |
| Interest payable | 55,000 | 19,278 |
| Benefits payable | — | — |
| Current portion of long-term obligations | 487,000 | 145,556 |
| Other current liabilities | — | — |
| Total current liabilities | 995,000 | 372,459 |
| Noncurrent liabilities: | | |
| Interfund payables | — | — |
| Benefits payable | — | — |
| Lottery prizes and annuities | — | — |
| Compensated absences payable | — | — |
| Certificates of participation, commercial paper, and other borrowings | — | 133,362 |
| Capital lease obligations | — | — |
| General obligation bonds payable | — | 584,395 |
| Revenue bonds payable | 9,508,000 | 2,492,548 |
| Other noncurrent liabilities | — | 405,970 |
| Total noncurrent liabilities | 9,508,000 | 3,616,275 |
| Total liabilities | 10,503,000 | 3,988,734 |
| NET ASSETS | | |
| Investment in capital assets, net of related debt | — | 98,490 |
| Restricted – Expendable: | | |
| Construction | — | 1,106,941 |
| Debt service | — | — |
| Security for revenue bonds | — | — |
| Lottery | — | — |
| Unemployment program | — | — |
| Other purposes | — | — |
| Total expendable | — | 1,106,941 |
| Unrestricted | — | — |
| Total net assets | — | 1,205,431 |
| Total liabilities and net assets | \$ 10,503,000 | \$ 5,194,165 |

| Business-type Activities – Enterprise Funds | | | | | Governmental |
|---|---------------------|---------------------|---------------------|----------------------|---------------------|
| Public Building | State | Unemployment | Nonmajor | | Internal |
| Construction | Lottery | Programs | Enterprise | Total | Service Funds |
| \$ 18,005 | \$ 38,347 | \$ 5 | \$ 58,815 | \$ 676,140 | \$ 200,268 |
| 116,758 | 292,466 | 51,068 | 34,607 | 495,094 | 523,483 |
| — | — | — | 5,563 | 5,563 | 6,921 |
| 897 | — | 14,618 | 1,297 | 116,274 | 13 |
| — | — | — | 58,360 | 58,360 | — |
| — | — | — | 3,868 | 3,868 | 6,342 |
| — | — | — | — | — | 5,789 |
| 19,037 | 2,570 | — | 4,105 | 25,712 | 244,484 |
| 64,251 | — | — | 48,120 | 186,649 | — |
| — | — | 406,740 | — | 406,740 | — |
| 348,674 | 630,374 | — | 230,961 | 1,842,565 | 15,052 |
| — | — | 85,441 | 4,937 | 90,378 | 3,115 |
| 567,622 | 963,757 | 557,872 | 450,633 | 3,907,343 | 1,005,467 |
| — | — | — | 2,188 | 2,188 | 95,737 |
| — | — | — | 8,881 | 8,881 | — |
| — | 1,382,603 | — | — | 1,382,603 | — |
| — | 5,162 | 14,855 | 7,561 | 27,578 | 46,912 |
| — | — | — | 46,420 | 179,782 | — |
| — | — | — | — | — | 9,115 |
| — | — | — | 1,233,395 | 1,817,790 | — |
| 6,567,593 | — | — | 3,323,231 | 21,891,372 | — |
| — | 1,409 | — | 133,443 | 540,822 | 29,862 |
| 6,567,593 | 1,389,174 | 14,855 | 4,755,119 | 25,851,016 | 181,626 |
| 7,135,215 | 2,352,931 | 572,727 | 5,205,752 | 29,758,359 | 1,187,093 |
| — | 50,203 | 9,477 | 50,098 | 208,268 | 162,222 |
| 262,461 | — | — | 290,071 | 1,659,473 | — |
| 31,695 | — | — | 54,393 | 86,088 | — |
| — | — | — | 568,138 | 568,138 | — |
| — | 95,315 | — | — | 95,315 | — |
| — | — | 5,620,028 | — | 5,620,028 | — |
| — | — | — | 545,890 | 545,890 | — |
| 294,156 | 95,315 | 5,620,028 | 1,458,492 | 8,574,932 | — |
| — | (50,203) | — | 2,480,695 | 2,430,492 | 231,515 |
| 294,156 | 95,315 | 5,629,505 | 3,989,285 | 11,213,692 | 393,737 |
| \$ 7,429,371 | \$ 2,448,246 | \$ 6,202,232 | \$ 9,195,037 | \$ 40,972,051 | \$ 1,580,830 |

(concluded)

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

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year Ended June 30, 2007

(amounts in thousands)

| | <u>Electric Power</u> | <u>Water Resources</u> |
|--|-----------------------|------------------------|
| OPERATING REVENUES | | |
| Unemployment and disability insurance | \$ — | \$ — |
| Lottery ticket sales | — | — |
| Power sales | 4,843,000 | 222,206 |
| Student tuition and fees | — | — |
| Services and sales | — | 729,384 |
| Investment and interest | — | — |
| Rent | — | — |
| Other | — | — |
| Total operating revenues | 4,843,000 | 951,590 |
| OPERATING EXPENSES | | |
| Lottery prizes | — | — |
| Power purchases (net of recoverable power costs) | 4,813,000 | 374,568 |
| Personal services | — | 203,021 |
| Supplies | — | — |
| Services and charges | 30,000 | 116,471 |
| Depreciation | — | 78,065 |
| Distributions to beneficiaries | — | — |
| Interest expense | — | — |
| Amortization of deferred charges | — | — |
| Other | — | — |
| Total operating expenses | 4,843,000 | 772,125 |
| Operating income (loss) | — | 179,465 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment and interest income | 1,022,000 | — |
| Interest expense and fiscal charges | (1,022,000) | (151,746) |
| Lottery payments for education | — | — |
| Other | — | (27,719) |
| Total nonoperating revenues (expenses) | — | (179,465) |
| Income (loss) before contributions and transfers | — | — |
| Capital contributions | — | — |
| Transfers in | — | — |
| Transfers out | — | — |
| Change in net assets | — | — |
| Total net assets, July 1, 2006 | — | 1,205,431 |
| Total net assets, June 30, 2007 | \$ — | \$ 1,205,431 |

* Restated

| Business-type Activities – Enterprise Funds | | | | | Governmental |
|---|--------------------|---------------------|---------------------|----------------------|-------------------|
| Public Building | State | Unemployment | Nonmajor | | Internal |
| Construction | Lottery | Programs | Enterprise | Total | Service Funds |
| \$ — | \$ — | \$ 8,607,112 | \$ — | \$ 8,607,112 | \$ — |
| — | 3,318,346 | — | — | 3,318,346 | — |
| — | — | — | — | 5,065,206 | — |
| — | — | — | 499,667 | 499,667 | — |
| — | — | 126,741 | 91,451 | 947,576 | 2,205,471 |
| 33,075 | — | — | 184,492 | 217,567 | 289 |
| 363,818 | — | — | 43,031 | 406,849 | — |
| 2 | — | — | 14,205 | 14,207 | — |
| 396,895 | 3,318,346 | 8,733,853 | 832,846 | 19,076,530 | 2,205,760 |
| — | 1,765,643 | — | — | 1,765,643 | — |
| — | — | — | — | 5,187,568 | — |
| — | 42,225 | 138,191 | 153,299 | 536,736 | 640,715 |
| — | 12,524 | — | — | 12,524 | 11,766 |
| 3,699 | 336,423 | 65,194 | 622,653 | 1,174,440 | 1,461,437 |
| — | 9,100 | 716 | 87,837 | 175,718 | 39,926 |
| — | — | 8,932,117 | — | 8,932,117 | — |
| 324,246 | — | — | 231,567 | 555,813 | 734 |
| 6,832 | — | — | 874 | 7,706 | — |
| — | — | — | 36,942 | 36,942 | — |
| 334,777 | 2,165,915 | 9,136,218 | 1,133,172 | 18,385,207 | 2,154,578 |
| 62,118 | 1,152,431 | (402,365) | (300,326) | 691,323 | 51,182 |
| — | 142,153 | 284,116 | 87,681 | 1,535,950 | 2,931 |
| — | (127,771) | — | (9,208) | (1,310,725) | (357) |
| — | (1,176,929) | — | — | (1,176,929) | — |
| — | 1,200 | — | (6,724) | (33,243) | (285,201) |
| — | (1,161,347) | 284,116 | 71,749 | (984,947) | (282,627) |
| 62,118 | (8,916) | (118,249) | (228,577) | (293,624) | (231,445) |
| — | — | — | 182,989 | 182,989 | — |
| 66,601 | — | — | 1,571 | 68,172 | — |
| — | — | — | (98,027) | (98,027) | (38,836) |
| 128,719 | (8,916) | (118,249) | (142,044) | (140,490) | (270,281) |
| 165,437 | 104,231 | 5,747,754 | 4,131,329 * | 11,354,182 | 664,018 * |
| \$ 294,156 | \$ 95,315 | \$ 5,629,505 | \$ 3,989,285 | \$ 11,213,692 | \$ 393,737 |

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

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2007
(amounts in thousands)

| | <u>Electric Power</u> | <u>Water Resources</u> |
|--|-----------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers/employers | \$ 4,836,000 | \$ 946,659 |
| Receipts from interfund services provided | — | — |
| Payments to suppliers | (4,719,000) | (494,782) |
| Payments to employees | — | (203,021) |
| Payments for interfund services used | — | — |
| Payments for Lottery prizes | — | — |
| Claims paid to other than employees | — | — |
| Other receipts (payments) | 42,000 | (68,037) |
| Net cash provided by (used in) operating activities | 159,000 | 180,819 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Changes in interfund payables and loans payable | — | — |
| Proceeds from bonds | — | — |
| Receipts of bond charges | 865,000 | — |
| Retirement of general obligation bonds | — | — |
| Retirement of revenue bonds | (447,000) | — |
| Interest paid on operating debt | (448,000) | — |
| Transfers in | — | — |
| Transfers out | — | — |
| Grants received | — | — |
| Lottery payments for education | — | — |
| Net cash provided by (used in) noncapital financing activities | (30,000) | — |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Changes in interfund payables and loans payable | — | — |
| Acquisition of intangible assets | — | — |
| Acquisition of capital assets | — | (95,124) |
| Proceeds from sale of capital assets | — | — |
| Proceeds from notes payable and commercial paper | — | 4,621 |
| Principal paid on notes payable and commercial paper | — | — |
| Retirement of general obligation bonds | — | (48,965) |
| Proceeds from revenue bonds | — | 250,000 |
| Retirement of revenue bonds | — | (70,860) |
| Interest paid | — | (152,571) |
| Net cash provided by (used in) capital and related financing activities | — | (112,899) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | — | — |
| Proceeds from maturity and sale of investments | — | — |
| Change in interfund receivables and loans receivable | — | 475 |
| Earnings (loss) on investments | 159,000 | (22,335) |
| Net cash provided by (used in) investing activities | 159,000 | (21,860) |
| Net increase (decrease) in cash and pooled investments | 288,000 | 46,060 |
| Cash and pooled investments at July 1, 2006 | 2,370,000 | 466,160 |
| Cash and pooled investments at June 30, 2007 | \$ 2,658,000 | \$ 512,220 |

| Business-type Activities – Enterprise Funds | | | | | Governmental |
|---|--------------------|---------------------|---------------------|---------------------|-------------------|
| Public Building | State | Unemployment | Nonmajor | | Activities |
| Construction | Lottery | Programs | Enterprise | Total | Internal |
| | | | | | Service Funds |
| \$ 671,331 | \$ 3,335,785 | \$ 8,796,746 | \$ 682,564 | \$ 19,269,085 | \$ 2,255,046 |
| — | — | — | 7,702 | 7,702 | 90,015 |
| (3,573) | (131,240) | (65,200) | (628,438) | (6,042,233) | (1,411,186) |
| — | (37,758) | (131,072) | (157,652) | (529,503) | (647,139) |
| — | (9,418) | — | (18,562) | (27,980) | (81,591) |
| — | (2,119,823) | — | — | (2,119,823) | — |
| — | (233,771) | (8,869,062) | (14) | (9,102,847) | (12,819) |
| (277,522) | 58,565 | 28,418 | (179,934) | (396,510) | 87,195 |
| 390,236 | 862,340 | (240,170) | (294,334) | 1,057,891 | 279,521 |
| — | — | — | 4,938 | 4,938 | 1,640 |
| — | — | — | 735,235 | 735,235 | — |
| — | — | — | — | 865,000 | — |
| — | — | — | (319,280) | (319,280) | — |
| — | — | — | (315,311) | (762,311) | — |
| — | — | — | (10,655) | (458,655) | (61) |
| 10,671 | — | — | 1,571 | 12,242 | — |
| — | — | — | (55,409) | (55,409) | (38,836) |
| — | — | — | 184,160 | 184,160 | — |
| — | (1,236,996) | — | — | (1,236,996) | — |
| 10,671 | (1,236,996) | — | 225,249 | (1,031,076) | (37,257) |
| (17,711) | — | — | 8,301 | (9,410) | — |
| — | — | — | (527) | (527) | (2,831) |
| (604,201) | (2,340) | (728) | (495,769) | (1,198,162) | (57,333) |
| — | 7 | — | 313,569 | 313,576 | 514 |
| — | — | — | 67,367 | 71,988 | — |
| — | — | — | (85,277) | (85,277) | (1,227) |
| — | — | — | — | (48,965) | — |
| 384,796 | — | — | 359,639 | 994,435 | — |
| (365,953) | — | — | (60,575) | (497,388) | — |
| — | — | — | (99,598) | (252,169) | (1,030) |
| (603,069) | (2,333) | (728) | 7,130 | (711,899) | (61,907) |
| (19,596) | (287,421) | (609,623) | (255,824) | (1,172,464) | — |
| — | 625,942 | — | 109,100 | 735,042 | — |
| — | — | — | — | 475 | — |
| — | 22,642 | 284,116 | 85,749 | 529,172 | 2,782 |
| (19,596) | 361,163 | (325,507) | (60,975) | 92,225 | 2,782 |
| (221,758) | (15,826) | (566,405) | (122,930) | (592,859) | 183,139 |
| 369,635 | 366,662 | 3,057,211 | 2,269,052 | 8,898,720 | 601,570 |
| \$ 147,877 | \$ 350,836 | \$ 2,490,806 | \$ 2,146,122 | \$ 8,305,861 | \$ 784,709 |

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2007

(amounts in thousands)

| | <u>Electric Power</u> | <u>Water Resources</u> |
|--|-----------------------|------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ — | \$ 179,465 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Interest expense on operating debt | — | — |
| Depreciation | — | 78,065 |
| Accretion of capital appreciation bonds | — | — |
| Provisions and allowances | — | — |
| Accrual of deferred charges | — | — |
| Amortization of discounts | — | — |
| Amortization of deferred charges | — | (10,955) |
| Other | — | (68,037) |
| Change in assets and liabilities: | | |
| Receivables | — | (41,057) |
| Due from other funds | — | — |
| Due from other governments | — | (7,786) |
| Prepaid items | — | — |
| Inventories | — | 845 |
| Net investment in direct financing leases | — | — |
| Recoverable power costs (net) | 223,000 | — |
| Other current assets | — | — |
| Loans receivable | — | — |
| Interfund receivable | — | — |
| Accounts payable | (59,000) | 38,039 |
| Due to other funds | — | (7,164) |
| Due to component units | — | — |
| Due to other governments | — | 17,927 |
| Deposits | — | — |
| Contracts and notes payable | — | — |
| Advance collections | — | — |
| Interest payable | — | — |
| Other current liabilities | — | — |
| Deferred revenue | — | — |
| Benefits payable | — | — |
| Lottery prizes and annuities | — | — |
| Compensated absences payable | — | 1,477 |
| Capital lease obligations | — | — |
| Other noncurrent liabilities | (5,000) | — |
| Total adjustments | <u>159,000</u> | <u>1,354</u> |
| Net cash provided by (used in) operating activities | \$ 159,000 | \$ 180,819 |
| Noncash capital and related financing and investing activities | | |
| Interest accreted on annuitized prizes | \$ — | \$ — |
| Unclaimed Lottery prizes directly transferred to Education Fund | — | — |
| Unrealized loss on investment | — | — |
| Acquisition of equipment accrued in accounts payable | — | — |

| Business-type Activities – Enterprise Funds | | | | | Governmental |
|---|-------------------|---------------------|---------------------|---------------------|-------------------|
| Public Building | State | Unemployment | Nonmajor | Total | Internal |
| Construction | Lottery | Programs | Enterprise | | Service Funds |
| \$ 62,118 | \$ 1,152,431 | \$ (402,365) | \$ (300,326) | \$ 691,323 | \$ 51,182 |
| — | — | — | 99,598 | 99,598 | 734 |
| — | 9,100 | 716 | 87,837 | 175,718 | 39,926 |
| 1,958 | — | — | 2,020 | 3,978 | — |
| 242 | (1,795) | — | (1,421) | (2,974) | — |
| (11,796) | — | — | — | (11,796) | — |
| — | — | — | 369 | 369 | — |
| 37,854 | 7,408 | — | 7,388 | 41,695 | — |
| — | 1,219 | — | (11,277) | (78,095) | — |
| (622) | 5,362 | 7,975 | 13,805 | (14,537) | 29,976 |
| 16,650 | 3 | 74 | 2,974 | 19,701 | (55,857) |
| — | — | 39,002 | (2,572) | 28,644 | (2,368) |
| — | (2,887) | — | (521) | (3,408) | (19,166) |
| — | 2,689 | — | 283 | 3,817 | (7,065) |
| 290,925 | — | — | 14,228 | 305,153 | — |
| — | — | — | — | 223,000 | — |
| — | (1,357) | — | 1,044 | (313) | (173) |
| — | — | — | (219,310) | (219,310) | — |
| — | — | — | (4,032) | (4,032) | — |
| (804) | (11,499) | (11) | 37,288 | 4,013 | 61,548 |
| 468 | 45 | 28,031 | (16,766) | 4,614 | 166,937 |
| — | — | — | — | — | 113 |
| (48) | — | 3,845 | — | 21,724 | (158) |
| — | — | — | 567 | 567 | 5,582 |
| — | — | — | — | — | 2,321 |
| (47) | (364) | — | 93 | (318) | 6,499 |
| (6,662) | — | — | 3,287 | (3,375) | — |
| — | — | 16,236 | 1,994 | 18,230 | (38) |
| — | — | — | 3,171 | 3,171 | — |
| — | (291) | 59,210 | (3,954) | 54,965 | — |
| — | (297,724) | — | — | (297,724) | — |
| — | — | 7,119 | (4,353) | 4,243 | (1,533) |
| — | — | — | — | — | 603 |
| — | — | (2) | (5,748) | (10,750) | 458 |
| 328,118 | (290,091) | 162,195 | 5,992 | 366,568 | 228,339 |
| \$ 390,236 | \$ 862,340 | \$ (240,170) | \$ (294,334) | \$ 1,057,891 | \$ 279,521 |
| | | | | | (concluded) |
| \$ — | \$ 118,856 | \$ — | \$ — | \$ 118,856 | \$ — |
| — | 29,218 | — | — | 29,218 | — |
| — | (8,916) | — | — | (8,916) | — |
| — | 14,064 | — | — | — | — |

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

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2007

(amounts in thousands)

| | Private Purpose Trust | Pension and Other Employee Benefit Trust | Investment Trust Local Agency Investment | Agency |
|--|-----------------------------|--|---|----------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 41,724 | \$ 1,343,353 | \$ 19,990,748 | \$ 2,907,569 |
| Investments, at fair value: | | | | |
| Short-term | — | 4,867,991 | — | — |
| Equity securities | — | 256,590,799 | — | — |
| Debt securities | — | 96,949,065 | — | — |
| Real estate | — | 38,113,015 | — | — |
| Other | 2,729,123 | 36,749,553 | — | — |
| Securities lending collateral | — | 78,404,152 | — | — |
| Total investments | 2,729,123 | 511,674,575 | — | — |
| Receivables (net) | 5,272 | 9,362,751 | — | 1,315,298 |
| Due from other funds | 49,097 | 412,656 | — | 7,972,528 |
| Due from other governments | — | 12 | — | 61,943 |
| Prepaid Items | — | — | — | 30,910 |
| Interfund receivables..... | 925,855 | — | — | — |
| Loans receivable | — | — | — | 78,468 |
| Other assets | 107,725 | 399,195 | — | 388 |
| Total assets | 3,858,796 | 523,192,542 | 19,990,748 | \$ 12,367,104 |
| LIABILITIES | | | | |
| Accounts payable | 2,231 | 5,769,412 | 48 | \$ 4,720,253 |
| Due to other funds | 78 | 14,471 | 520 | — |
| Due to other governments | — | 59,830 | 253,922 | 5,914,184 |
| Tax overpayments | — | — | — | 2,354 |
| Benefits payable | — | 266,187 | — | 224,916 |
| Deposits | 107,725 | — | — | 832,637 |
| Advance collections | — | — | — | 65,291 |
| Securities lending obligations | — | 78,404,152 | — | — |
| Interfund payables..... | — | — | — | 66,936 |
| Other liabilities | 1,013,966 | 6,331,978 | — | 540,533 |
| Total liabilities | 1,124,000 | 90,846,030 | 254,490 | \$ 12,367,104 |
| NET ASSETS | | | | |
| Held in trust for pension benefits, pool participants, and other purposes | \$ 2,734,796 | \$ 432,346,512 | \$ 19,736,258 | |

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2007
(amounts in thousands)

| | Private Purpose Trust | Pension and Other Employee Benefit Trust | Investment Trust Local Agency Investment |
|--|-----------------------------|--|---|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ — | \$ 10,066,858 | \$ — |
| Plan member | — | 6,266,946 | — |
| Total contributions | — | 16,333,804 | — |
| Investment income: | | | |
| Net appreciation in fair value of investments | — | 35,862,523 | — |
| Interest, dividends, and other investment income | 63,531 | 42,084,553 | 870,419 |
| Less: investment expense | — | (6,278,580) | — |
| Net investment income | 63,531 | 71,668,496 | 870,419 |
| Receipts from depositors | 741,619 | — | 27,239,487 |
| Other | 223,456 | 24,777 | — |
| Total additions | 1,028,606 | 88,027,077 | 28,109,906 |
| DEDUCTIONS | | | |
| Distributions paid and payable to participants | — | 17,472,982 | 868,661 |
| Refunds of contributions | — | 288,800 | — |
| Administrative expense | 8,235 | 397,167 | 1,753 |
| Payments to and for depositors | 386,279 | 385,681 | 23,895,119 |
| Total deductions | 394,514 | 18,544,630 | 24,765,533 |
| Change in net assets | 634,092 | 69,482,447 | 3,344,373 |
| Net assets, July 1, 2006 | 2,100,704 | 362,864,065 | 16,391,885 |
| Net assets, June 30, 2007 | \$ 2,734,796 | \$ 432,346,512 | \$ 19,736,258 |

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Discretely Presented Component Units Financial Statements



Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2007

(amounts in thousands)

| | University of California | State Compensation Insurance | California Housing Finance Agency | Public Employees' Benefits | Nonmajor Component Units | Total |
|---|--------------------------------|------------------------------------|--|----------------------------------|--------------------------------|----------------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and pooled investments | \$ 308,752 | \$ 65,613 | \$ 793,300 | \$ 344,470 | \$ 642,917 | \$ 2,155,052 |
| Investments | 6,296,969 | 5,214,231 | 872,193 | 11,066 | 246,847 | 12,641,306 |
| Restricted assets: | | | | | | |
| Cash and pooled investments | — | — | — | — | 8,316 | 8,316 |
| Investments | — | — | — | — | 45,981 | 45,981 |
| Receivables (net) | 1,682,520 | 1,182,618 | 398,418 | 1,631 | 345,445 | 3,610,632 |
| Due from primary government | 251,374 | — | — | 5,786 | 1,135 | 258,295 |
| Due from other governments | 538,461 | — | — | 47,633 | 44,309 | 630,403 |
| Prepaid items | — | — | 718 | — | 2,750 | 3,468 |
| Inventories | 143,254 | — | — | — | 313 | 143,567 |
| Other current assets | 138,808 | — | 100 | — | 58,435 | 197,343 |
| Total current assets | 9,360,138 | 6,462,462 | 2,064,729 | 410,586 | 1,396,448 | 19,694,363 |
| Noncurrent assets: | | | | | | |
| Restricted assets: | | | | | | |
| Cash and pooled investments | — | — | — | — | 128,334 | 128,334 |
| Investments | — | — | — | — | 63,184 | 63,184 |
| Investments | 17,664,282 | 16,207,430 | 52,187 | 2,556,570 | 1,051,652 | 37,532,121 |
| Receivables (net) | 724,128 | — | — | — | 243,944 | 968,072 |
| Loans receivable | — | — | 7,192,125 | — | 295,414 | 7,487,539 |
| Deferred charges | — | 20,189 | 37,344 | — | 1,550 | 59,083 |
| Capital assets: | | | | | | |
| Land | 615,015 | 53,526 | — | — | 93,688 | 762,229 |
| Collections – nondepreciable | 266,153 | — | — | — | 3,944 | 270,097 |
| Buildings and other depreciable property | 25,100,258 | 456,624 | 1,424 | — | 1,513,581 | 27,071,887 |
| Less: accumulated depreciation | (11,712,172) | (210,943) | (558) | — | (615,011) | (12,538,684) |
| Construction in progress | 3,836,078 | 73,373 | — | — | 56,791 | 3,966,242 |
| Other noncurrent assets | 267,613 | — | 4,509 | — | 82,629 | 354,751 |
| Total noncurrent assets | 36,761,355 | 16,600,199 | 7,287,031 | 2,556,570 | 2,919,700 | 66,124,855 |
| Total assets | \$ 46,121,493 | \$ 23,062,661 | \$ 9,351,760 | \$ 2,967,156 | \$ 4,316,148 | \$ 85,819,218 |

| | University of California | State Compensation Insurance | California Housing Finance Agency | Public Employees' Benefits | Nonmajor Component Units | Total |
|---|--------------------------------|------------------------------------|--|----------------------------------|--------------------------------|----------------------|
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | \$ 1,445,046 | \$ 98,545 | \$ 12,883 | \$ 298,259 | \$ 113,288 | \$ 1,968,021 |
| Due to other governments | — | — | 5 | — | 33 | 38 |
| Dividends payable | — | 3,100 | — | — | — | 3,100 |
| Deferred revenue | 755,709 | — | — | — | 56,316 | 812,025 |
| Deposits | 357,504 | — | 167,240 | — | 1,494 | 526,238 |
| Contracts and notes payable | — | — | — | — | 10,598 | 10,598 |
| Advance collections | — | 139,851 | — | — | 609 | 140,460 |
| Interest payable | — | — | 147,850 | — | 1,952 | 149,802 |
| Securities lending obligations | 4,921,107 | 1,799,480 | — | — | — | 6,720,587 |
| Benefits payable | — | 2,236,720 | — | — | — | 2,236,720 |
| Current portion of long-term obligations | 1,429,427 | 62,108 | 81,759 | 21,230 | 110,047 | 1,704,571 |
| Other current liabilities | 1,078,692 | 121,166 | 1,055 | 109,951 | 181,169 | 1,492,033 |
| Total current liabilities | 9,987,485 | 4,460,970 | 410,792 | 429,440 | 475,506 | 15,764,193 |
| Noncurrent liabilities: | | | | | | |
| Benefits payable | — | 14,088,574 | — | 2,916,015 | — | 17,004,589 |
| Compensated absences payable | 202,606 | — | — | — | 10,277 | 212,883 |
| Certificates of participation, commercial paper, and other borrowings | 76,592 | — | — | — | 52,333 | 128,925 |
| Capital lease obligations | 1,884,177 | — | — | — | 231,375 | 2,115,552 |
| Revenue bonds payable | 6,223,248 | — | 7,499,692 | — | 448,990 | 14,171,930 |
| Other noncurrent liabilities | 971,710 | 331,562 | 48,363 | — | 314,071 | 1,665,706 |
| Total noncurrent liabilities | 9,358,333 | 14,420,136 | 7,548,055 | 2,916,015 | 1,057,046 | 35,299,585 |
| Total liabilities | 19,345,818 | 18,881,106 | 7,958,847 | 3,345,455 | 1,532,552 | 51,063,778 |
| NET ASSETS | | | | | | |
| Investment in capital assets, net of related debt | 9,101,981 | 372,580 | 866 | — | 497,581 | 9,973,008 |
| Restricted: | | | | | | |
| Nonexpendable | 2,647,931 | — | — | — | 647,564 | 3,295,495 |
| Expendable: | | | | | | |
| Endowments and gifts | 7,665,687 | — | — | — | 9,793 | 7,675,480 |
| Education | 818,016 | — | — | — | 652,756 | 1,470,772 |
| Indenture | — | — | 731,330 | — | — | 731,330 |
| Employee benefits | — | — | — | 463,958 | — | 463,958 |
| Workers' compensation liability | — | 3,808,975 | — | — | — | 3,808,975 |
| Statute | — | — | 660,717 | — | 250,449 | 911,166 |
| Other purposes | — | — | — | — | 258,675 | 258,675 |
| Total expendable | 8,483,703 | 3,808,975 | 1,392,047 | 463,958 | 1,171,673 | 15,320,356 |
| Unrestricted | 6,542,060 | — | — | (842,257) | 466,778 | 6,166,581 |
| Total net assets | 26,775,675 | 4,181,555 | 1,392,913 | (378,299) | 2,783,596 | 34,755,440 |
| Total liabilities and net assets | \$ 46,121,493 | \$ 23,062,661 | \$ 9,351,760 | \$ 2,967,156 | \$ 4,316,148 | \$ 85,819,218 |

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2007

(amounts in thousands)

| | University of California | State Compensation Insurance Fund | California Housing Finance Agency | Public Employees' Benefits | Nonmajor Component Units | Total |
|---|--------------------------------|--|--|----------------------------------|--------------------------------|----------------------|
| OPERATING EXPENSES | | | | | | |
| Personal services | \$ 10,313,242 | \$ 654,073 | \$ 21,836 | \$ — | \$ 508,576 | \$ 11,497,727 |
| Scholarships and fellowships | 401,153 | — | — | — | 43,921 | 445,074 |
| Supplies | 1,909,814 | — | — | — | 7,060 | 1,916,874 |
| Services and charges | 371,661 | 69,881 | 61,996 | 1,903,139 | 1,229,963 | 3,636,640 |
| Department of Energy laboratories | 2,169,750 | — | — | — | — | 2,169,750 |
| Depreciation | 1,049,008 | 34,268 | 189 | — | 60,844 | 1,144,309 |
| Distributions to beneficiaries | — | 2,386,717 | — | — | — | 2,386,717 |
| Interest expense and fiscal charges .. | 385,201 | — | 368,382 | — | 36,723 | 790,306 |
| Amortization of deferred charges | — | 370,418 | 9,249 | — | 89 | 379,756 |
| Grants provided | 451,290 | — | 74,505 | — | — | 525,795 |
| Other | 2,521,130 | 275,934 | — | — | 74,411 | 2,871,475 |
| Total operating expenses | 19,572,249 | 3,791,291 | 536,157 | 1,903,139 | 1,961,587 | 27,764,423 |
| PROGRAM REVENUES | | | | | | |
| Charges for services | 10,714,361 | 3,477,665 | 516,398 | 1,649,056 | 1,187,287 | 17,544,767 |
| Operating grants and contributions ... | 7,475,951 | — | 114,235 | — | 518,346 | 8,108,532 |
| Capital grants and contributions | 216,783 | — | — | — | 14,780 | 231,563 |
| Total program revenues | 18,407,095 | 3,477,665 | 630,633 | 1,649,056 | 1,720,413 | 25,884,862 |
| Net (expense) revenue | (1,165,154) | (313,626) | 94,476 | (254,083) | (241,174) | (1,879,561) |
| GENERAL REVENUES | | | | | | |
| Investment and interest income | 1,986,685 | 835,349 | — | 310,596 | 177,974 | 3,310,604 |
| Other | 1,879,252 | 116,323 | 30,230 | 362 | 263,341 | 2,289,508 |
| Total general revenues | 3,865,937 | 951,672 | 30,230 | 310,958 | 441,315 | 5,600,112 |
| Change in net assets | 2,700,783 | 638,046 | 124,706 | 56,875 | 200,141 | 3,720,551 |
| Net assets (deficit), July 1, 2006 | 24,074,892 | 3,543,509 | 1,268,207 | (435,174) | 2,583,455 * | 31,034,889 |
| Net assets (deficit), June 30, 2007 | \$ 26,775,675 | \$ 4,181,555 | \$ 1,392,913 | \$ (378,299) | \$ 2,783,596 | \$ 34,755,440 |

* Restated

Notes to the Financial Statements – Index

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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). During the year ended June 30, 2007, provisions of Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, were implemented.

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 or incomplete. The decision to include a component unit in the State's reporting entity is based on several criteria, including legal standing, fiscal dependency, and financial accountability. 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 in the amount of \$568 million 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 on how to obtain copies of the financial statements of the building authorities, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

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 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 on how to obtain copies of the financial statements of GSTSC, contact the Department of Finance, Capital Outlay/Resources Section, 915 L Street, 9th Floor, Sacramento, California 94814.

The *California State University, Channel Islands Site Authority (Site Authority)* was formed in 1998 to convert the property previously known as the Camarillo State Hospital from its former use to a California State University campus and other compatible uses. The Site Authority is governed by a board of seven members comprised of four representatives of the Trustees of the California State University and three representatives from Ventura County. The *California State University, Channel Islands Financing Authority (Financing Authority)* was formed in 2000 to provide financing through revenue bonds for the construction and other improvements conducted by the Site Authority. The Site Authority and the Financing Authority are included in the California State University Programs special revenue fund in the combining statements in the Nonmajor Governmental Funds section. The loan and other transactions of \$46 million between the two authorities 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 on how to obtain copies of the financial statements of the Site Authority and the Financing Authority, contact the California State University, Channel Islands, One University Drive, Camarillo, California 93012.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they 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 and health benefit 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 plans. CalPERS administers the following eight pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the Volunteer Firefighters' Length of Service Award Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Replacement Benefits Fund, and the Supplemental Contributions Program Fund. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229.

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. CalSTRS administers two pension and other employee benefit trust funds: the State Teachers' Retirement Fund, the Teachers' Health Benefits Fund and the Voluntary Investment Program. Copies of CalSTRS' separately issued financial statements may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851.

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 mostly provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, and nonmajor component units.

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. The University of California is a component unit of the State because the State appoints a voting majority of the regents and because expenditures for the support of various university programs and capital outlay are appropriated by the annual Budget Act. 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). The UCRS is a discretely presented fiduciary unit of the university; and as such, the financial information of the UCRS is not included in the financial statements of this report. Copies of the University of California's and the UCRS' separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, Oakland, California 94607.

The *State Compensation Insurance Fund (SCIF)* is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, and other public corporations. It is a component unit of the State because the State appoints all five voting members of SCIF's governing board and has the authority to approve or modify SCIF's budget. Copies of SCIF's financial statements for the year ended December 31, 2006, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to meet 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 has the authority to approve or modify its budget. Copies of CalHFA's financial statements may be obtained from the California Housing Finance Agency, P.O. Box 4034, Sacramento, California 95812.

The *Public Employees' Benefits Fund*, which is administered by the California Public Employees' Retirement System and accounts for contributions and premiums for public employee long-term care plans and for administration of a deferred compensation program. Copies of CalPERS' separately issued financial statements may be obtained in writing from the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229.

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. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the district agricultural associations are considered component units because they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit because its exclusion from the statements would be misleading because of its relationship to the primary government. 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, because the primary government can impose its will on the entity, or because the entity provides a specific financial benefit to the primary government. For information on how to obtain copies of the financial statements of these component units, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

The nonmajor component units are:

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;

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues 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 (the EdFund financial report included in this entity is as of and for the year ended September 30, 2006);

The *California School Finance Authority*, which provides loans to school and community college districts to assist them in obtaining equipment and facilities;

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;

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, 2006);

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, that provides private sources of funds for academic programs, scholarships, and faculty research;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway;

The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects; and

The *California Consumer Power and Conservation Financing Authority*, which provides financing for projects to increase power supplies, reduce demand for energy, and improve the efficiency and environmental performance of power plants.

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. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. 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, 2007, CADA had total assets of \$27.9 million, total liabilities of \$18.2 million, and total net assets of \$9.7 million. Total revenues for the fiscal year were \$9.9 million and expenses were \$8.4 million, resulting in a change in net assets of \$1.5 million. Because the primary government does not have an 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.

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*, a state-chartered, nonprofit market institution. The Independent System Operator provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. A five-member oversight board, comprised of three appointees of the Governor, an appointee of the Senate Committee on Rules, and an appointee of the Speaker of the Assembly, oversees the Independent System Operator. In addition, the Governor appoints the five members of a separate 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 Independent System Operator, the financial information of this institution is not included in the financial statements of this report. For information on how to obtain copies of the financial statements of the Independent System Operator, contact the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, CA 94250.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers basic earthquake insurance for California homeowners, renters, condominium owners, and mobile home 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 on how to obtain copies of the financial statements of the CEA, contact the California Earthquake Authority, 801 K Street, Suite 1000, Sacramento, CA 95814.

The *Bay Area Toll Authority (BATA)*, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer a portion of the toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. In 2005, the California Legislature transferred toll-bridge administration responsibility from the California Department of Transportation (Caltrans) to BATA. This responsibility includes consolidation of all toll-bridge revenue under BATA's administration. BATA is a blended component unit of the Metropolitan

Transportation Commission. Additional information may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Assets and the Statement of Activities) give information on all 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 Assets reports all of the financial and capital resources of the government as a whole in a format where assets equal liabilities plus net assets. 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 primarily to account for services provided to the general public without direct charge.

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 do not need to 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.

The *Transportation Construction Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; and other revenues that are used for highway and passenger rail construction.

Proprietary fund types focus on the determination of operating income, changes in net assets, 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. In addition, the State applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The State has elected not to apply FASB pronouncements issued after November 30, 1989, for its enterprise funds.

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:

1. The activity's debt is secured solely by fees and charges of the activity;
2. There is a legal requirement to recover costs; or
3. 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 *Public Building Construction Fund* accounts for rental charges from the lease of public assets.

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.

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, construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, administrative services related to water delivery, and equipment used by the California Department of Transportation. 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.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net assets 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.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the State Compensation Insurance Fund, the California Housing Finance Agency, the Public Employees' Benefits Fund, 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 unreserved 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. 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. 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 Assets. 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.

E. Deposits and Investments

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.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, 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, the University of California, 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.

G. Deferred Charges

The deferred charges account primarily represents operating and maintenance costs and unrecovered capital costs in the enterprise fund type that will be recognized as expenses over the remaining life of long-term state water supply contracts in the Water Resources Fund. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts. The deferred charges for the Public Buildings Construction Fund include bond counsel fees, trustee fees, rating agency fees, underwriting costs, insurance costs, and miscellaneous expenses. Bond issuance costs are amortized using the straight-line method over the term of the bonds. Amortization of bond issue costs during the facility construction period is capitalized and included in the construction costs. Deferred charges are also included in the State Lottery Fund and nonmajor enterprise funds. Bond issuance costs recorded as expenditures in certain capital projects and special revenue funds are reclassified as deferred charges in the governmental activities column of the Statement of Net Assets.

H. Capital Assets

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

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 are 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 acquisition 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 recoded 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 property are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years and

equipment is depreciated over five years. Depreciable assets of business-type activities are depreciated 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 consists of 49,477 lane-miles and 12,155 bridges that are 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 (AASHTO) 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 over their estimated useful service lives.

I. 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 liability for employees' compensated absences and workers' compensation claims, 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, 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 Assets.

Bond premiums and discounts for business-type activities and component units are generally deferred and amortized over the life of the bonds. In these instances, bonds payable are reported net of the applicable premium or discount. Bond premiums and discounts for governmental activities are expensed in the year incurred in the fund financial statements. In the government-wide financial statements, the revenue bonds payable for governmental activities is reported net of the applicable premium or discount.

With approval in advance 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 Construction, California State University Programs, and the Golden State Tobacco Securitization Corporation) and the building authorities' capital projects funds, the liability for revenue bonds is recorded in the respective fund.

J. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation and annual leave. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the fund financial statements for governmental funds, only the compensated absences for employees that have left state service and have unused reimbursable leave at year-end would be 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.

K. Net Assets and Fund Balance

The difference between fund assets and liabilities is called “net assets” 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 have the following categories of net assets.

Investment in capital assets, net of related debt, represents capital assets, net of accumulated depreciation, reduced by the outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result from transactions with purpose restrictions and are designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted net assets* are subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted net assets* are subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2007, the government-wide financial statements show restricted net assets for the primary government of \$19.1 billion, of which \$10.0 billion is due to enabling legislation.

Unrestricted net assets are neither restricted nor invested in capital assets, net of related debt.

In the fund financial statements, proprietary funds have categories of net assets similar to those in the government-wide statements. Governmental funds have two fund balance sections: *reserved and unreserved*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are segregated for specific uses. The reserves of the fund balance for governmental funds are as follows.

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the fiscal year.

Reserved for interfund receivables represents the noncurrent portion of advances to other funds that do not represent expendable available financial resources.

Reserved for loans receivable represents the noncurrent portion of loans receivable that does not represent expendable available financial resources.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered in the report. These appropriations are legally segregated for a specific future use.

Reserved for debt service represents the amount legally reserved for the payment of bonded indebtedness that is not available for other purposes until the bonded indebtedness is liquidated.

The *unreserved* amounts represent the net of total fund balance, less reserves.

Fiduciary fund net assets are “amounts held in trust for benefits and other purposes.”

L. Restatement of Beginning Fund Balances and Net Assets

1. Fund Financial Statements

The beginning fund balance of the **governmental funds** increased by a net total of \$188 million. This increase is comprised of an increase of \$228 million in loans receivable that were previously omitted and a decrease of \$40 million as a result of prior-period adjustments to correct errors in **nonmajor governmental funds**. Due to a reclassification of funds, there was also a beginning fund balance increase in the Transportation Construction Fund and an offsetting decrease in the **nonmajor governmental funds**.

The beginning net assets of the **internal service funds** decreased by \$2 million for a prior-period adjustment of revenue for the Department of Technology.

The beginning net assets of the **nonmajor enterprise funds** increased by a net total of \$12 million as a result of a prior-period adjustment for the previous omission of capital assets.

Beginning net assets of the **discretely presented component units – enterprise activity** increased by a total of \$22 million. This increase was the result of prior-period adjustments to correct errors, including the omission of \$21 million in loans receivable.

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities**, the **business-type activities**, and the **component units** were restated as described in the previous section for governmental funds, nonmajor enterprise funds, and discretely presented component units – enterprise activity, respectively. In addition, the beginning net assets of the governmental activities decreased by \$458 million as a result of prior-period adjustments to correct for overstated capital assets and by \$477 million as a result of a change in the methodology for calculating the net pension obligation, a noncurrent liability.

M. Guaranty Deposits

The State is 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; however, 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, 2007, were legally made, and they had the effect of increasing spending authority for the General Fund and decreasing spending authority for the Transportation Construction Fund.

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. Certain items that are established at the category, program, component, or element level can be adjusted by the Department of Finance. For example, an appropriation for support may have detail accounts for personal services, operating expenses and equipment, and reimbursements. The Department of Finance can authorize adjustments between the detail accounts but cannot increase the amount of the overall support appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control, or 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.

NOTE 3: DEPOSITS AND INVESTMENTS

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, as described below.

As required by generally accepted accounting principles, certain risk disclosures are included in this note to the extent that the risks exist at the date of the statement of net assets. Disclosure of the following risks are included:

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. Primary Government

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 participate in the State Treasurer's Office pooled investment program. As of June 30, 2007, the discretely presented component units accounted 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 which compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2007, totaling approximately \$9.0 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, 2007, the State Treasurer's Office had amounts on deposit with a fiscal agent totaling \$29 million related to principal and interest payments to bondholders. Additionally, \$6 million was in a compensating balance account with a custodial agent to provide sufficient earnings to cover fees for custodial services. These deposits were also insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

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. As of June 30, 2007, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 138 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.

The Pooled Money Investment Board provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design an effective cash management and investment program, using all moneys 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 Pooled Money Investment Board 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, 2007, 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.

Certain funds have elected to participate in the pooled investment program, even though they have the authority to make their own investments. Others may be required by legislation to participate in the program. As a result, the deposits of these funds or accounts may be considered involuntary. However, these funds or accounts are part of the State's reporting entity. The remaining participation 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 to be assigned to the State's General Fund. Some of the \$537 million in interest revenue received by the General Fund from the pooled investment program in the 2006-07 fiscal year was earned on balances in these funds.

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, 2007, structured notes and asset-backed securities comprised slightly less than 3.5% of the pooled investments. A significant portion of the asset-backed securities consists of small-business loans and mortgage-backed securities. The small-business loans held in the portfolio are guaranteed by the Small Business Administration, an agency of the federal government. The mortgage-backed securities, which are called real estate mortgage investment conduits (REMICs), 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 notes. For floating-rate 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 notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates.

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

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.

Table 1**Authorized Investments**

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer | Credit Rating |
|-----------------------------------|-------------------------|--|---|----------------------|
| U.S. Treasury Securities | 5 years* | N/A** | N/A** | N/A** |
| Federal Agency 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/A/A**** |
| Repurchase Agreements | 1 year* | N/A** | N/A** | N/A** |
| Reverse Repurchase Agreements | 1 year* | 10%* | N/A** | N/A** |

* Limitations are pursuant to the State Treasurer's Office Investment Policy for the Pooled Money Investment Account. The Government Code does not establish limits for investments of surplus moneys in this investment type.

** N/A = Neither the Government Code nor the State Treasurer's Office Investment Policy for the Pooled Money Investment Account sets limits for the investment of surplus moneys in this investment type.

*** The State Treasurer's Office Investment Policy for the Pooled Money Investment account is more restrictive than the Government Code, which allows investments rated A-3/P-3/F-3.

**** The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

1. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments.

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

June 30, 2007

(amounts in thousands)

| | Interest Rates* | Maturity | Fair Value at Year End | Weighted Average Maturity (in years) |
|--|--------------------|-----------------------|---------------------------|--|
| Pooled investments | | | | |
| U.S. Treasury bills and notes | 4.77 - 4.97 | 12 days - 180 days | \$ 3,362,656 | 0.24 |
| U.S. agency bonds and discount notes | 3.01 - 5.64 | 6 days - 2.45 years | 13,227,874 | 0.71 |
| Small Business Administration loans | 5.55 - 6.38 | 0.25 year | 629,834 | 0.25 ** |
| Mortgage-backed securities # | 3.92 - 14.25 | 124 days - 8.13 years | 840,984 | 3.88 |
| Certificates of deposit | 5.27 - 5.34 | 2 days - 180 days | 15,594,616 | 0.18 |
| Commercial paper | 5.17 - 5.39 | 2 days - 121 days | 14,471,657 | 0.11 |
| Corporate bonds and notes | 4.30 - 5.50 | 20 days - 2.33 years | 1,683,796 | 0.40 |
| Total pooled investments | | | 49,811,417 @ | |
| Other primary government investments | | | | |
| U.S. Treasuries and agencies | | | 1,996,805 | 4.71 *** |
| Commercial paper | | | 868,963 | N/A **** |
| Guaranteed investment contracts | | | 602,683 | 14.14 |
| Corporate debt securities | | | 583,619 | 1.42 |
| Other | | | 996,057 | 0.57 |
| Total other primary government investments ^ | | | 5,048,127 | |
| Funds outside primary government included in pooled investments | | | | |
| Less: investment trust funds | | | 19,990,748 | |
| Less: other trust and agency funds | | | 2,331,496 | |
| Less: discretely presented component units | | | 2,081,871 | |
| Total primary government investments | | | \$ 30,455,429 | |

* These numbers represent high and low interest rates for each investment type.

** In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes stated maturity is the quarterly reset date.

*** This amount includes \$495,000 of U.S. Treasuries and agencies securities held by the Golden State Tobacco Securitization Corporation that mature in less than one year.

**** These commercial paper holdings of the California State University and the Golden State Tobacco Securitization Corporation mature in less than one year.

These securities are issued by U. S. government agencies such as the Federal National Mortgage Association.

@ Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include \$8.7 billion of time deposits and \$7.2 billion of loans to State funds, which are reported as cash in the respective funds.

^ Total other primary government investments include approximately \$22 million of cash equivalents that are included in Cash and Pooled Investments.

Table 3 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously).

Table 3**Schedule of Highly Sensitive Investments in Debt Securities – Primary Government – Interest Rate Risk**

June 30, 2007

(amounts in thousands)

| Pooled investments | Fair Value at Year End | % of Total Pooled Investments |
|---|-----------------------------------|--|
| Mortgage-backed | | |
| Federal National Mortgage Association Collateralized Mortgage Obligations | \$ 840,265 | 1.686 % |
| Government National Mortgage Association Pools | 231 | 0.000 |
| Federal Home Loan Mortgage Corporation Participation Certificate Pools | 488 | 0.001 |

These mortgage-backed securities entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage securities are sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment). A change, up or down, in the payment rate will result in a change in the security yield.

2. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities.

Table 4

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

June 30, 2007

(amounts in thousands)

| <u>Credit Rating as of Year End</u> | | <u>Fair Value</u> |
|---|------------------|--------------------------|
| <u>Short-term</u> | <u>Long-term</u> | |
| Pooled investments* | | |
| A-1+/P-1/F-1+ | AAA/Aaa/AAA | \$ 35,274,735 ** |
| A-1/P-1/F-1 | AA/Aa/AA | 8,026,780 |
| A-2/P-2/F-2 | A/A/A | 1,676,428 |
| Not rated | | 840,753 |
| Not applicable | | 3,992,721 |
| Total pooled investments | | \$ 49,811,417 *** |
| Other primary government investments | | |
| A-1+/P-1/F-1+ | AAA/Aaa/AAA | \$ 1,101,388 |
| A-1/P-1/F-1 | AA/Aa/AA | 772,659 |
| A-2/P-2/F-2 | A/A/A | 769,220 |
| Not rated | | 549,548 |
| Not applicable | | 1,855,312 |
| Total other primary government investments | | \$ 5,048,127 |

* The State Treasurer's Office utilizes Standard & Poor's, Moody's, and Fitch ratings services. Securities are classified by the lowest rating of the three agencies.

** This amount includes \$6.6 billion in Freddie Mac-issued debt. Freddie Mac has not requested that all of its debt be rated, but all debt that has been rated received S&P's and Moody's top ratings.

*** Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of \$8.7 billion, for which credit risk is mitigated by collateral that the State holds for them—as discussed earlier in this note—and loans to State funds of \$7.2 billion, for which external credit risk is not applicable because they are internal loans.

3. 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. Table 5 identifies debt securities in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the State Treasurer's investments, or of the separate investments of other primary government funds.

Table 5

Schedule of Investments – Primary Government – Concentration of Credit Risk

June 30, 2007

(amounts in thousands)

POOLED INVESTMENTS

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> | <u>% of Total Pooled Investments</u> |
|-------------------------------------|----------------------------------|----------------------------|--|
| Federal Home Loan Mortgage Corp. | U.S. agency securities | \$ 6,553,214 | 13.16 % |
| Federal Home Loan Bank | U.S. agency securities | 5,831,586 | 11.71 |
| Citigroup, Inc | Corporate Bonds/Commercial Paper | 2,743,368 | 5.51 |
| General Electric Capital/GE Company | Corporate Bonds/Commercial Paper | 2,649,884 | 5.32 |

OTHER PRIMARY GOVERNMENT INVESTMENTS

| <u>Issuer</u> | <u>Investment Type</u> | <u>Reported Amount</u> | <u>% of Total Agency Investments</u> |
|--|------------------------|----------------------------|--|
| Golden State Tobacco Securitization Corporation | | | |
| Coral | Commercial paper | \$ 58,378 | 12.39 % |
| Briarwood | Commercial paper | 63,514 | 13.48 |
| Morgan Stanley | Commercial paper | 74,633 | 15.84 |
| Security Benefit Life Insurance | Commercial paper | 65,021 | 13.80 |
| Curzon | Commercial paper | 63,985 | 13.58 |
| Chesham | Commercial paper | 74,633 | 15.84 |
| Natexis Banques Populaires | Commercial paper | 65,870 | 13.98 |
| Department of Water Resources | | | |
| Federal Home Loan Mortgage Corp. | U.S. agency securities | \$ 50,722 | 41.61 % |

4. 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, 2007, \$24 million in deposits of the Electric Power Fund were uninsured and uncollateralized.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 98% 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.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

CalPERS' mortgages are valued on the basis of their future principal and interest payments, discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or, when market value is not available, at cost plus accrued interest, which approximates market value. For investments where no readily ascertainable market value exists, management, in consultation with its investment advisors, determines the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS' investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. CalPERS held for investment purposes futures and options with a fair value of approximately \$30 million as of June 30, 2007. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in fiduciary net assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that investment securities values will change in the near term; such changes could materially affect the amounts reported in the financial statements.

CalPERS uses forward foreign currency exchange contracts primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 2007, CalPERS had an approximately \$30 million net exposure to loss from forward foreign currency exchange transactions related to the approximately \$54.8 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from major investment firms for securities. Mortgages are valued based on future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair values are based on either recent estimates provided by CalSTRS' contract real estate advisors or by independent appraisers. Short-term investments are reported at cost or amortized cost, which approximates

fair value. Fair value for commingled funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. Alternative investments represent interests in private equity partnerships that CalSTRS enters into under a limited partnership agreement. For alternative investments and other investments for which no readily ascertainable market value exists, CalSTRS management, in consultation with its investment advisors, has determined the fair value for the individual investments. Purchases and sales are recorded on the trade date.

The State Constitution, state statutes, and board policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents are under contract to lend domestic and international equity and debt securities. For both CalPERS and CalSTRS, collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. CalPERS' management believes that CalPERS has minimized its credit risk exposure by requiring the borrowers to provide collateral greater than 100% of the market value of the securities loaned. The securities loaned are priced daily. Securities on loan can be recalled on demand by CalPERS and loans of securities may be terminated by CalPERS or the borrower.

For CalPERS, the weighted average maturities of the collateral invested by two externally managed portfolios and two internally managed portfolios were 46 days, 158 days, 547 days, and 410 days. In accordance with CalPERS' investment guidelines, the cash collateral was invested in short-term investment funds that, at June 30, 2007, had durations of 1 day, 18 days, 36 days, and 40 days, for two externally managed portfolios and two internally managed portfolios.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2007, had a 25-day difference in weighted average maturity between the investments and loans. Most of CalSTRS' security loans can be terminated on demand by CalSTRS or the borrower. As of June 30, 2007, CalSTRS has no credit risk exposure to borrowers because the amounts it owes the borrowers exceed the amounts the borrowers owe it. CalSTRS is not permitted to pledge or sell collateral securities received unless the borrower defaults. The contracts with the security lending agents require them to indemnify CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrowers fail to pay CalSTRS for income distributions by the securities' issuers while the securities are on loan.

Table 6 presents the investments of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds

June 30, 2007

(amounts in thousands)

| Investment Type | Fair Value |
|-------------------------------------|-----------------------|
| Equity securities | \$ 256,590,799 |
| Debt securities* | 101,817,056 |
| Investment contracts | 735,404 |
| Mutual funds | 7,761,185 |
| Real estate | 38,113,015 |
| Insurance contracts | 322,606 |
| Private equity | 29,456,424 |
| Securities lending collateral | 78,404,152 |
| Other..... | 1,203,057 |
| Total investments | \$ 514,403,698 |

* Debt securities include short-term investments not included in Cash and Pooled Investments.

1. Interest Rate Risk

CalPERS and CalSTRS manage the interest rate risk inherent in their investment portfolios by measuring the effective or option-adjusted duration of the portfolio. In using the duration method, these agencies may make assumptions regarding the timing of cash flows or other factors that affect interest rate risk information. The CalPERS investment policies require the option-adjusted duration of the total fixed-income portfolio to stay within 20% of the option adjusted duration of its benchmark (Lehman Brothers Long Liabilities). All individual portfolios are required to maintain a specific level of risk relative to their benchmark. Risk exposures are monitored daily. The CalSTRS investment guidelines allow the internally managed long-term investment grade portfolios the discretion to deviate within plus or minus .50 years from the effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the effective duration within the high yield portfolios is negotiated with each of the high yield managers and detailed in the investment guidelines. The CalSTRS investment guidelines state that 50% of the portfolio shall reflect an expected-maturity, first-call date or first-reset date to fall within a 0-30 day range and/or be invested in U.S. government and agency obligations.

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Table 7 presents the interest rate risk of the fixed-income securities of these fiduciary funds.

Table 7

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk

June 30, 2007

(amounts in thousands)

| | <u>Fair Value at Year End</u> | <u>Effective Duration**</u> | | |
|---|-----------------------------------|---------------------------------|-------------------|--|
| California Public Employees' Retirement Fund * | | | | |
| U.S. Treasuries and agencies | \$ 16,650,258 | 9.01 | | |
| Mortgages | 25,256,693 | 6.39 | | |
| Corporate | 13,447,274 | 8.69 | | |
| Asset-backed | 1,322,684 | 3.65 | | |
| Private placement | 9,161 | 2.06 | | |
| International | 6,778,416 | 6.96 | | |
| Not rated *** | 3,323,270 | N/A | | |
| Total | \$ 66,787,756 | | | |
| Deferred Compensation Plan Fund | | | | |
| Investment contracts..... | \$ 735,404 | 5.49 | | |
| Scholarshare Program Trust Fund | | | | |
| Investment contracts | \$ 322,606 | 3.38 | | |
| California State Teachers' Retirement System | | | | |
| Long-term fixed-income investments | | | | |
| U.S. Government and agency obligations | \$ 6,985,280 | 4.44 | | |
| Corporate | 7,362,539 | 5.89 | | |
| High yield | 2,439,546 | 3.76 | | |
| Debt core plus | 5,289,592 | 4.81 | | |
| Asset-backed securities | 621,379 | 2.76 | | |
| Commercial mortgage-backed securities | 1,651,684 | 4.80 | | |
| Mortgage-backed securities | 10,904,463 | 4.17 | | |
| Total | \$ 35,254,483 | | | |
| | 0-30 | 31-90 | 91-120 | |
| | days | days | days | |
| Short-term fixed-income investments | | | | |
| Money market securities | \$ 615,022 | \$ 242,909 | \$ 79,608 | |
| Corporate bonds | — | 15,000 | 14,997 | |
| Corporate floating-rate notes | 101,601 | 179,545 | 17,000 | |
| U.S. Government and agency obligations | | | | |
| Noncallables | 40,000 | 10,000 | — | |
| Discount notes | 24,957 | 124,138 | 49,254 | |
| Callable | 49,235 | 166,652 | 10,000 | |
| U.S. Treasury | — | 24,712 | 49,244 | |
| Asset-backed securities | 22,832 | 26,444 | — | |
| Total | \$ 853,647 | \$ 789,400 | \$ 220,103 | |

* Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

** Effective duration is described in the paragraph preceding this table.

*** Securities held in externally managed investment pools or in default.

| <u>121-180</u> <u>days</u> | <u>181-365</u> <u>days</u> | <u>366+</u> <u>days</u> | <u>Fair Value at</u> <u>Year End</u> |
|-------------------------------|-------------------------------|----------------------------|---|
| \$ — | \$ — | \$ — | \$ 937,539 |
| — | — | — | 29,997 |
| — | 25,000 | — | 323,146 |
| — | — | — | 50,000 |
| 24,571 | 62,704 | — | 285,624 |
| 13,984 | — | — | 239,871 |
| 98,285 | 48,804 | 4,976 | 226,021 |
| — | — | — | 49,276 |
| <u>\$ 136,840</u> | <u>\$ 136,508</u> | <u>\$ 4,976</u> | <u>\$ 2,141,474</u> |

2. Credit Risk

The CalPERS investment policies require that 90% of the total fixed-income portfolio be invested in investment-grade securities. Investment-grade securities are those fixed-income securities with a Moody's rating of AAA to BAA or a Standard and Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily. The CalSTRS investment guidelines require that the lowest long-term credit rating of securities eligible for purchase by the internally managed fixed-income assets be Baa3 by Moody's Investor Services or BBB- by Standard and Poor's Corporation (i.e., investment grade by at least one major rating agency). Furthermore, the total position of the outstanding debt of any one issuer shall be limited to 10% of the market value of the portfolio. The investment guidelines also include an allocation to high yield assets that are managed externally and allow for the purchase of bonds rated below investment grade. Limitations on the amount of debt of any one issuer a manager may hold are negotiated on a manager-by-manager basis.

Table 8 presents the credit risk of the fixed-income securities of these fiduciary funds.

Table 8

Schedule of Investments in Fixed-Income Securities – Fiduciary Funds – Credit Risk

June 30, 2007

(amounts in thousands)

| Credit Rating as of Year End | | Fair Value |
|--|-------------|-----------------------|
| Short-term | Long-term | |
| A-1+/P-1/F-1+ | AAA/Aaa/AAA | \$ 52,703,294 |
| A-1/P-1/F-1 | AA/Aa/AA | 17,876,011 |
| A-2/P-2/F-2 | A/A/A | 12,640,373 |
| A-3/P-3/F-3 | BBB/Baa/BBB | 11,492,807 |
| B/NP/B | BB/Ba/BB | 1,472,108 |
| B/NP/B | B/B/B | 1,710,671 |
| C/NP/C | CCC/Caa/CCC | 580,115 |
| C/NP/C | CC/Ca/CC | 63 |
| D/NP/D | D/D/D | 19,079 |
| Not rated | | 18,384,152 |
| Not applicable | | 20,080,413 |
| Total fixed-income securities | | \$ 136,959,086 |

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held \$735 million in investment contracts of Dwight Asset Management Company, which represented 10.3% of the fund's total investments as of June 30, 2007. The Scholarshare Program Trust Fund held \$323 million in investment contracts of TIAA-CREF Life Insurance Company, which represented 11.82% of the fund's total investments as of June 20, 2007.

CalPERS and CalSTRS did not have investments in a single issuer that represented 5% or more of total fair value of all investments.

4. Custodial Credit Risk

CalPERS and CalSTRS have policies or practices to minimize custodial risk, and their investments at June 30, 2007, were not exposed to custodial risk.

5. Foreign Currency Risk

At June 30, 2007, CalPERS and CalSTRS held \$22.3 billion and \$34.5 billion, respectively, in investments subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' target allocation is to have 33% of total global equity assets invested in international equities and 11.5% of total fixed-income invested in international securities. Real estate and alternative investments do not have a target allocation for international investment. CalPERS uses a currency overlay program to reduce risk by hedging approximately 25% of the developed market international equity portfolio. Its currency exposures are monitored daily. CalSTRS believes that its Currency Management Program should emphasize the protection of the value of its non-dollar public and private equity assets against a strengthening U.S. dollar first, yet recognizes that opportunities also exist for alpha generation (the ability to derive a return in excess of a market return) within the currency markets. CalSTRS' fixed-income staff has management responsibilities for the Currency Management Program. The hedging range has been designed to allow for some degree of symmetry around the unhedged program benchmark in order to enable the Currency Management Program to both protect the translation value of the assets against a strengthening U.S. dollar and to enhance returns in a declining U.S. dollar environment. As a result, the hedging range is -25% to 50% of the total market value of the non-dollar public and private equity portfolios.

Table 9 identifies the investments of the fiduciary funds that are subject to foreign currency risk.

Table 9**Schedule of Investments - Fiduciary Funds - Foreign Currency Risk**

June 30, 2007

(amounts in thousands of U.S. dollars at fair value)

| Currency | Cash | Equity | Alternative | Fixed Income | Real Estate | Currency Overlay | Total |
|---|-------------------|----------------------|---------------------|-------------------------|--------------------|-----------------------------|----------------------|
| Argentine Peso | \$ 1,472 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,472 |
| Australian Dollar | 15,648 | 2,206,914 | 35,355 | 168,733 | 262 | (174,691) | 2,252,221 |
| Brazilian Real | 4,113 | 1,029,241 | — | 25,543 | — | (14,107) | 1,044,790 |
| British Pound Sterling | 70,256 | 8,339,621 | 479,827 | 487,097 | 14,727 | (479,744) | 8,911,784 |
| Canadian Dollar | 22,173 | 1,710,414 | 81,431 | 100,606 | — | (85,247) | 1,829,377 |
| Chilean Peso | 2,759 | 55,571 | — | — | — | — | 58,330 |
| Columbian Peso | — | — | — | 867 | — | — | 867 |
| Czech Koruna | 609 | 32,809 | — | — | — | (428) | 32,990 |
| Danish Krone | 7,382 | 299,071 | 804 | 179,296 | — | — | 486,553 |
| Egyptian Pound | 293 | 110,532 | — | — | — | — | 110,825 |
| Euro | 233,949 | 17,872,122 | 1,208,531 | 1,559,306 | — | (961,676) | 19,912,232 |
| Hong Kong Dollar | 13,941 | 1,675,095 | — | — | 481 | (8,192) | 1,681,325 |
| Hungarian Forint | 992 | 177,127 | — | 1,944 | — | (12,805) | 167,258 |
| Indian Rupee | 2,730 | 751,406 | — | — | — | — | 754,136 |
| Indonesian Rupiah | 918 | 232,142 | — | — | — | — | 233,060 |
| Israeli Shekel | 1,061 | 219,021 | — | 1 | — | — | 220,083 |
| Japanese Yen | 70,352 | 7,531,594 | 24,426 | 587,825 | 812 | (41,317) | 8,173,692 |
| Malaysian Ringgit | 188 | 308,151 | — | — | — | — | 308,339 |
| Mexican Peso | 1,157 | 619,465 | — | 13,652 | — | (67,730) | 566,544 |
| Moroccan Dirham | — | 104 | — | — | — | — | 104 |
| New Russian Ruble..... | — | — | — | — | — | (25,491) | (25,491) |
| New Zealand Dollar | 198 | 57,377 | — | 35,747 | — | (22,330) | 70,992 |
| Norwegian Krone | 4,906 | 551,051 | — | 33,658 | — | (40,788) | 548,827 |
| Philippine Peso | 18,757 | 84,672 | — | — | — | — | 103,429 |
| Polish Zloty | 303 | 99,260 | — | 61,262 | — | (80,832) | 79,993 |
| Singapore Dollar | 6,038 | 581,364 | — | — | 713 | (121) | 587,994 |
| South African Rand | 9,697 | 958,743 | — | — | — | — | 968,440 |
| South Korean Won | 1,545 | 2,111,092 | — | 32,215 | — | — | 2,144,852 |
| Sri Lanka Rupee | — | 724 | — | — | — | — | 724 |
| Swedish Krona | 12,772 | 1,074,035 | — | 51,698 | — | (711) | 1,137,794 |
| Swiss Franc | 14,562 | 2,607,003 | 394 | — | — | (39,261) | 2,582,698 |
| Taiwan Dollar | 18,221 | 1,601,068 | — | — | — | — | 1,619,289 |
| Thailand Baht | 3,321 | 320,697 | — | — | — | — | 324,018 |
| Turkish New Lira | 5,298 | 371,311 | — | 2,536 | — | (6,133) | 373,012 |
| Total exposure to foreign currency risk .. | \$ 545,611 | \$ 53,588,797 | \$ 1,830,768 | \$ 3,341,986 | \$ 16,995 | \$ (2,061,604) | \$ 57,262,553 |

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundations, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund administered by CalPERS, and various funds that constitute less than 3% 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 SCIF, CalHFA, and other component units is invested in the State Treasurer's pooled investment program.

The investments of the University of California, a discretely presented component unit, are primarily stated at fair value. Investments authorized by the regents include equity securities, fixed-income securities, and certain other asset classes. The equity portion of the investment portfolio includes domestic and foreign common and preferred stocks, which may be included in actively or passively managed strategies, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs, and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, as well as certain securitized investments including mortgage-backed and asset-backed securities. Absolute return strategies, incorporating short sales, plus derivative positions to implement or hedge an investment position, are also authorized. Where donor agreements have placed constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The University of California participates in a securities lending program as a means to augment income. Campus foundations' cash, cash equivalents, and investments that are invested with the University of California and managed by the university's treasurer are included in the university's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral, and collateral held for securities lending is determined based upon the foundations' equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program. The university loans securities to selected brokerage firms and receives collateral that equals or exceeds the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the university unless the borrower defaults. Loans of domestic equities and all fixed-income securities are initially collateralized at 102% of the fair value of the securities loaned. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of the securities loaned. The university earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and a rebate to the borrower. The university receives the net investment income. As of June 30, 2007, the university had no exposure to borrowers because the amounts the it owed the borrowers exceeded the amounts the borrowers owed the university. The university is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the university or the borrower. Cash collateral is invested by the university's lending agents in short-term investment pools in the university's name, with guidelines approved by the university. As of June 30, 2007, the securities in these pools had a weighted average maturity of 62 days.

The State Department of Insurance permits SCIF to lend a certain portion of its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. A

third-party lending agent has been contracted to lend U.S. Treasury notes and bonds. Collateral, in the form of cash and other securities, is adjusted daily and is required at all times to equal at least 100% of the fair value of securities loaned. Collateral securities received cannot be pledged or sold unless the borrower defaults. The maximum loan term is one year. In accordance with SCIF's investment guidelines, cash collateral is invested in short-term investments, with maturities matching the related loans. Interest income on these investments is shared by the borrower, the third-party lending agent, and SCIF. As of December 31, 2006, the aggregate fair value of the loaned securities and the cash collateral received in respect to these loans was \$1.77 billion and \$1.80 billion, respectively.

Table 10 presents the investments of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units

June 30, 2007

(amounts in thousands)

| Investment Type | Fair Value |
|--|----------------------|
| Equity securities | \$ 5,172,660 |
| Debt securities* | 32,276,453 |
| Investment contracts | 857,981 |
| Mutual funds | 4,692,124 |
| Real estate | 487,251 |
| Money market securities | 453,824 |
| Private equity | 586,929 |
| Mortgage loans | 403,684 |
| Externally held irrevocable trusts | 302,374 |
| Securities lending collateral | 4,920,992 |
| Invested for others | (1,354,776) |
| Other | 1,483,096 |
| Total investments | \$ 50,282,592 |

* Debt securities include short-term investments not included in Cash and Pooled Investments.

1. Interest Rate Risk

Interest rate risk for the University of California's short-term investment pool is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio, as it is managed relative to the liquidity demands of the investors. Portfolio guidelines for the fixed-income portion of the university's general endowment pool limit weighted average effective duration to the effective duration of the Lehman Aggregate Index, plus or minus 20%.

SCIF guidelines provide that not less than 15% of its total assets shall be maintained in cash or in securities maturing in five years or less. For information about CalPERS' policies related to interest rate risk, refer to Section B, Fiduciary Funds.

Table 11 presents the interest rate risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 11**Schedule of Investments in Fixed-Income or Variable-Income Securities - Discretely Presented Component Units - Interest Rate Risk**

June 30, 2007

(amounts in thousands)

| Investment Type | University of California | | University of California Foundations | |
|--|--------------------------|--------------------|--------------------------------------|--------------------|
| | Fair Value at Year End | Effective Duration | Fair Value at Year End | Effective Duration |
| U.S. Treasury bills, notes, and bonds | \$ 1,379,320 | 1.60 | \$ 132,579 | 4.40 |
| U.S. Treasury strips | 16,916 | 13.60 | — | — |
| U.S. TIPS | 404,913 | 5.40 | — | — |
| U.S. government-backed securities | 3,577 | 6.30 | 5,529 | 3.60 |
| U.S. government-backed asset-backed securities | — | — | 15 | 3.30 |
| Corporate bonds | 2,620,866 | 2.30 | 47,703 | 4.40 |
| Commercial paper | 1,245,777 | 0.00 | — | — |
| U.S. agencies | 2,335,213 | 1.30 | 84,693 | 2.60 |
| U.S. agencies asset-backed securities | 170,956 | 5.30 | 2,450 | 3.90 |
| Corporate asset-backed securities | 92,603 | 1.70 | 10,868 | 0.60 |
| Supranational/foreign | 917,248 | 2.50 | 622 | 1.00 |
| Other | 205 | 0.90 | 815 | 3.00 |
| Government/Sovereign(foreign currency denominated) | 165,557 | 6.30 | — | — |
| Corporate (foreign currency denominated) | 6,405 | 12.40 | — | — |
| U.S. bond funds | 36,887 | 4.70 | 207,542 | 4.90 |
| Non-U.S. bond funds | — | — | 7,879 | 5.70 |
| Money market funds | 25,187 | 0.00 | 395,711 | 1.20 |
| Mortgage loans | 395,791 | 0.00 | 7,893 | 0.00 |
| Total | \$ 9,817,421 | | \$ 904,299 | |

| Investment Type | State Compensation Insurance Fund | | California Housing Finance Agency | |
|---|-----------------------------------|---------------------------|-----------------------------------|--------------------|
| | Fair Value at Year End | Weighted Average Maturity | Fair Value at Year End | Effective Duration |
| U.S. Treasury and agency securities | \$ 5,747,006 | 2.05 | \$ 54,966 | 9.38 |
| Municipal securities | 413,499 | 6.52 | — | — |
| Public utilities | 412,624 | 6.70 | — | — |
| Corporate bonds | 6,288,330 | 4.29 | — | — |
| Commercial paper | 994,561 | 0.07 | 59,679 | 0.10 |
| Certificate of deposit | 234,521 | 0.49 | — | — |
| Special revenue | 908,582 | 11.01 | — | — |
| Other government | 48,491 | 1.92 | — | — |
| Mortgage-backed securities | 6,062,612 | 22.02 | — | — |
| Mutual funds | 311,435 | 0.06 | — | — |
| Total | \$ 21,421,661 | | \$ 114,645 | |

Table 12 identifies the debt securities that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided previously) because of the existence of prepayment or conversion features, although the effective duration of these securities may be low.

Table 12

Schedule of Highly Sensitive Investments in Debt Securities – University of California and its Foundations – Interest Rate Risk
 June 30, 2007
 (amounts in thousands)

| | University of California | | University of California Foundations | |
|---|--------------------------|--------------------|--------------------------------------|--------------------|
| | Fair Value at Year End | Effective Duration | Fair Value at Year End | Effective Duration |
| Mortgage-Backed Securities | \$ 263,559 | 4.00 | \$ 69,504 | 2.70 |
| <p>These securities are primarily issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.</p> | | | | |
| Collateralized Mortgage Obligations | | | 12,185 | 1.90 |
| <p>Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the underlying mortgages are subject to a lower propensity of prepayments.</p> | | | | |
| Other Asset-Backed Securities | | | 10,868 | 0.70 |
| <p>Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.</p> | | | | |
| Variable-Rate Securities | 566,833 | 0.50 | | |
| <p>These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest may change. These constraints may affect the market value of the security.</p> | | | | |
| Callable Bonds | 1,992,692 | 1.70 | 798 | 4.60 |
| <p>Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The university must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.</p> | | | | |

2. Credit Risk

The investment guidelines for the University of California's short-term investment pool provide that no more than 5% of the total market value of the pool's portfolio may be invested in securities rated below investment grade (BB, Ba, or lower). The average credit quality of the pool must be A or better and commercial paper must be rated at least A-1, P-1 or F-1. For its general endowment pool, the university uses a fixed-income benchmark, the Lehman Aggregate Index, which is comprised of approximately 30% high grade corporate bonds and 30% to 35% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35% to 40% are government-issued bonds. Credit risk in this pool is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10% of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

SCIF investment guidelines provide that securities issued and/or guaranteed by the government of Canada and its political subdivisions must be rated AA or equivalent by a nationally recognized rating service, provided the rating of the other service, if it has a rating, is not less than AA. Securities issued and/or guaranteed by a state or its political subdivision must be rated A or equivalent by a nationally recognized rating service, provided the rating of the other service, if it has a rating, is not less than A. Securities issued by a qualifying corporation must be rated A or equivalent by a nationally recognized rating service, provided the rating of the other service, if it has a rating, is not less than A.

Table 13 presents the credit risk of the fixed-income or variable-income securities of the major discretely presented component units.

Table 13

Schedule of Investments in Fixed-Income or Variable-Income Securities – Major Discretely Presented Component Units – Credit Risk

June 30, 2007

(amounts in thousands)

| <u>Credit Rating as of Year End</u> | | <u>Fair Value</u> |
|--|------------------|----------------------|
| <u>Short-term</u> | <u>Long-term</u> | |
| A-1+/P-1/F-1+ | AAA/Aaa/AAA | \$ 16,341,291 |
| A-1/P-1/F-1 | AA/Aa/AA | 6,721,259 |
| A-2/P-2/F-2 | A/A/A | 5,443,963 |
| A-3/P-3/F-3 | BBB/Baa/BBB | 1,181,210 |
| B/NP/B | BB/Ba/BB | 152,765 |
| B/NP/B | B/B/B | 131,579 |
| C/NP/C | CCC/Caa/CCC | 559 |
| Not rated | | 1,097,320 |
| Total fixed-income securities | | \$ 31,069,946 |

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the University of California's portfolio include a limit of no more than 3% of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the university's short-term investment pool. Each campus foundation may

have its own individual investment policy designed to limit exposure to a concentration of credit risk. The University of California held \$1.3 billion in federal agency securities of the Federal National Mortgage Association and \$1.2 billion in Federal agency securities of the Federal Home Loan Mortgage Corporation, which represented 9.10% and 8.63%, respectively, of the university’s total investments as of June 30, 2007.

4. Custodial Credit Risk

The University of California’s securities are registered in the university’s name by the custodial bank as an agent for the university. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote. Some of the investments of certain University of California campus foundations are exposed to custodial credit risk. These investments may be uninsured or not registered in the name of the campus foundation and held by a custodian.

Table 14 presents the investments of the major discretely presented component units subject to custodial credit risk.

Table 14

Schedule of Investments – University of California Foundations – Custodial Credit Risk

June 30, 2007

(amounts in thousands)

| Investment Type | Fair Value |
|---|-------------------|
| Domestic equity securities | \$ 173,916 |
| Foreign equity securities | 20,397 |
| U.S. Treasury bills, notes, and bonds | 98,041 |
| U.S. agencies | 3,625 |
| Total exposure to custodial credit risk..... | \$ 295,979 |

5. Foreign Currency Risk

The University of California's portfolio guidelines for U.S. investment-grade fixed-income securities allow exposure to non-U.S. dollar denominated bonds up to 10% of the total portfolio market value. Exposure to foreign currency risk from these securities may be fully or partially hedged using forward foreign currency exchange contracts. Under the university's investment policies, such instruments are not permitted for speculative use or to create leverage.

Table 15 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 15

Schedule of Investments – University of California – Foreign Currency Risk

June 30, 2007

(amounts in thousands of U.S. dollars at fair value)

| Currency | Equity | Fixed-Income | Total |
|--|---------------------|-------------------|---------------------|
| Australian Dollar | \$ 66,169 | \$ 713 | \$ 66,882 |
| British Pound Sterling | 308,192 | 12,609 | 320,801 |
| Canadian Dollar | 73,153 | 6,759 | 79,912 |
| Danish Krone | 9,509 | 1,528 | 11,037 |
| Euro | 493,453 | 88,094 | 581,547 |
| Hong Kong Dollar | 34,413 | — | 34,413 |
| Japanese Yen | 271,048 | 56,438 | 327,486 |
| New Zealand Dollar | 2,637 | — | 2,637 |
| Norwegian Krone | 12,125 | 545 | 12,670 |
| Polish Zloty | — | 1,683 | 1,683 |
| Singapore Dollar | 16,106 | 627 | 16,733 |
| South African Rand | 1,677 | — | 1,677 |
| South Korean Won | 6,260 | — | 6,260 |
| Swedish Krona | 28,604 | 1,467 | 30,071 |
| Swiss Franc | 106,197 | 1,499 | 107,696 |
| Thailand Baht | 2,550 | — | 2,550 |
| Other | 23,283 | — | 23,283 |
| Commingled currencies | 1,226,993 | 2,999 | 1,229,992 |
| Total exposure to foreign currency risk | \$ 2,682,369 | \$ 174,961 | \$ 2,857,330 |

NOTE 4: ACCOUNTS RECEIVABLE

Table 16 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges. The adjustment for the fiduciary funds represents amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Table 16

Schedule of Accounts Receivable

June 30, 2007

(amounts in thousands)

| | Reimbursement of Accrued | | | | | Total |
|--|-----------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|
| | Taxes | Interest Expense | Lottery Retailers | Unemployment Programs | Other | |
| Current governmental activities | | | | | | |
| General Fund | \$ 7,910,704 | \$ — | \$ — | \$ — | \$ 531,357 | \$ 8,442,061 |
| Federal Fund | — | — | — | — | 1,854 | 1,854 |
| Transportation Construction Fund | 343,375 | — | — | — | 58,065 | 401,440 |
| Nonmajor governmental funds | 99,605 | 142 | — | — | 1,164,390 | 1,264,137 |
| Internal service funds | — | — | — | — | 117,209 | 117,209 |
| Adjustment: | | | | | | |
| Fiduciary funds | — | — | — | — | 14,547 | 14,547 |
| Total current governmental activities | \$ 8,353,684 | \$ 142 | \$ — | \$ — | \$ 1,887,422 | \$ 10,241,248 |
| Amounts not scheduled for collection during the subsequent year | | | | | | |
| | \$ 1,227,511 | \$ — | \$ — | \$ — | \$ 281,337 | \$ 1,508,848 |
| Current business-type activities | | | | | | |
| Water Resources Fund | \$ — | \$ — | \$ — | \$ — | \$ 151,009 | \$ 151,009 |
| Public Buildings Construction Fund .. | — | 133,157 | — | — | — | 133,157 |
| State Lottery Fund | — | — | 225,278 | — | — | 225,278 |
| Unemployment Programs Fund | — | — | — | 152,488 | — | 152,488 |
| Nonmajor enterprise funds | — | — | — | — | 31,079 | 31,079 |
| Adjustment: | | | | | | |
| Account reclassification | — | (132,535) | — | — | (1,993) | (134,528) |
| Total current business-type activities | \$ — | \$ 622 | \$ 225,278 | \$ 152,488 | \$ 180,095 | \$ 558,483 |
| Amounts not scheduled for collection during the subsequent year | | | | | | |
| | \$ — | \$ — | \$ — | \$ 26,854 | \$ — | \$ 26,854 |

NOTE 5: RESTRICTED ASSETS

Table 17 presents a summary of the legal restrictions placed on assets in the enterprise funds of the primary government and the discretely presented component units.

Table 17

Schedule of Restricted Assets

June 30, 2007

(amounts in thousands)

| | Cash and Pooled Investments | Investments | Due From Other Governments | Loans Receivable | Total |
|---|-----------------------------------|-------------------|----------------------------------|---------------------|---------------------|
| Primary government | | | | | |
| Debt service | \$ 1,071,211 | \$ 711,197 | \$ 55,965 | \$ 512,173 | \$ 2,350,546 |
| Construction | 140,212 | — | — | — | 140,212 |
| Operations | 1,784,305 | — | — | — | 1,784,305 |
| Other | 17,712 | 23,551 | — | — | 41,263 |
| Total primary government | 3,013,440 | 734,748 | 55,965 | 512,173 | 4,316,326 |
| Discretely presented component units | | | | | |
| Nonmajor component units – debt service..... | 136,650 | 109,165 | — | — | 245,815 |
| Total discretely presented component units | 136,650 | 109,165 | — | — | 245,815 |
| Total restricted assets | \$ 3,150,090 | \$ 843,913 | \$ 55,965 | \$ 512,173 | \$ 4,562,141 |

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

Table 18 summarizes the minimum lease payments to be received by the State Public Works Board for the primary government.

Table 18

Schedule of Minimum Lease Payments to be received by the State Public Works Board for the Primary Government

(amounts in thousands)

| Year Ending June 30 | Primary Government Agencies | University of California | Local Agencies | Total |
|--|-----------------------------------|--------------------------------|-------------------|---------------------|
| 2008 | \$ 471,116 | \$ 167,477 | \$ 69,674 | \$ 708,267 |
| 2009 | 464,313 | 165,138 | 69,408 | 698,859 |
| 2010 | 448,077 | 157,749 | 68,627 | 674,453 |
| 2011 | 422,061 | 157,622 | 67,297 | 646,980 |
| 2012 | 411,902 | 157,704 | 63,235 | 632,841 |
| 2013-2017 | 1,994,875 | 688,423 | 276,499 | 2,959,797 |
| 2018-2022 | 1,401,006 | 591,927 | 90,747 | 2,083,680 |
| 2023-2027 | 833,018 | 301,381 | 56,472 | 1,190,871 |
| 2028-2032 | 277,702 | 165,499 | 43,317 | 486,518 |
| Total minimum lease payments | 6,724,070 | 2,552,920 | 805,276 | 10,082,266 |
| Less: unearned income | 2,456,355 | 910,619 | 245,452 | 3,612,426 |
| Net investment in direct financing leases | \$ 4,267,715 | \$ 1,642,301 | \$ 559,824 | \$ 6,469,840 |

NOTE 7: CAPITAL ASSETS

Table 19 summarizes the capital activity for the primary government, which includes \$5.8 billion in capital assets related to capital leases.

Table 19

Schedule of Changes in Capital Assets – Primary Government

June 30, 2007

(amounts in thousands)

| | Beginning Balance (Restated) | Additions | Deductions | Ending Balance |
|--|------------------------------------|---------------------|---------------------|----------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 15,238,079 | \$ 342,810 | \$ 70,457 | \$ 15,510,432 |
| State highway infrastructure | 55,725,491 | 354,887 | 89,161 | 55,991,217 |
| Collections | 20,442 | 346 | 106 | 20,682 |
| Construction in progress | 6,441,427 | 2,357,698 | 922,229 | 7,876,896 |
| Total capital assets not being depreciated | 77,425,439 | 3,055,741 | 1,081,953 | 79,399,227 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 15,522,036 | 876,632 | 75,390 | 16,323,278 |
| Infrastructure | 516,608 | 50,741 | 719 | 566,630 |
| Equipment and other assets | 3,946,955 | 388,099 | 216,282 | 4,118,772 |
| Total capital assets being depreciated | 19,985,599 | 1,315,472 | 292,391 | 21,008,680 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 5,019,972 | 433,662 | 37,692 | 5,415,942 |
| Infrastructure | 149,312 | 24,345 | 107 | 173,550 |
| Equipment and other assets | 2,936,628 | 278,103 | 214,478 | 3,000,253 |
| Total accumulated depreciation | 8,105,912 | 736,110 | 252,277 | 8,589,745 |
| Total capital assets being depreciated, net | 11,879,687 | 579,362 | 40,114 | 12,418,935 |
| Governmental activities, capital assets, net | \$ 89,305,126 | \$ 3,635,103 | \$ 1,122,067 | \$ 91,818,162 |
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 46,766 | \$ — | \$ — | \$ 46,766 |
| Collections | 39 | — | 10 | 29 |
| Construction in progress | 891,503 | 623,380 | 338,233 | 1,176,650 |
| Total capital assets not being depreciated | 938,308 | 623,380 | 338,243 | 1,223,445 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 7,049,754 | 278,629 | 955 | 7,327,428 |
| Infrastructure | 1,223,097 | 491 | — | 1,223,588 |
| Equipment and other assets | 95,706 | 18,875 | 3,951 | 110,630 |
| Total capital assets being depreciated | 8,368,557 | 297,995 | 4,906 | 8,661,646 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 2,685,408 | 146,741 | 626 | 2,831,523 |
| Infrastructure | 697,180 | 18,584 | — | 715,764 |
| Equipment and other assets | 63,692 | 10,393 | 3,718 | 70,367 |
| Total accumulated depreciation | 3,446,280 | 175,718 | 4,344 | 3,617,654 |
| Total capital assets being depreciated, net | 4,922,277 | 122,277 | 562 | 5,043,992 |
| Business-type activities, capital assets, net | \$ 5,860,585 | \$ 745,657 | \$ 338,805 | \$ 6,267,437 |

Table 20 summarizes the depreciation expense charged to the activities of the primary government.

Table 20**Schedule of Depreciation Expense – Primary Government**

June 30, 2007

(amounts in thousands)

| | Amount |
|--|-------------------|
| Governmental activities | |
| General government | \$ 67,680 |
| Education | 215,432 |
| Health and human services | 45,598 |
| Resources | 48,170 |
| State and consumer services | 41,565 |
| Business and transportation | 114,095 |
| Correctional programs | 163,644 |
| Internal service funds (charged to the activities that utilize the fund) | 39,926 |
| Total depreciation expense – governmental activities | 736,110 |
| Business-type activities | |
| Enterprise | 175,718 |
| Total primary government | \$ 911,828 |

Table 21 summarizes the capital activity for discretely presented component units.

Table 21**Schedule of Changes in Capital Assets – Discretely Presented Component Units**

June 30, 2007

(amounts in thousands)

| | Beginning Balance | Additions | Deductions | Ending Balance |
|--|------------------------------|---------------------|-------------------|---------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 666,904 | \$ 98,793 | \$ 3,468 | \$ 762,229 |
| Collections | 258,378 | 12,082 | 363 | 270,097 |
| Construction in progress | 3,234,846 | 805,247 | 73,851 | 3,966,242 |
| Total capital assets not being depreciated | 4,160,128 | 916,122 | 77,682 | 4,998,568 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 17,352,629 | 1,272,301 | 115,869 | 18,509,061 |
| Equipment and other depreciable assets | 7,839,256 | 646,603 | 356,278 | 8,129,581 |
| Infrastructure | 398,481 | 34,844 | 80 | 433,245 |
| Total capital assets being depreciated | 25,590,366 | 1,953,748 | 472,227 | 27,071,887 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 6,341,997 | 574,845 | 39,300 | 6,877,542 |
| Equipment and other depreciable assets | 5,238,283 | 550,600 | 313,971 | 5,474,912 |
| Infrastructure | 171,166 | 15,068 | 4 | 186,230 |
| Total accumulated depreciation | 11,751,446 | 1,140,513 | 353,275 | 12,538,684 |
| Total capital assets being depreciated, net | 13,838,920 | 813,235 | 118,952 | 14,533,203 |
| Capital assets, net | \$ 17,999,048 | \$ 1,729,357 | \$ 196,634 | \$ 19,531,771 |

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due to taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 22 presents details related to the accounts payable.

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

Table 22

Schedule of Accounts Payable

June 30, 2007

(amounts in thousands)

| | Education | Health and Human Services | Resources | Business and Transportation | General Government and Others | Total |
|--|---------------------|------------------------------------|-------------------|-----------------------------------|--|----------------------|
| Governmental activities | | | | | | |
| General Fund | \$ 161,844 | \$ 354,716 | \$ 165,836 | \$ 951 | \$ 409,673 | \$ 1,093,020 |
| Federal Fund | 180,074 | 571,502 | 81,677 | 293,216 | 197,028 | 1,323,497 |
| Transportation Construction Fund | 141 | — | — | 105,236 | 1,141 | 106,518 |
| Nonmajor governmental funds | 697,191 | 543,938 | 299,072 | 1,067,756 | 532,844 | 3,140,801 |
| Internal service funds | — | — | 11,297 | — | 188,971 | 200,268 |
| Adjustment: | | | | | | |
| Fiduciary funds | 3,894,081 | 3,846,065 | — | 47,630 | 620,164 | 8,407,940 |
| Total governmental activities | \$ 4,933,331 | \$ 5,316,221 | \$ 557,882 | \$ 1,514,789 | \$ 1,949,821 | \$ 14,272,044 |
| Business-type activities | | | | | | |
| Electric Power Fund | \$ — | \$ — | \$ 453,000 | \$ — | \$ — | \$ 453,000 |
| Water Resources Fund | — | — | 107,968 | — | — | 107,968 |
| Public Building Construction Fund | — | — | — | — | 18,005 | 18,005 |
| State Lottery Fund | — | — | — | — | 38,347 | 38,347 |
| Unemployment Program Fund | — | — | — | — | 5 | 5 |
| Nonmajor enterprise funds | 52,361 | 352 | 77 | 2,990 | 3,035 | 58,815 |
| Adjustment: | | | | | | |
| Fiduciary funds | — | — | — | — | 25,819 | 25,819 |
| Total business-type activities | \$ 52,361 | \$ 352 | \$ 561,045 | \$ 2,990 | \$ 85,211 | \$ 701,959 |

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. A significant portion of the General Fund revenues are received in the latter half of the fiscal year, while disbursements are paid more evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants (RAWs). On October 3, 2006, the State issued \$1.5 billion of RANs to fund cash flow needs for the 2006-07 fiscal year. The RANs were repaid on June 29, 2007.

The California Housing Finance Agency, a discretely presented component unit, entered into an agreement with a financial institution to provide a line of credit for short-term borrowings of up to \$100 million, which may increase up to \$150 million. At June 30, 2007, draws totaling \$5 million were outstanding.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2007, the primary government had long-term obligations totaling \$105.2 billion. Of that amount, \$6.4 billion is due within one year. The \$6.4 billion includes \$1.2 billion in outstanding commercial paper that had been scheduled to be refunded by general obligation bonds issued during the fiscal year. This commercial paper was refunded in July 2007. The largest change in governmental activities long-term obligations is an increase of \$3.3 billion in general obligation bonds payable. General obligation bonds payable increased because bond sales exceeded redemptions during the year.

The other long-term obligations for governmental activities consist of \$1.9 billion for net pension obligations, \$342 million owed for lawsuits, and the University of California unfunded pension liability of \$69 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 loans payable, 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 \$547 million in other long-term obligations for business-type activities is mainly for advance collections. These other long-term obligations do not have required payment schedules or they will be paid when funds are appropriated. Table 23 summarizes the changes in the long-term obligations during the year ended June 30, 2007.

Table 23**Schedule of Changes in Long-term Obligations**

(amounts in thousands)

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 | Due Within One Year | Noncurrent Liabilities |
|---|-------------------------|----------------------|----------------------|--------------------------|------------------------|---------------------------|
| Governmental activities | | | | | | |
| Loans payable | \$ 1,054,674 | \$ — | \$ 128,819 | \$ 925,855 | \$ — | \$ 925,855 |
| Compensated absences payable ... | 1,774,664 | 910,100 | 685,571 | 1,999,193 | 99,079 | 1,900,114 |
| Certificates of participation and commercial paper | 923,890 | 3,512,366 | 3,078,205 | 1,358,051 | 1,251,932 | 106,119 |
| Capital lease obligations | 4,466,828 | 177,698 | 298,347 | 4,346,179 | 298,993 | 4,047,186 |
| General obligation bonds payable .. | 47,003,817 | 10,227,060 | 6,961,435 | 50,269,442 | 2,045,103 | 48,224,339 |
| Revenue bonds payable | 7,300,638 | 4,471,717 | 3,762,571 | 8,009,784 | 127,191 | 7,882,593 |
| Proposition 98 funding guarantee .. | 4,247,600 | — | 283,000 | 3,964,600 | 300,000 | 3,664,600 |
| Workers compensation | 2,574,699 | 97,228 | 351,449 | 2,320,478 | 325,801 | 1,994,677 |
| Mandated costs | 2,845,568 | 425,330 | 1,204,020 | 2,066,878 | 78,931 | 1,987,947 |
| Other long-term obligations | 2,141,200 * | 192,053 | 47,978 | 2,285,275 | 48,359 | 2,236,916 |
| Total | \$ 74,333,578 | \$ 20,013,552 | \$ 16,801,395 | \$ 77,545,735 | \$ 4,575,389 | \$ 72,970,346 |
| Business-type activities | | | | | | |
| Benefits payable | \$ 14,008 | \$ — | \$ 3,954 | \$ 10,054 | \$ 1,173 | \$ 8,881 |
| Lottery prizes and annuities | 2,221,064 | 1,940,954 | 2,149,041 | 2,012,977 | 630,374 | 1,382,603 |
| Compensated absences payable ... | 49,115 | 25,188 | 20,604 | 53,699 | 26,121 | 27,578 |
| Certificates of participation and commercial paper | 231,121 | 129,723 | 181,062 | 179,782 | — | 179,782 |
| General obligation bonds payable .. | 1,963,305 | 359,160 | 368,245 | 1,954,220 | 136,430 | 1,817,790 |
| Revenue bonds payable | 22,812,509 | 1,743,761 | 1,622,176 | 22,934,094 | 1,042,722 | 21,891,372 |
| Other long-term obligations | 565,967 | 59 | 19,459 | 546,567 | 5,745 | 540,822 |
| Total | \$ 27,857,089 | \$ 4,198,845 | \$ 4,364,541 | \$ 27,691,393 | \$ 1,842,565 | \$ 25,848,828 |

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 24 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 24**Schedule of Debt Service Requirements for Certificates of Participation – Primary Government**

(amounts in thousands)

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|------------------|------------------|------------------|
| 2008 | \$ 7,039 | \$ 2,604 | \$ 9,643 |
| 2009 | 6,743 | 2,895 | 9,638 |
| 2010 | 6,584 | 3,057 | 9,641 |
| 2011 | 6,654 | 2,986 | 9,640 |
| 2012 | 6,715 | 2,926 | 9,641 |
| 2013-2017 | 35,235 | 6,232 | 41,467 |
| Total | \$ 68,970 | \$ 20,700 | \$ 89,670 |

Table 25 shows debt service requirements for certificates of participation for the University of California, a discretely presented component unit.

Table 25

Schedule of Debt Service Requirements for Certificates of Participation – University of California – Discretely Presented Component Unit

(amounts in thousands)

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|------------------|-----------------|-----------------|
| 2008 | \$ 4,020 | \$ 290 | \$ 4,310 |
| 2009 | 2,175 | 158 | 2,333 |
| 2010 | 2,270 | 67 | 2,337 |
| Total | \$ 8,465 | \$ 515 | \$ 8,980 |

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 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 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 current agreement for the general obligation commercial paper program, effective December 1, 2004, authorizes the issuance of notes in an aggregate principal amount not to exceed \$1.5 billion. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed \$142 million. As of June 30, 2007, the enterprise fund commercial paper program had \$133 million in outstanding notes.

During the year ended June 30, 2007, the primary government issued \$3.5 billion in general obligation commercial paper and \$3.8 billion in long-term general obligation bonds to refund outstanding commercial paper. However, by June 30, 2007, only \$2.6 billion of the \$3.8 billion had been used to repay outstanding commercial paper. The remaining \$1.2 billion was used to repay commercial paper in July 2007. As of June 30, 2007, the general obligation commercial paper program had \$1.3 billion in outstanding commercial paper notes, of which \$1.2 billion is considered a current liability for governmental activities and \$16 million is considered a noncurrent liability for business-type activities.

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, 2007, \$30 million in outstanding BANs existed in anticipation of issuing revenue bonds to the public. In addition, the primary government issued Stem Cell Research and Cures Bond Anticipation Notes to private individuals and philanthropic foundations to finance stem cell research. As of June 30, 2007, the primary government had \$45 million in outstanding BANs in anticipation of issuing general obligation bonds to the public.

The University of California has established a \$550 million commercial paper program with tax-exempt and taxable components. The program is supported by the legally available unrestricted investments balance in the University of California's short-term investment pool. Commercial paper has been issued by the University to provide for interim financing of the construction, renovation, and acquisition of certain facilities and equipment. Commercial paper is secured by a pledge of the net revenues generated by the enterprise financed—not by any encumbrance, mortgage, or other pledge of property—and does not constitute a general obligation of the University of California. At June 30, 2007, outstanding tax-exempt and taxable commercial paper totaled \$430 million and \$120 million, respectively.

The University of California, a discretely presented component unit, has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total approximately \$411 million as of June 30, 2007, are various unsecured financing agreements, totaling approximately \$147 million, with commercial banks.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2007, was approximately \$7.5 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. 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 minimum capital lease payments for the primary government comprises \$11 million from internal service funds and \$4.3 billion from other governmental activities. Note 10, Long-term Obligations, reports the additions and deductions of capital lease obligations. Also reported in Note 10 are the current and noncurrent portions of the capital lease obligations. Lease expenditures for the year ended June 30, 2007, amounted to approximately \$756 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of \$4.3 billion. This amount represents 98.2% of the total present value of minimum lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include \$568 million of lease-purchase agreements with building authorities that are blended component units. These 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 in the government-wide financial statements. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements.

Table 26 summarizes future minimum lease commitments of the primary government.

Table 26

Schedule of Future Minimum Lease Commitments – Primary Government

(amounts in thousands)

| Year Ending June 30 | Operating Leases | Capital Leases | | Total |
|--|---------------------|------------------------------|-------------------------------------|---------------------|
| | | Internal Service Funds | Other Governmental Activities | |
| 2008 | \$ 221,260 | \$ 2,003 | \$ 498,657 | \$ 721,920 |
| 2009 | 162,998 | 2,006 | 484,539 | 649,543 |
| 2010 | 98,700 | 2,046 | 459,512 | 560,258 |
| 2011..... | 56,017 | 2,055 | 427,197 | 485,269 |
| 2012 | 32,813 | 2,085 | 414,859 | 449,757 |
| 2013-2017..... | 108,088 | 1,870 | 2,001,769 | 2,111,727 |
| 2018-2022 | 7,990 | — | 1,401,006 | 1,408,996 |
| 2023-2027 | 927 | — | 833,019 | 833,946 |
| 2028-2032 | 645 | — | 277,702 | 278,347 |
| 2033-2037 | 695 | — | — | 695 |
| 2038-2042 | 95 | — | — | 95 |
| 2043-2047 | 95 | — | — | 95 |
| 2048-2052 | 95 | — | — | 95 |
| 2053-2057 | 84 | — | — | 84 |
| 2058-2062 | 32 | — | — | 32 |
| Total minimum lease payments | \$ 690,534 | 12,065 | 6,798,260 | \$ 7,500,859 |
| Less: amount representing interest | | 1,447 | 2,462,699 | |
| Present value of net minimum lease payments | | \$ 10,618 | \$ 4,335,561 | |

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2007, was approximately \$3.5 billion. Table 27 presents the future minimum lease commitments for the University of California and the State Compensation Insurance Fund. Operating lease expenditures for the year ended June 30, 2007, amounted to approximately \$238 million for major discretely presented component units.

Table 27

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units

(amounts in thousands)

| Year Ending June 30 | University of California | | State Compensation Insurance Fund | | Total |
|--|--------------------------------|-------------------|---|-----------|------------------|
| | Capital | Operating | Operating | | |
| 2008 | \$ 221,359 | \$ 101,382 | \$ 48,325 | \$ | 371,066 |
| 2009 | 221,114 | 83,919 | 42,423 | | 347,456 |
| 2010 | 186,705 | 60,730 | 28,450 | | 275,885 |
| 2011 | 181,414 | 42,788 | 19,527 | | 243,729 |
| 2012 | 176,114 | 24,605 | 4,863 | | 205,582 |
| 2013-2017 | 818,463 | 35,899 | 17,717 | | 872,079 |
| 2018-2022 | 629,520 | 4,021 | — | | 633,541 |
| 2023-2027 | 371,203 | 3,694 | — | | 374,897 |
| 2028-2032 | 204,610 | 4,195 | — | | 208,805 |
| 2033-2037 | — | 4,745 | — | | 4,745 |
| 2038-2042 | — | 2,694 | — | | 2,694 |
| Total minimum lease payments | 3,010,502 | \$ 368,672 | \$ 161,305 | \$ | 3,540,479 |
| Less: amount representing interest | 1,001,004 | | | | |
| Present value of net minimum lease payments | \$ 2,009,498 | | | | |

NOTE 14: COMMITMENTS

As of June 30, 2007, the primary government had commitments of \$6.2 billion for certain highway construction projects. These commitments are not included as a reserve for encumbrances in the Federal Fund or the Transportation Construction Fund because the future expenditures related to these commitments will be reimbursed with \$2.5 billion from local governments and \$3.7 billion from proceeds of approved federal grants. The ultimate liability will not accrue to the State. In addition, the primary government had commitments of \$445 million for various education programs and \$3 million for services provided under the welfare program that are not included as a reserve for encumbrances in the Federal Fund and will be reimbursed by the proceeds of approved federal grants.

The primary government had other commitments, totaling \$24.7 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. These commitments included \$8.1 billion in long-term contracts to purchase power; these contracts are considered to be derivatives and are not included as a liability on the Statement of Net Assets of the Electric Power Fund. In addition, variable costs, estimated by management at \$7.9 billion, are associated with these power purchase contracts. Purchases will take place in the future, and the commitments will be met with future receipts from charges to residential and commercial energy users. Some of these derivatives do not qualify as normal purchases or normal sales. These contracts had a negative fair value of \$251 million as of June 30, 2007. Also, the Department of Water Resources entered into bilateral arrangements, with a fair value of \$42 million, to hedge the price of natural gas. The \$24.7 billion in commitments also included grant agreements, totaling approximately \$7.1 billion, to reimburse other entities for construction projects for school building aid, parks, and other improvements, and to reimburse counties and cities for costs associated with various programs. Any constructed buildings will not

belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts.

In addition to the power purchase contracts and grant commitments, the primary government had commitments of approximately \$936 million for the construction of water projects and the purchase of power. Included in this amount were certain power purchase, sale, and exchange contracts which are considered to be derivatives. These contracts had a fair value of \$277 million as of June 30, 2007. The primary government also had commitments of \$454 million for California State University construction projects, \$111 million for the California State Lottery's gaming and telecommunication systems and services, and \$75 million to veterans for the purchase of properties under contracts of sale. 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. In addition, the Department of Technology Services had commitments of \$56 million for software, hardware and copiers, purchase of commodities, consulting services, and the purchase of a generator system. These commitments are not included as a liability on the Statement of Net Assets because payments towards these contracts are contingent on the Department's maintenance needs.

As of June 30, 2007, the discretely presented component units had other commitments that are not included as liabilities on the Statement of Net Assets. The University of California had authorized construction projects totaling \$2.4 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled \$493 million as of June 30, 2007. Other component units had outstanding commitments to provide \$135 million for loans under various housing programs and \$20 million to other governments for infrastructure improvements. The California Public Employees' Retirement System had capital commitments to private equity funds and commitments to purchase real estate equity totaling \$14.0 billion and \$996 million, respectively, that remained unfunded and not recorded as liabilities on the Statement of Net Assets of either the fiduciary or discretely presented component units.

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 majority 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, 2007, the State had \$50.3 billion in outstanding general obligation bonds related to governmental activities and \$2.0 billion related to business-type activities. In addition, \$68.0 billion of general obligation bonds had been authorized but not issued. This amount includes \$21.9 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, \$1.3 billion in general obligation indebtedness was issued in the form of commercial paper notes but was not yet retired by long-term bonds.

Note 10, Long-term Obligations, discusses the change to general obligation bonds payable.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2007, the State had \$3.4 billion of variable-rate general obligation bonds outstanding, consisting of \$987 million in daily rate, \$1.9 billion in weekly rate, and \$500 million in auction rate.

The interest rates associated with the daily rates and weekly rates 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 is paid on the first business day of each calendar month. The interest rates on the auction-rate bonds are determined by the auction agent through an auction process and the interest is paid on the business day immediately following each auction rate period.

Letters of credit were issued to secure payment of principal and interest on the daily and weekly variable-rate bonds. Under these letters of credit, the credit providers pay all principal and interest payments to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. Different credit providers exist for each series of variable-rate bonds issued. For the variable-rate bonds issued during the 2002-03 fiscal year, expiration dates of the letters of credit for the daily and weekly variable-rate bonds have been amended to December 11, 2009 and December 31, 2015. For the variable-rate bonds issued during the 2004-05 and 2005-06 fiscal years, the initial expiration dates of the letters of credit are October 20, 2009 and November 17, 2010, respectively.

Based on the schedules provided in the Official Statements, 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: the 2006-07 fiscal year, the 2015-16 through 2033-34 fiscal years, and the 2039-40 fiscal year. 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

On March 2, 2004, voters approved the one-time issuance of up to \$15 billion in Economic Recovery Bonds; during the 2003-04 fiscal year, the State sold a total of \$10.9 billion of these 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, 2007, the State had \$9.0 billion of Economic Recovery Bonds outstanding. Of the \$9.0 billion outstanding, bonds totaling \$2.4 billion are variable rate bonds, consisting of \$635 million in daily rates and \$1.7 billion in weekly rates. The interest rates associated with the daily rates and weekly rates are determined by the remarketing agents 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, payment of principal, interest, and purchase price upon tender, for a portion of these bonds, is secured by a direct-pay letter of credit. Payment of principal and interest for another portion of these bonds is secured by a bond insurance policy, together with an insured standby bond purchase agreement upon tender. A separate uninsured standby bond purchase agreement supports the purchase upon tender for the final

portion of these bonds, without credit enhancement in the form of an insurance policy or letter of credit related to the payment of principal or interest. The State reimburses its credit providers for any amounts paid, plus interest. Different credit providers exist for each series of variable-rate bonds issued. The expiration dates for these letters of credit, bond insurance policies, and standby bond purchase agreements fall between June 15, 2009, and December 31, 2015.

Another \$1.0 billion of the outstanding \$9.0 billion in Economic Recovery Bonds have interest-reset dates of either July 1, 2007, or July 1, 2008. At that time, the bonds are 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 will seek to remarket these bonds. The debt service requirements published in the Official Statement differ from the calculation included in Table 28 because the statement presumes a successful remarketing at an interest rate of 3.33% per year, along with the creation of a mandatory sinking fund. The debt service calculation in Table 28 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset date, and does not assume the future establishment of a sinking fund. In the event of a failed remarketing, the State is required to return all tendered bonds to their initial purchasers and pay an annual interest rate of 11% until the bonds are successfully remarketed.

C. Debt Service Requirements

Table 28 shows the debt service requirements for all general obligation bonds as of June 30, 2007. The estimated debt service requirements for the \$3.4 billion variable-rate general obligation bonds and the \$2.4 billion variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2007.

Table 28

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 |
| 2008 | \$ 2,045,103 | \$ 2,382,271 | \$ 4,427,374 | \$ 136,430 | \$ 99,697 | \$ 236,127 |
| 2009 | 2,211,335 | 2,300,610 | 4,511,945 | 135,340 | 89,909 | 225,249 |
| 2010 | 2,360,375 | 2,184,119 | 4,544,494 | 118,190 | 80,636 | 198,826 |
| 2011 | 2,423,244 | 2,059,188 | 4,482,432 | 86,480 | 73,307 | 159,787 |
| 2012 | 1,973,295 | 1,929,693 | 3,902,988 | 100,895 | 68,674 | 169,569 |
| 2013-2017 | 9,406,475 | 8,172,962 | 17,579,437 | 526,280 | 275,814 | 802,094 |
| 2018-2022 | 9,373,745 | 5,943,409 | 15,317,154 | 298,350 | 166,664 | 465,014 |
| 2023-2027 | 8,713,400 | 3,904,807 | 12,618,207 | 143,990 | 116,717 | 260,707 |
| 2028-2032 | 7,733,510 | 1,961,505 | 9,695,015 | 204,465 | 74,957 | 279,422 |
| 2033-2037 | 4,027,960 | 401,440 | 4,429,400 | 138,095 | 29,020 | 167,115 |
| 2038-2041 | 1,000 | 108 | 1,108 | 65,705 | 6,213 | 71,918 |
| Total | \$ 50,269,442 | \$ 31,240,112 | \$ 81,509,554 | \$ 1,954,220 | \$ 1,081,608 | \$ 3,035,828 |

D. General Obligation Bond Defeasances

1. Current Year

On November 9, 2006, the primary government issued \$239 million in veterans general obligation refunding bonds to immediately refund \$239 million in outstanding veterans general obligation bonds maturing in years 2012 through 2032. This refunding reduced debt service payments by \$3 million and resulted in an economic gain of \$22 million, using a discount rate of 3.0%.

On December 6, 2006, the primary government issued \$423 million in various-purpose general obligation refunding bonds to advance-refund \$398 million in general obligation bonds maturing in 2016 through 2018, 2022 through 2023, 2027 through 2028, and 2030. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. This advance refunding decreased overall debt service payments by \$49 million and resulted in an economic gain of \$30 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 4.3% per year over the life of the new bonds.

On February 28, 2007, the primary government issued \$132 million in various-purpose general obligation refunding bonds to immediately refund \$134 million in general obligation bonds maturing in 2014 through 2019. The refunding decreased overall debt service payments by \$14 million and resulted in an economic gain of \$12 million, using a discount rate of 4.4%.

On April 11, 2007, the primary government issued \$4.1 billion in various-purpose general obligation refunding bonds to current-refund and advance-refund \$4 billion in general obligation bonds maturing in 2010 through 2034. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service payments by \$410 million and resulted in an economic gain of \$205 million, using a discount rate of 4.4%.

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, 2007, the outstanding balance of general obligation bonds defeased in prior years was approximately \$3.3 billion.

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. This bond funds activity in the Transportation Construction Fund and is included in the governmental activities column of the government-wide Statement of Net Assets.

The California State University, Channel Islands Financing Authority, a blended component unit in the California State University Programs Fund, issues revenue bonds to provide funding for public capital improvements serving the California State University, Channel Islands. These bonds are secured and payable from special taxes, tax increment revenues, and pledged rental housing revenues of the California State University, Channel Islands Site Authority, which is also a blended component unit in the California State University Programs Fund. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. The bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase 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. The primary government has no legal liability for the payment of principal and interest on these bonds. These bonds are included in the governmental activities column of the government-wide Statement of Net Assets.

Under state law, certain building authorities may issue revenue bonds. These bonds are issued for the purpose of acquiring and constructing buildings for public education purposes and for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government 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 Assets.

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, public building construction, financing of electric power purchases for resale to utility customers, and certain nonmajor enterprise funds.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance the construction, renovation, and acquisition of certain facilities and equipment.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed- and variable-rate revenue bonds to make loans to finance housing developments and to finance the acquisition of homes by low- and moderate-income families. Variable-rate debt is typically tied to a common index, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically.

Table 29 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 29**Schedule of Revenue Bonds Outstanding**

June 30, 2007

(amounts in thousands)

Primary government**Governmental activities**

| | | |
|--|----|-----------|
| Transportation Construction Fund | \$ | 518,719 |
| Nonmajor governmental funds | | |
| California State University Programs Fund | | 44,500 |
| Golden State Tobacco Securitization Corporation Fund | | 6,922,503 |
| Building authorities | | 524,062 |

| | | |
|--|--|------------------|
| Total governmental activities | | 8,009,784 |
|--|--|------------------|

Business-type activities

| | | |
|---|--|-----------|
| Electric Power Fund | | 9,995,000 |
| Water Resources Fund | | 2,568,083 |
| Public Building Construction Fund | | 6,916,267 |
| Nonmajor enterprise funds | | 3,454,744 |

| | | |
|---|--|-------------------|
| Total business-type activities | | 22,934,094 |
|---|--|-------------------|

| | | |
|---------------------------------------|--|-------------------|
| Total primary government | | 30,943,878 |
|---------------------------------------|--|-------------------|

Discretely presented component units

| | | |
|---|--|-----------|
| University of California | | 6,384,409 |
| California Housing Finance Agency | | 7,579,228 |
| Nonmajor component units | | 463,012 |

| | | |
|---|--|-------------------|
| Total discretely presented component units | | 14,426,649 |
|---|--|-------------------|

| | | |
|--------------------|-----------|-------------------|
| Total | \$ | 45,370,527 |
|--------------------|-----------|-------------------|

Table 30 shows the debt service requirements for fixed- and variable-rate bonds. It excludes certain unamortized refunding costs, premiums, discounts, and other costs that are included in Table 29.

Table 30**Schedule of Debt Service Requirements for Revenue Bonds**

(amounts in thousands)

| Year Ending June 30 | Primary Government | | | | Discretely Presented Component Units | |
|---------------------------|----------------------------|----------------------|-----------------------------|----------------------|---|----------------------|
| | Governmental Activities | | Business-type Activities | | Principal | Interest* |
| | Principal | Interest | Principal | Interest* | | |
| 2008 | \$ 187,545 | \$ 376,056 | \$ 1,023,136 | \$ 1,047,923 | \$ 250,364 | \$ 646,085 |
| 2009 | 151,580 | 369,062 | 1,280,614 | 1,003,355 | 354,192 | 643,931 |
| 2010 | 159,120 | 362,234 | 1,048,943 | 942,028 | 408,221 | 627,733 |
| 2011 | 162,210 | 361,755 | 1,089,755 | 890,121 | 391,723 | 609,844 |
| 2012 | 154,715 | 354,024 | 1,130,460 | 837,256 | 416,050 | 592,122 |
| 2013-2017 | 591,660 | 1,791,788 | 6,262,345 | 3,314,290 | 2,340,740 | 2,652,075 |
| 2018-2022 | 478,431 | 1,685,015 | 6,950,858 | 1,843,889 | 2,331,393 | 2,084,335 |
| 2023-2027 | 972,701 | 1,778,771 | 2,289,735 | 761,888 | 2,422,167 | 1,532,217 |
| 2028-2032 | 198,086 | 1,443,155 | 1,417,360 | 262,439 | 2,596,072 | 964,162 |
| 2033-2037 | 1,534,216 | 1,326,197 | 379,915 | 69,962 | 1,969,215 | 427,076 |
| 2038-2042 | 401,055 | 867,633 | 99,000 | 12,047 | 719,035 | 96,744 |
| 2043-2047 | 3,543,936 | 4,031,759 | 18,475 | 1,015 | 123,580 | 15,687 |
| Total | \$ 8,535,255 | \$ 14,747,449 | \$ 22,990,596 | \$ 10,986,213 | \$ 14,322,752 | \$ 10,892,011 |

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2007.

Table 31 shows debt service requirements as of June 30, 2007, for variable-rate debt included in Table 30, as well as net swap payments, assuming that current interest rates remain the same for their term. As interest rates vary, variable-rate bond interest payments and net swap payments will vary.

Table 31**Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds**

(amounts in thousands)

| Year Ending June 30 | Primary Government | | | | Discretely Presented Component Units | | | |
|---------------------------|--------------------------|---------------------|------------------------|---------------------|--------------------------------------|---------------------|------------------------|---------------------|
| | Business-type Activities | | | | | | | |
| | Principal | Interest* | Interest Rate* Swap | | Principal | Interest* | Interest Rate* Swap | |
| Net | | | Total | Net | | | Total | |
| 2008 | \$ 21,000 | \$ 148,000 | \$ (10,000) | \$ 159,000 | \$ 42,230 | \$ 202,954 | \$ 19,818 | \$ 265,002 |
| 2009 | 127,000 | 146,000 | (9,000) | 264,000 | 91,092 | 202,352 | 18,389 | 311,833 |
| 2010 | 80,000 | 142,000 | (9,000) | 213,000 | 104,304 | 197,881 | 17,603 | 319,788 |
| 2011 | 241,000 | 138,000 | (9,000) | 370,000 | 111,224 | 192,942 | 16,746 | 320,912 |
| 2012 | 258,000 | 129,000 | (7,000) | 380,000 | 130,474 | 187,672 | 16,094 | 334,240 |
| 2013-2017 | 1,959,000 | 508,000 | (26,000) | 2,441,000 | 729,904 | 852,557 | 63,733 | 1,646,194 |
| 2018-2022 | 1,274,000 | 118,000 | (4,000) | 1,388,000 | 904,265 | 684,882 | 46,368 | 1,635,515 |
| 2023-2027 | — | — | — | — | 996,862 | 490,691 | 30,894 | 1,518,447 |
| 2028-2032 | — | — | — | — | 1,159,984 | 277,252 | 16,931 | 1,454,167 |
| 2033-2037 | — | — | — | — | 697,068 | 79,558 | 4,853 | 781,479 |
| 2038-2042 | — | — | — | — | 81,788 | 4,976 | 452 | 87,216 |
| Total | \$ 3,960,000 | \$ 1,329,000 | \$ (74,000) | \$ 5,215,000 | \$ 5,049,195 | \$ 3,373,717 | \$ 251,881 | \$ 8,674,793 |

* Based on rates in effect on June 30, 2007.

D. Primary Government Variable Rate/Swap Disclosure

Objective: The Department of Water Resources (DWR) entered into interest-rate swap agreements with various counterparties to reduce variable-interest-rate risk for the Electric Power Fund. The swaps create a synthetic fixed rate. The DWR agreed to make fixed-rate payments and receive floating-rate payments on notional amounts equal to a portion of the principal amount of this variable-rate debt.

Terms and Fair Value: The terms and fair value of the swap agreements entered into by DWR, which became effective February 13, 2003, and December 1, 2005, are summarized in Table 32. The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reductions to outstanding notional amounts that follow scheduled amortization of the associated debt. The fair values were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR has a total of 20 swap agreements with 10 different counterparties. Approximating 22% of the total notional value is held with a counterparty that has Moody's Investors Service, Fitch Ratings, and Standard & Poor's (S&P) credit ratings of Aa1, AA, and AA+, respectively. Of the remaining swaps, two are held with a single counterparty and approximate 20% of the outstanding notional value; that counterparty has Moody's, Fitch's, and S&P's credit ratings of Aa1, AA-, and AA-, respectively. The remaining swaps are with separate counterparties, all having Moody's, Fitch's, and S&P's credit ratings of Aa3, A+, and A+, respectively, or better. Table 32 summarizes the credit ratings of the counterparties for the swap agreements.

Table 32**Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements**

(amounts in thousands)

| Swap Termination Date | Outstanding Notional Amount at June 30, 2007 | Fair Values at June 30, 2007 | Fixed Rate Paid by Electric Power Fund | Variable Rate Received by Electric Power Fund | Counterparty Credit Ratings (Moody's, Fitch's, S&P's) |
|-----------------------|--|------------------------------|--|---|---|
| 5/1/2011 | \$ 94,000 | \$ 2,000 | 2.914 % | 67% of LIBOR | Aaa, AAA, AAA |
| 5/1/2012 | 234,000 | 6,000 | 3.024 | 67% of LIBOR | Aaa, AAA, AAA |
| 5/1/2013 | 190,000 | 1,000 | 3.405 | BMA | Aaa, AA-, AA |
| 5/1/2013 | 95,000 | 1,000 | 3.405 | BMA | Aa3, AA-, A+ |
| 5/1/2013 | 28,000 | — | 3.405 | BMA | Aa3, AA-, AA- |
| 5/1/2014 | 194,000 | 5,000 | 3.204 | 67% of LIBOR | Aaa, AA, AA+ |
| 5/1/2015 | 308,000 | 7,000 | 3.184 | 66.5% of LIBOR | Aa3, AA-, A+ |
| 5/1/2015 | 174,000 | 5,000 | 3.280 | 67% of LIBOR | Aaa, AAA, AAA |
| 5/1/2016 | 202,000 | 6,000 | 3.342 | 67% of LIBOR | Aa1, AA, AA+ |
| 5/1/2016 | 485,000 | 16,000 | 3.228 | 66.5% of LIBOR | Aa1, AA, AA+ |
| 5/1/2017 | 202,000 | 6,000 | 3.389 | 67% of LIBOR | Aa3, AA-, A+ |
| 5/1/2017 | 480,000 | 17,000 | 3.282 | 66.5% of LIBOR | Aa1, AA-, AA |
| 5/1/2018 | 515,000 | 19,000 | 3.331 | 66.5% of LIBOR | Aa1, AA-, AA- |
| 5/1/2020 | 306,000 | 12,000 | 3.256 | 64% of LIBOR | Aa1, AA-, AA- |
| 5/1/2022 | 453,000 | 19,000 | 3.325 | 64% of LIBOR | Aaa, AA, AA- |
| Total | \$ 3,960,000 | \$ 122,000 | | | |

Basis Risk: The DWR is exposed to basis risk on the swaps that have payments calculated on the basis of a percentage of LIBOR. The basis risk results from the fact that DWR's floating interest payments payable on the underlying debt are determined in the tax-exempt market, while the DWR floating receipts on the swaps are based on LIBOR, which is determined in the taxable market. Should the relationship between LIBOR and the tax-exempt market change and move to convergence, or should DWR's bonds trade at levels higher in rate in relation to the tax-exempt market, DWR's cost would increase.

Effective July 1, 2006, DWR entered into the basis swaps, shown in Table 33, to mitigate this risk and optimize debt service by changing the variable rate received by the Electric Power Fund to a five-year Constant Maturity Swap Index (CMS). The fair values were provided by the counterparties, using the par value or marked-to-market method.

Table 33**Schedule of Terms, Fair Values, and Credit Ratings of Swap Agreements**

(amounts in thousands)

| Swap Termination Date | Outstanding Notional Amount at June 30, 2007 | Fair Values at June 30, 2007 | Variable Rate Paid by Electric Power Fund | Variable Rate Received by Electric Power Fund | Counterparty Credit Ratings (Moody's, Fitch's, S&P's) |
|-----------------------|--|------------------------------|---|---|---|
| 5/1/2012 | \$ 234,000 | \$ — | 67% of LIBOR | 62.83% of CMS | Aa1, AA, AA+ |
| 5/1/2014 | 194,000 | — | 67% of LIBOR | 62.70% of CMS | Aa1, AA-, AA- |
| 5/1/2015 | 174,000 | — | 67% of LIBOR | 62.60% of CMS | Aaa, AA-, AA |
| 5/1/2016 | 202,000 | — | 67% of LIBOR | 62.80% of CMS | Aa1, AA, AA+ |
| 5/1/2017 | 202,000 | — | 67% of LIBOR | 62.66% of CMS | Aaa, AA-, AA |
| Total | \$ 1,006,000 | \$ — | | | |

As of June 30, 2007, 67% of LIBOR paid on the basis swaps was equal to 3.56%, while the variable rates received based on the five-year CMS Index varied from 3.45 to 3.47%.

Termination Risk: The DWR's swap agreements do not contain any out-of-the-ordinary termination provisions that would expose it to significant termination risk. In keeping with market standards, DWR or the counterparty may terminate a swap agreement if the other party fails to perform under the terms of the contract or significantly loses creditworthiness. The DWR views the likelihood of either event to be remote at this time. If a termination were to occur, DWR would, at the time of the termination, be liable for payment equal to the swap's fair value, if it had a negative fair value at that time. A termination would mean that DWR's underlying floating-rate bonds would no longer be hedged, and DWR would be exposed to floating rate risk unless it entered into a new hedge.

Rollover Risk: Other than termination, no rollover risk is associated with the swap agreements because the agreements have termination dates and notional amounts that are tied to equivalent maturity dates and principal amounts of amortizing debt.

E. Discretely Presented Component Unit Variable Rate/Swap Disclosure—University of California

Table 31 includes debt service requirements and net swap payments as of June 30, 2007, of the University of California (UC), a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are \$432 million, \$178 million, and negative \$15 million, respectively.

Objective: UC has entered into interest rate swap agreements as a means to lower borrowing costs, rather than using fixed-rate bonds at the time of issuance, and to effectively change the variable interest rate bonds to synthetic fixed rate bonds. UC entered into two separate interest rate swaps in connection with certain variable-rate Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

Terms: The notional amount of the swaps matches the principal amounts of the associated bond issuance. The UC's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance. UC pays the swap counterparties a fixed interest rate payment and receives a variable interest rate payment. UC believes that over time the variable interest rates it

pays to the bondholders will approximate the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment to the swap counterparty as the net payment obligation for the transaction.

Fair Value: The swaps have an estimated positive fair value of \$18 million as of June 30, 2007. The fair value of the interest rate swaps is the estimated amount the UC would have either received or (paid) if the swap agreements had been terminated on June 30, 2007. The fair value was estimated by the financial institutions using available quoted market prices or a forecast of expected discounted net future cash flows. The terms and fair value of the swap agreements are summarized in Table 34.

Table 34**Schedule of Terms and Fair Values of Swap Agreements**

(amounts in thousands)

| Swap Termination Date | Outstanding Notional Amounts at June 30, 2007 | Fair Values at June 30, 2007 | Fixed Rate Paid by University of California | Variable Rate Received by University of California |
|-----------------------------|--|------------------------------------|--|---|
| 09/01/2026 | \$ 336,225 | \$ 16,460 | 3.1385 % | 67% of LIBOR |
| 05/15/2032 | 96,155 | 1,734 | 3.5897 | 58% of LIBOR + 0.48% |
| Total | \$ 432,380 | \$ 18,194 | | |

Basis Risk: UC is exposed to basis risk whenever the interest rates on the bonds are reset. The interest rates on the bonds are tax-exempt interest rates, while the variable receipt rate on the interest rate swaps is taxable.

Termination and Credit Risk: UC is exposed to losses in the event of nonperformance by counterparties or unfavorable interest rate movements. The swap contracts with positive fair values are exposed to credit risk. UC faces a maximum possible loss equivalent to the amount of the derivative's fair value. Swaps with negative fair values are not exposed to credit risk. Depending on the agreement, certain swaps may be terminated if the insurer's credit quality rating, as issued by Fitch Ratings or Standard & Poor's, falls below A-, or if the Medical Center Pooled Revenue Bonds or swap counterparty's bond ratings falls below Baa2 or BBB, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, UC may also owe a termination payment if there is a realized loss based on the fair value of the swap.

F. Discretely Presented Component Unit Variable Rate/Swap Disclosure—California Housing Finance Agency

Table 31 includes debt service requirements and net swap payments as of June 30, 2007, for the California Housing Finance Agency (CalHFA), a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are \$4.6 billion, \$3.2 billion, and \$267 million, respectively.

Objective: CalHFA has entered into interest rate swap agreements with various counterparties to protect itself against rising rates by providing a synthetic fixed rate for a like amount of variable-rate bond obligations. The majority of CalHFA's interest rate swap transactions are structured to pay a fixed rate of interest while receiving a variable rate of interest, with some exceptions. CalHFA previously entered into swaps at a ratio of

65% of LIBOR. Its current formula (60% of LIBOR plus a spread, currently .26%) results in comparable fixed-rate economics but performs better when short-term rates are low and the SIFMA/LIBOR percentage is high. CalHFA has used this new formula since December 2002, and the agency expects to continue to use this formula for LIBOR-based swaps exclusively. In addition, CalHFA entered into 13 basis swaps as a means to change the variable-rate formula received from counterparties for \$631 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: Most of CalHFA's notional amounts of the fixed-payer swaps match the principal amounts of the associated debt. CalHFA has created a synthetic fixed rate by swapping a portion of its variable-rate debt. CalHFA did not pay or receive any cash when the swap transactions were initiated. CalHFA utilizes 11 counterparties for its interest-rate swap transactions. Counterparties are required to collateralize their exposure to CalHFA when their credit ratings fall from AA to the highest single-A category, A1/A+. CalHFA is not required to provide collateralization until its ratings fall to the mid-single-A category, A2/A. CalHFA's swap portfolio has an aggregate negative fair value, due to a decline in interest rates, of \$35 million as of June 30, 2007. Fair values are as reported by CalHFA's counterparties and are estimated using the zero-coupon method. As CalHFA's swap portfolio has an aggregate negative fair value, CalHFA is not exposed to credit risk. However, if interest rates rise, the negative fair value of the swap portfolio would be reduced and could eventually become positive. At that point, CalHFA would become exposed to the counterparties' credit because the counterparties would be obligated to make payments to CalHFA in the event of termination. CalHFA has 132 swap transactions, with outstanding notional amounts of \$4.7 billion. Standard & Poor's credit ratings for these counterparties range from A+ to AAA; Moody's credit ratings range from Aa3 to Aaa.

Basis Risk: CalHFA's swaps contain the risk that the floating-rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because floating rates paid by swap counterparties are based on indices that consist of market-wide averages, while interest paid on CalHFA's variable-rate bonds is specific to individual bond issues. CalHFA's variable-rate tax-exempt bonds trade at a slight discount to the SIFMA index. Swaps associated with tax-exempt bonds, for which CalHFA receives a variable-rate payment, are based on a percentage of LIBOR; thus, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2007, the SIFMA rate was 3.73%, 65% of the one-month LIBOR was 3.46%, and 60% of the one-month LIBOR plus 26 basis points was 3.45%.

Termination Risk: Counterparties to CalHFA's interest rate swaps have termination rights that require settlement payments by either CalHFA or the counterparties, based on the fair value of the swap.

Rollover Risk: CalHFA's swap agreements have limited rollover risk because the agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled and anticipated reductions in the associated bonds payable.

G. Revenue Bond Defeasances

1. Current Year—Governmental Activities

In March 2007, the GSTSC issued Enhanced Tobacco Settlement Asset-Backed Bonds to advance-refund \$2.9 billion in outstanding 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 refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. According to the State Department of Finance (Finance) no economic gain or loss was calculated or disclosed because the 2007 issuance was not undertaken solely to refund the 2003 bonds and \$1.3 billion of the bond proceeds

above what was needed to advance refund the 2003 bonds were deposited in the General Fund. Finance asserts that had the economic gain calculation been made and disclosed, it would have given the impression that the refunding transaction had resulted in far greater debt and cash flows than the debt defeased, when in fact a substantial portion of the new debt was not intended for advance refunding at all.

In March 2007, the primary government issued California State University systemwide revenue bonds to advance-refund \$151 million of the Channel Island Financing Authority revenue bonds. As a result, the refunded bonds are considered defeased and the liability for these bonds has been removed from the financing authority's financial statements. The liability for the new bonds is included in the nonmajor enterprise fund financial statements. For a complete description of the refunding bonds issued, refer to the Current Year—Business-type Activities section below.

2. Current Year—Business-type Activities

During the year ended June 30, 2007, the primary government issued \$637 million in lease revenue refunding bonds to advance-refund \$669 million in outstanding bonds. The proceeds were 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 those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$79 million over the next 11 to 16 years and will result in an economic gain of \$55 million. These lease revenue bonds are reported in the Public Buildings Construction Fund.

In November 2006, the primary government issued \$144 million in veterans home purchase revenue refunding bonds, the proceeds of which were used to immediately refund \$112 million in outstanding veterans home purchase revenue bonds maturing in years 2014 through 2028. This refunding reduced debt service payments by \$7 million, and resulted in an economic gain of \$2 million, using a discount rate of 3.0%. The veterans home purchase revenue bonds are reported in the Housing Loan Fund, a nonmajor enterprise fund.

In March 2007, the primary government issued California State University systemwide revenue refunding bonds to defease the outstanding Channel Island Financing Authority revenue bonds discussed in the Current Year—Governmental Activities section above. 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 to be defeased and the liability for those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$10 million over the life of the bonds and will result in an economic gain of \$11 million. The California State University systemwide revenue bonds are reported in the State Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund.

3. Current Year—Discretely Presented Component Units

In January 2007, the University of California, a discretely presented component unit, issued \$1.7 billion in revenue bonds; a portion of the proceeds from these bonds was used to refund \$1.2 billion in outstanding revenue bonds. This refunding will reduce debt service payments by \$49 million through 2035 and will result in an economic gain of \$62 million. In June 2007, the university issued \$242 million in revenue bonds to refund \$247 million in outstanding revenue bonds. This refunding will reduce debt service payments by \$13 million through 2025 and will result in an economic gain of \$15 million.

4. 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, 2007, the outstanding balance of revenue bonds defeased in prior years was \$2.4 billion for governmental activities and \$2.8 billion for business-type activities.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 2007, the outstanding balance of University of California revenue bonds defeased in prior years was \$1.3 billion.

NOTE 17: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Due from other funds and due to other funds represent short-term interfund receivables and payables 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 35 presents the amounts due from and due to other funds.

Table 35

Schedule of Due From Other Funds and Due To Other Funds

June 30, 2007

(amounts in thousands)

| Due From | Due To | | | | | |
|---------------------------------------|---------------------|---------------|----------------------------------|----------------------------|---------------------|----------------------|
| | General Fund | Federal Fund | Transportation Construction Fund | Nonmajor Governmental Fund | Electric Power Fund | Water Resources Fund |
| Governmental funds | | | | | | |
| General Fund..... | \$ — | \$ — | \$ 167,928 | \$ 171,882 | \$ — | \$ — |
| Federal Fund..... | 793,342 | — | 1,268,612 | 416,857 | — | — |
| Transportation Construction Fund . | — | — | — | 9,324 | — | — |
| Nonmajor governmental funds | 235,799 | — | 5,511 | 874,447 | — | — |
| Total governmental funds | 1,029,141 | — | 1,442,051 | 1,472,510 | — | — |
| Enterprise funds | | | | | | |
| Water Resources Fund | 195 | — | — | — | — | — |
| Public Building Construction Fund | 23,075 | — | — | — | — | — |
| State Lottery Fund..... | 406 | — | — | 292,060 | — | — |
| Unemployment Programs Fund | 43,423 | 591 | — | 7,054 | — | — |
| Nonmajor enterprise funds | 6,124 | — | — | 28,296 | — | — |
| Total enterprise funds | 73,223 | 591 | — | 327,410 | — | — |
| Internal service funds | 53,028 | 128 | 37,991 | 224,196 | 41,000 | 8,230 |
| Fiduciary funds | 14,448 | — | — | 99 | — | — |
| Total primary government | \$ 1,169,840 | \$ 719 | \$ 1,480,042 | \$ 2,024,215 | \$ 41,000 | \$ 8,230 |

| Due To | | | | | | | |
|--|--------------------------|----------------------------------|---------------------------------|------------------------------|---------------------|----------------------|--|
| Public Building Construction Fund | State Lottery Fund | Unemployment Programs Fund | Nonmajor Enterprise Funds | Internal Service Funds | Fiduciary Funds | Total | |
| \$ — | \$ — | \$ — | \$ — | \$ 181,564 | \$ 4,355,862 | \$ 4,877,236 | |
| — | — | — | 2,976 | 12,365 | 3,850,817 | 6,344,969 | |
| — | — | — | — | 2,938 | 196 | 12,458 | |
| 256 | — | — | 31 | 26,426 | 179,328 | 1,321,798 | |
| 256 | — | — | 3,007 | 223,293 | 8,386,203 | 12,556,461 | |
| — | — | — | — | — | — | 195 | |
| — | — | — | — | 67,864 | 25,819 | 116,758 | |
| — | — | — | — | — | — | 292,466 | |
| — | — | — | — | — | — | 51,068 | |
| — | — | — | 58 | 129 | — | 34,607 | |
| — | — | — | 58 | 67,993 | 25,819 | 495,094 | |
| 28,558 | 6,298 | 36,853 | 27,944 | 37,520 | 21,737 | 523,483 | |
| — | — | — | — | — | 522 | 15,069 | |
| \$ 28,814 | \$ 6,298 | \$ 36,853 | \$ 31,009 | \$ 328,806 | \$ 8,434,281 | \$ 13,590,107 | |

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. The \$1.7 billion in Transportation Construction Fund loans payable from the General Fund is primarily the result of deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the traffic congestion relief program. Table 36 presents the interfund receivables and payables.

Table 36**Schedule of Interfund Receivables and Payables**

June 30, 2007

(amounts in thousands)

| Interfund Receivables | Interfund Payables | | | | | | Total |
|---------------------------------------|--------------------|----------------------------------|-----------------------------|----------------------|---------------------------|-------------------|---------------------|
| | General Fund | Transportation Construction Fund | Nonmajor Governmental Funds | Water Resources Fund | Nonmajor Enterprise Funds | Fiduciary Funds | |
| Governmental funds | | | | | | | |
| General Fund | \$ — | \$ 1,699,747 | \$ 725,329 | \$ — | \$ — | \$ 925,855 | \$ 3,350,931 |
| Nonmajor governmental funds .. | 13,849 | — | — | — | — | — | 13,849 |
| Total governmental funds .. | 13,849 | 1,699,747 | 725,329 | — | — | 925,855 | 3,364,780 |
| Enterprise funds | — | — | — | — | 2,188 | — | 2,188 |
| Internal service funds | 3,000 | — | 1,220 | 91,517 | — | — | 95,737 |
| Fiduciary funds | 66,936 | — | — | — | — | — | 66,936 |
| Total primary government | \$ 83,785 | \$ 1,699,747 | \$ 726,549 | \$ 91,517 | \$ 2,188 | \$ 925,855 | \$ 3,529,641 |

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 37 presents the due from primary government and due to component units.

Table 37**Schedule of Due From Primary Government and Due to Component Units**

June 30, 2007

(amounts in thousands)

| Due From | Due To | | | Total |
|---------------------------------------|--------------------------|----------------------------|--------------------------|-------------------|
| | University of California | Public Employees' Benefits | Nonmajor Component Units | |
| Governmental funds | | | | |
| General Fund | \$ 185,327 | \$ — | \$ — | \$ 185,327 |
| Nonmajor governmental funds | 60,484 | — | — | 60,484 |
| Total governmental funds | 245,811 | — | — | 245,811 |
| Enterprise funds | 5,563 | — | — | 5,563 |
| Internal service funds | — | 5,786 | 1,135 | 6,921 |
| Total primary government | \$ 251,374 | \$ 5,786 | \$ 1,135 | \$ 258,295 |

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B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which disburses it. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfers from the General Fund were \$3.3 billion to the Transportation Construction Fund for traffic congestion relief and \$1.7 billion to nonmajor governmental funds for support of trial courts. The \$1.6 billion transfer from the nonmajor governmental funds to the General Fund includes a \$1.3 billion transfer of bond proceeds from the Golden State Tobacco Securitization Corporation. Table 38 presents interfund transfers of the primary government.

Table 38

Schedule of Interfund Transfers

June 30, 2007

(amounts in thousands)

| Transferred From | Transferred To | | |
|--|---------------------|----------------------------------|-----------------------------|
| | General Fund | Transportation Construction Fund | Nonmajor Governmental Funds |
| Governmental funds | | | |
| General Fund | \$ — | \$ 3,340,445 | \$ 3,131,931 |
| Federal Fund | — | — | 903,571 |
| Transportation Construction Fund | 9,287 | — | 19,400 |
| Nonmajor governmental funds | 1,573,325 | 9,734 | 254,954 |
| Total governmental funds | 1,582,612 | 3,350,179 | 4,309,856 |
| Nonmajor enterprise funds | 6,148 | — | 23,831 |
| Internal service funds | 1,413 | 35,651 | 1,772 |
| Total primary government | \$ 1,590,173 | \$ 3,385,830 | \$ 4,335,459 |

| Transferred To | | |
|--|--|---------------------|
| Public Building Construction Fund | Nonmajor Enterprise Funds | Total |
| \$ — | \$ — | \$ 6,472,376 |
| — | — | 903,571 |
| — | — | 28,687 |
| — | 124 | 1,838,137 |
| — | 124 | 9,242,771 |
| 66,601 | 1,447 | 98,027 |
| — | — | 38,836 |
| \$ 66,601 | \$ 1,571 | \$ 9,379,634 |

NOTE 18: FUND DEFICITS AND ENDOWMENTS

A. Fund Deficits

Table 39 shows the funds that had deficits.

Table 39

Schedule of Fund Deficits

June 30, 2007

(amounts in thousands)

| | Governmental Funds | Internal Service Funds | Component Units |
|--|-------------------------------|---------------------------------------|----------------------------|
| General Fund | \$ 1,907,538 | \$ — | \$ — |
| Local Revenue and Public Safety Fund | 4,526 | — | — |
| Prison Construction Fund | 406 | — | — |
| Higher Education Construction Fund | 1,128,229 | — | — |
| Other capital projects funds | 13,975 | — | — |
| Architecture Revolving Fund | — | 20,124 | — |
| Public Employees' Benefits Fund | — | — | 378,299 |
| Total | \$ 3,054,674 | \$ 20,124 | \$ 378,299 |

B. 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 asset categories of the government-wide and fund financial statements. As of June 30, 2007, the total value of restricted and unrestricted endowments and gifts was \$10.3 billion and \$1.4 billion, respectively. The university's policy is to retain 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 \$1.9 billion at June 30, 2007. 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.

NOTE 19: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. 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. 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. All claim payments are on a "pay as you go" basis, with workers' compensation benefits for self-insured agencies being initially paid by the State Compensation Insurance Fund. The potential amount of loss arising from risks other than workers' compensation benefits is not considered material in relation to the primary government's financial position.

The discounted liability for unpaid self-insured workers' compensation losses is estimated to be \$2.3 billion as of June 30, 2007. This estimate is based on actuarial reviews of the State's employee 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 \$3.5 billion is discounted to \$2.3 billion using a 5% interest rate. Of the total, \$326 million is a current liability, of which \$203 million is included in the General Fund, \$122 million in the special revenue funds, and \$1 million in the internal service funds. The remaining \$2.0 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Assets.

The University of California, a discretely presented component unit, is self-insured 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 4.5% to 5.5%. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Changes in the self-insurance claims liability for the primary government and the University of California are shown in Table 40.

Table 40**Schedule of Changes in Self-Insurance Claims**

Years Ended June 30

(amounts in thousands)

| | Primary Government | | University of California – Discretely Presented Component Unit | |
|------------------------------------|-----------------------|---------------------|--|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| Unpaid claims, beginning | \$ 2,576,741 | \$ 2,807,718 | \$ 524,220 | \$ 561,827 |
| Incurred claims | 97,287 | 111,023 | 224,926 | 213,604 |
| Claim payments | (352,141) | (342,000) | (189,565) | (251,211) |
| Unpaid claims, ending | \$ 2,321,887 | \$ 2,576,741 | \$ 559,581 | \$ 524,220 |

NOTE 20: NONMAJOR ENTERPRISE SEGMENT INFORMATION

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 liabilities of the activity. All of the activities reported in the following condensed financial information meet these requirements.

Table 41 presents the Condensed Statement of Net Assets; the Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Condensed Statement of Cash Flows for nonmajor enterprise funds that meet the definition of a segment. The primary sources of revenues for these funds follow.

High Technology Education Fund: Rental payments on public buildings that are used for educational and research purposes related to specific fields of high technology.

State University Dormitory Building Maintenance and Equipment Fund: Charges to students for housing and parking, and student fees for campus unions.

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.

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Table 41**Nonmajor Enterprise Segments**

(amounts in thousands)

| Condensed Statement of Net Assets June 30, 2007 | State University | |
|--|--|---|
| | High Technology Education | Dormitory Building Maintenance and Equipment |
| Assets | | |
| Due from other funds | \$ 674 | \$ 9,477 |
| Due from other governments | — | — |
| Other current assets | 48,343 | 916,155 |
| Capital assets | — | 1,993,981 |
| Other noncurrent assets | 128,449 | 20,963 |
| Total assets | \$ 177,466 | \$ 2,940,576 |
| Liabilities | | |
| Due to other funds | \$ 3,490 | \$ 12,318 |
| Due to other governments | — | 17 |
| Other current liabilities | 26,005 | 176,738 |
| Noncurrent liabilities | 117,132 | 2,411,068 |
| Total liabilities | 146,627 | 2,600,141 |
| Net assets | | |
| Investment in capital assets, net of related debt | — | (449,373) |
| Restricted | 30,839 | 290,549 |
| Unrestricted | — | 499,259 |
| Total net assets | 30,839 | 340,435 |
| Total liabilities and net assets | \$ 177,466 | \$ 2,940,576 |
| Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2007 | | |
| Operating revenues | \$ 22,966 | \$ 506,794 |
| Depreciation expense | — | (63,084) |
| Other operating expenses | (22,704) | (774,962) |
| Operating income (loss) | 262 | (331,252) |
| Nonoperating revenues | — | 41,305 |
| Capital contributions | — | — |
| Transfers in | — | — |
| Transfers out | (66,601) | (22,372) |
| Change in net assets | (66,339) | (312,319) |
| Total net assets, July 1, 2006 | 97,178 | 652,754 * |
| Total net assets, June 30, 2007 | \$ 30,839 | \$ 340,435 |
| Condensed Statement of Cash Flows Year Ended June 30, 2007 | | |
| Net cash provided (used) by: | | |
| Operating activities | \$ 26,503 | \$ (130,416) |
| Noncapital financing activities | (22,270) | (22,372) |
| Capital and related financing activities | (29,426) | 28,336 |
| Investing activities | 18,960 | (206,903) |
| Net increase (decrease) | (6,233) | (331,355) |
| Cash and pooled investments at July 1, 2006 | 53,046 | 975,060 |
| Cash and pooled investments at June 30, 2007 | \$ 46,813 | \$ 643,705 |

* Restated

| State Water Pollution Control | Housing Loan | Total |
|-------------------------------------|---------------------|---------------------|
| \$ 9,467 | \$ 6,999 | \$ 26,617 |
| 112,798 | — | 112,798 |
| 474,595 | 665,532 | 2,104,625 |
| — | 1,085 | 1,995,066 |
| 2,190,256 | 1,603,449 | 3,943,117 |
| \$ 2,787,116 | \$ 2,277,065 | \$ 8,182,223 |
| \$ 385 | \$ — | \$ 16,193 |
| — | 1,272 | 1,289 |
| 27,344 | 164,423 | 394,510 |
| 215,727 | 1,876,352 | 4,620,279 |
| 243,456 | 2,042,047 | 5,032,271 |
| — | 1,084 | (448,289) |
| 591,214 | 233,934 | 1,146,536 |
| 1,952,446 | — | 2,451,705 |
| 2,543,660 | 235,018 | 3,149,952 |
| \$ 2,787,116 | \$ 2,277,065 | \$ 8,182,223 |
| \$ 55,045 | \$ 128,415 | \$ 713,220 |
| — | (756) | (63,840) |
| (3,387) | (126,450) | (927,503) |
| 51,658 | 1,209 | (278,123) |
| 14,204 | 1,878 | 57,387 |
| 182,989 | — | 182,989 |
| — | — | — |
| — | — | (88,973) |
| 248,851 | 3,087 | (126,720) |
| 2,294,809 | 231,931 | 3,276,672 |
| \$ 2,543,660 | \$ 235,018 | \$ 3,149,952 |
| \$ (158,618) | \$ (29,324) | \$ (291,855) |
| 150,685 | 127,434 | 233,477 |
| — | — | (1,090) |
| 21,588 | 91,852 | (74,503) |
| 13,655 | 189,962 | (133,971) |
| 404,883 | 467,440 | 1,900,429 |
| \$ 418,538 | \$ 657,402 | \$ 1,766,458 |

NOTE 21: NO COMMITMENT DEBT

Certain debt of the nonmajor component units is issued to finance activities such as construction of new facilities, remodeling of existing facilities, and acquisition of equipment. This debt is secured solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2007, these component units had \$19.6 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions that involve debt issued by four special-purpose trusts that were created by one of its nonmajor component units, the California Infrastructure and Economic Development Bank. The special-purpose trusts are legally separate entities that issued long-term debt for the primary purpose of financing certain costs of assets and obligations that are recoverable by utilities through electric rate charges. These costs may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, 2007, the special-purpose trusts had approximately \$314 million of debt outstanding. Like the debt of nonmajor component units, the debt of the special purpose trusts is not debt of the State.

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in 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, 2007; legal proceedings that were in progress as of June 30, 2007, and were settled or decided against the primary government as of March 3, 2008; and legal proceedings having a high probability of resulting in a decision against the primary government as of March 3, 2008, 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.

A test claim was filed on behalf of all California counties with the Commission on State Mandates, based on a precedential County of San Diego case, regarding certain unreimbursed costs for the care of medically indigent adults (MIAs). Although certain estimates of the annual cost of services rendered by all counties to MIAs exceed \$4.0 billion, the test claim was withdrawn by the claimant and subsequently dismissed by the Commission in May 2007.

The primary government is a defendant in three cases regarding the constitutionality of a fee imposed on limited liability companies (LLC). In the *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff, and in *Ventas Finance I, LLC v. Franchise Tax Board*, the trial court found the fee also to be unconstitutional as applied to the plaintiff in that case. The

Ventas case is currently on appeal. The trial for the third case, *Bakersfield Mall, LLC v. Franchise Tax Board*, has been postponed and a new trial date has not been set. If the courts were to rule against the State in all three cases, the potential refunds would be \$1.3 billion. However, because a recently enacted Revenue and Taxation code section implements a statutory remedy in the event the fee is finally adjudged to be unconstitutional, the State Department of Finance believes the refunds would be limited to approximately \$300 million.

The University of California (UC), the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA) and nonmajor discretely presented component units are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. Although there are inherent uncertainties in any litigation, the management and the general counsel of UC, SCIF, and CalHFA are of the opinion that the outcome of such matters either will not have a material effect on the financial statements or cannot be estimated at this time.

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, UC, and CalHFA 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, UC, and CalHFA may incur a liability to the federal government.

NOTE 23: 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. The pension liability for all pension and other employee benefit trust funds was determined in accordance with GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. The amounts of the pension liability for all pension and other employee benefit trust funds are presented in Table 42 as the net pension obligation (NPO) as of June 30, 2007. The investments of these fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), the Legislators' Retirement Fund (LRF), and the Volunteer Firefighters' Length of Service Award Fund (VFF). CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the public employee Replacement Benefit Fund (RBF), and the public employee Supplemental Contributions Program Fund (SCPF). CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS Web site at www.CalPERS.ca.gov.

CalPERS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers three defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, and the Cash Balance Benefit Program. CalSTRS also offers the Voluntary Investment Program, through a third-party administrator, that is a tax-deferred defined contribution plan meeting the requirements of Internal Revenue Code Section 403(b). The Teachers' Health Benefits Fund provides post-employment health benefits to retired members of the DB 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, P.O. Box 15275, Sacramento, California 95851.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due 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 PERF, which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain discretely presented component units, 61 school employers, and 1,499 public agencies as of June 30, 2007. For reporting purposes, the financial information of the RBF is combined with that of the PERF.

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 \$29.1 billion at June 30, 2006. This is a result of the difference between the actuarial value of assets of \$199.0 billion and the actuarial accrued liability of \$228.1 billion. Contributions are actuarially determined.

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 discretely presented component units' participation in the PERF is not a material portion of the program. 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. The payroll for primary government employees covered by the PERF in the year ended June 30, 2007, was approximately \$14.8 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 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 formula. The primary government contribution rates are determined by periodic actuarial valuations.

Employees, with the exception of employees in the second-tier plans and the State's Alternative 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 amount of \$133 to \$863. Employees' required contributions vary from 5.0% to 8.0% of their salary over the base compensation amount.

All of the primary government employees served by the PERF are now covered by group term life insurance. The required employer contribution rates for the primary government are shown in Table 42.

Table 42**Schedule of Required Employer Contribution Rates for the Primary Government by Member Category**

Year Ended June 30, 2007

| | Normal Cost | Unfunded Liability | Group Term Life Benefit | Total Rate |
|---|----------------|-----------------------|-------------------------------|---------------|
| Miscellaneous members | | | | |
| First tier | 10.093 % | 6.819 % | 0.085 % | 16.997 % |
| Second tier | 9.874 | 6.819 | 0.085 | 16.778 |
| Industrial (first and second tier)..... | 13.844 | 3.967 | 0.050 | 17.861 |
| California Highway Patrol | 16.652 | 14.718 | 0.093 | 31.463 |
| Peace officers and firefighters | 17.389 | 7.116 | 0.000 | 24.505 |
| Other safety members | 15.903 | 3.389 | 0.002 | 19.294 |

For the year ended June 30, 2007, the annual pension cost (APC) and the amount of contributions made by the primary government were each \$2.8 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 43. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2006, is also shown in Table 43 for the primary government.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the JRF, which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 2007. The payroll for employees covered by the JRF for the year ended June 30, 2007, was approximately \$120 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2007, the required member rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are made pursuant to state statute and are not actuarially determined. As of June 30, 2007, employer contributions are required to be 8.0% of applicable member compensation. Other funding to meet benefit payment requirements of the JRF is currently provided by: filing fees, which require varying amounts, depending on fee rate and number of filings; investments, which earn the current yield on short-term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The annual pension cost (APC) and the amount of employer contributions made to the JRF for the year ended June 30, 2007, were \$324 million and \$131 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2007, was \$1.9 billion, an increase of \$192 million over last year's balance of \$1.7 billion. The APC is comprised of \$561 million for the annual required contribution (ARC), \$117 million for interest on the NPO, and a negative \$354 million adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 43. Information on the last valuation, which was performed as of June 30, 2006, is shown in Table 43. The aggregate cost method that was used for the June 30, 2006, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 43.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the JRF II, which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 2007, was approximately \$146 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding Policy: The required contribution rate of active plan members is defined by law and is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2007, the required member rate for the JRF II was 8.0%, and the primary government's contribution rate for the JRF II was 19.92% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate is adjusted periodically as part of the annual Budget Act, in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 2007, the annual pension cost (APC) and the amount of contributions made for the JRF II were approximately \$27.1 million, which is slightly less than the actuarially determined required contribution of \$28.5 million. The APC and the percentage of APC contributed for the year ended June 30, 2007, are shown in Table 43. Information on the last valuation, which was performed as of June 30, 2006, is also shown in Table 43.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the LRF, which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. For the fiscal year ending June 30, 2007, no statutory contribution was required, based on the June 30, 2005 valuation.

The LRF provides benefits based on a member's years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The plan provides death, disability, and survivor benefits. Benefits for the LRF are established by the Legislators' Retirement Law.

No current legislators are eligible to participate in the LRF. The only active members in the LRF are 13 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and legislative statutory officers.

Funding Policy: The employer contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Member contribution rates are defined by law. For the year ended June 30, 2007, employee contributions were not required because the plan was superfunded. By definition, "superfunded" means that the plan's actuarial value of assets exceeds the present value of future benefits for current members. However, some members made contributions towards military service and prior service.

The net pension obligation (NPO) of the LRF on June 30, 2007, was approximately \$10 million. There was no annual pension cost (APC) because the annual required contribution (ARC) equaled zero and the interest on the NPO closely approximated the adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 43. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Information on the last valuation, which was performed as of June 30, 2006, is also shown in Table 43. The aggregate cost method that was used for the June 30, 2006, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 43.

E. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the VFF, which is an agent multiple-employer defined benefit retirement plan. The VFF membership includes volunteer firefighters. There were 47 fire departments participating in the VFF for the year ended June 30, 2007.

The actuarial accrued liability of the VFF exceeded the actuarial value of assets by \$531,000 at June 30, 2006. This is a result of the difference between the actuarial accrued liability of \$4.1 million and the actuarial value of assets of \$3.6 million. Contributions are actuarially determined.

F. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the SPOFF, which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal Revenue Code. It is intended to supplement the retirement benefits provided by the Public Employees' Retirement Fund to eligible correctional employees employed by the State of California.

Funding Policy: Contributions to the plan are funded entirely by the primary government with a contribution rate of 2% of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. As a result of negotiation provisions in the bargaining unit contract, the State resumed monthly contributions for rank and file employees in addition to contributions for managers and supervisors. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account. For the year ended June 30, 2007, contributions by the primary government to the SPOFF were approximately \$49 million.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to a participant will depend only on the amount contributed to the participant's account and earnings on the value of the participant's account. Plan provisions are established by and may be amended by statute. At June 30, 2007, there were 37,760 participants in the SPOFF.

G. Teachers' Retirement Fund

Plan Description: CalSTRS administers the Teachers' Retirement Fund, which is an employee benefit trust fund created to administer the State Teachers' Retirement Plan (STRP). The STRP is a defined benefit pension plan that provides for retirement, disability, and survivor benefits. The STRP is comprised of three programs: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, and the Cash Balance (CB) Benefit 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. At June 30, 2007, the DB Program had approximately 1,600 contributing employers and as of June 30, 2006, had 586,966 active and inactive program members and 207,846 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, 2007, was approximately \$26.6 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. 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. At June 30, 2007, the CB Benefit Program had 30 contributing school districts and 23,941 contributing 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 of members is 6% of creditable compensation through December 31, 2010, increasing to 8% thereafter for service less than or equal to one year of creditable service per fiscal year. The employer contribution rate is 8.25% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the employer contribution rate is 0.25%. In fiscal year 2006-07, 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 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 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, which equal 16.00% of creditable compensation. Based on the most recent actuarial valuation, as of June 30, 2006, no normal cost deficit or an unfunded obligation exists for benefits in place as of July 1, 1990. Therefore, the General Fund is not required to contribute the additional quarterly payments at a contribution rate of 0.524% starting October 1, 2007.

The DBS Program member contribution rate is 2% of creditable compensation for service less than or equal to one year of creditable service per fiscal year. For service in excess of one year within one fiscal year, the member contribution rate is 8% and the employer rate is 8%.

For the year ended June 30, 2007, the annual pension cost (APC) for the DB Program was approximately \$4 billion; the employer and primary government contributions were approximately \$2.2 billion and \$481 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 43. Actuarial valuations of the DB Program are performed at least biennially. Information from the last valuation is shown in Table 43.

H. CalSTRS Voluntary Investment Program

Plan Description: CalSTRS administers the Voluntary Investment Program (VIP), a 403(b) program, through a third-party administrator. The VIP is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 2007, the VIP had 400 participating employers (school districts) and 3,878 plan members.

I. Teachers' Health Benefits Fund

Plan Description: CalSTRS administers the Teachers' Health Benefits Fund (THBF), which was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), to provide the Medicare Premium Payment Program for eligible retired members of the DB Program. At June 30, 2007, there were 6,225 benefit recipients.

Funding Policy: The THBF is funded as needed from the monthly DB Program statutory employer contribution that exceeds the amount needed to finance the liabilities of the DB Program based on the June 30, 2000, valuation of the DB Program.

Table 43**Actuarial Information – Pension Trusts – Primary Government**

Valuation Date As Indicated

| | Public Employees' Retirement Fund | Judges' Retirement Fund | Judges' Retirement II Fund |
|---|--|--|---|
| Last actuarial valuation | June 30, 2006 | June 30, 2006 | June 30, 2006 |
| Actuarial cost method | Individual Entry Age Normal | Aggregate Cost | Aggregate Entry Age Normal |
| Amortization method | Level % of Payroll, Closed | None | Level % of Payroll, Closed |
| Remaining amortization period | 23 to 28 years | None | Average of 30 Years |
| Asset valuation method | Smoothed Market Value | Market Value | Smoothed Market Value |
| Actuarial assumption | | | |
| Investment rate of return | 7.75 % | 7.00 % | 7.25 % |
| Projected salary increase | 3.25 - 19.95 | 3.25 | 3.25 |
| Includes inflation at | 3.00 | 3.00 | 3.00 |
| Post-retirement benefit increases | 2 - 3 | 3.25 | 3.00 |
| Annual pension costs (in millions) | | | |
| Year ended 6/30/05 | \$ 2,480 | \$ 184 | \$ 21 |
| Year ended 6/30/06 | 2,419 | 315 | 24 |
| Year ended 6/30/07 | 2,782 | 324 | 27 |
| Percent contribution | | | |
| Year ended 6/30/05 | 100 % | 67 % | 93 % |
| Year ended 6/30/06 | 100 | 62 | 95 |
| Year ended 6/30/07 ² | 100 | 23 | 95 |
| Net pension obligation (NPO) (in millions) | | | |
| Year ended 6/30/05 | — | \$ 1,477 | — |
| Year ended 6/30/06 | — | 1,672 | — |
| Year ended 6/30/07 | — | 1,864 | — |
| Funding as of last valuation (in millions) | | | |
| Actuarial value – assets | \$ 81,968 | N/A | \$ 213 |
| Actuarial accrued liabilities (AAL) – entry age | 92,557 | N/A | 220 |
| Excess of actuarial value of assets over AAL (EAV) (unfunded actuarial accrued liability (UAAL)) | (10,589) | N/A | (7) |
| Covered payroll | 14,790 | N/A | 125 |
| Funded ratio | 88.6 % | N/A | 96.7 % |
| EAV (UAAL) as percent of covered payroll | (71.6) % | N/A | (5.8) % |

1 The State is a non-employer contributor to the State Teacher's 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. The notion of NPO does not apply to cost-sharing employer plans. According to the provisions of the Education Code, the State and local government employers contributed \$481 million and \$2.2 billion, respectively, for the year ending June 30, 2007. Based on the most recent actuarial valuation, dated June 30, 2006, 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.

2 Prior to fiscal year 2007, a variation of the Aggregate Cost Method was used to determine the ARC for the Judges' Retirement Fund. Effective fiscal year 2007, the Traditional Aggregate Cost Method was used to determine the ARC.

| Legislators' Retirement Fund | State Teachers' Retirement Defined Benefit Program Fund¹ |
|---|--|
| June 30, 2006 | June 30, 2006 |
| Aggregate Cost | Entry Age Normal |
| None | Level % of Payroll, Open |
| None | Not amortizable |
| Smoothed Market Value | Expected Value, With 33% Adjustment to Market Value |
| 7.00 % | 8.00 % |
| 3.25 | 4.25 |
| 3.00 | 3.25 |
| 3.00 | 2.00 |
| — | \$ 3,709 |
| — | 3,821 |
| — | 3,980 |
| — | 70 % |
| — | 64 |
| — | 67 |
| \$ 10 | — |
| 10 | — |
| 10 | — |
| N/A | \$ 131,237 |
| N/A | 150,872 |
| N/A | (19,635) |
| N/A | 24,240 |
| N/A | 87.0 % |
| N/A | (81.0) % |

NOTE 24: POST-RETIREMENT HEALTH CARE BENEFITS

The primary government and certain discretely presented component units provide health care and dental benefits to annuitants of retirement systems to which the primary government contributes as an employer. The discretely presented component units' participation in these plans is not a material portion of the program. To be eligible for these benefits, 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. As of June 30, 2007, approximately 134,600 annuitants were enrolled to receive health benefits and approximately 109,300 annuitants were enrolled to receive dental benefits. In accordance with the California Government Code, the primary government 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. Although the California Government Code does not specify the primary government's contribution toward dental insurance costs, the primary government 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. The primary government recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30, 2007, was approximately \$1.0 billion.

Also, the University of California, a discretely presented component unit, provides to retired employees certain health plan benefits in addition to pension benefits. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University of California contributions for those benefits. Approximately 37,800 retirees are eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors for the year ended June 30, 2007, was \$216 million.

NOTE 25: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2007, but prior to the date of the auditor's report.

The primary government issued \$3.7 billion in general obligation bonds to retire previously issued commercial paper, to repay internal state loans, to repay bond anticipation notes, and to finance various school, water, park, library, seismic, transportation, housing, prisons, children's hospital projects, and stem cell research projects. The primary government issued \$91 million in veterans' general obligation bonds to retire previously issued commercial paper and to finance and refinance homes and farms for California military veterans. The primary government issued revenue anticipation notes of \$7 billion that are due to be redeemed in June 2008.

In February 2008, the primary government issued \$3.2 billion in Economic Recovery Bonds to finance a portion of the State's accumulated budget deficit. However, by February 2008, the primary government redeemed \$1.7 billion of Economic Recovery Bonds that were outstanding at June 30, 2007, prior to their required redemption.

The Regents of the University of California issued Medical Center Pooled Revenue Bonds totaling \$197 million to refinance certain improvements to one of the medical centers and to refund certain Medical Center Revenue Bonds. The university also issued Limited Project Revenue Bonds totaling \$415 million to finance and refinance certain auxiliary enterprises of the university. In addition, General Revenue Bonds totaling \$249 million were issued to finance and refinance certain facilities and projects of the university.

The California State University issued Systemwide Revenue Bonds in the amount of \$63 million for refunding existing senior student union bonds. The university issued Revenue Bond Anticipation Notes in the amount of \$91 million for construction projects and \$45 million to refinance housing at the Channel Islands campus. The California State University Auxiliary Organizations, a discretely presented component unit, issued \$14 million of commercial paper for capital financing to specific campuses and purchased land for \$11 million to expand student housing.

The Department of Veterans Affairs issued \$100 million in Home Purchase Revenue Bonds to finance the purchase of homes and farms for California military veterans.

The State Public Works Board, an agency whose activities are accounted for as an enterprise fund, issued lease revenue bonds totaling \$124 million for the benefit of the Department of Corrections and Rehabilitation, the Department of Food and Agriculture, the Department of Forestry and Fire Protection, and the Judicial Council.

In the primary election held on February 5, 2008, voters approved four tribal casino measures with the passage of Propositions 94, 95, 96, and 97, Referendum on Amendment to Indian Gaming Compact. The impact of the passage of these propositions will be an increase to annual state revenues in the low to mid hundreds of millions of dollars, lasting until 2030.

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Required Supplementary Information



Schedule of Funding Progress ¹

Public Employees' Retirement Fund - Primary Government

(amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Actuarial Value of Assets Over AAL (Unfunded) | | Covered Payroll (c) | Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c) |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| | | | Actuarial Accrued Liability (UAAL) (a - b) | Funded Ratio (a / b) | | |
| June 30, 2004 | \$ 67,081 | \$ 79,800 | \$ (12,719) | 84.1 % | \$ 12,624 | (100.8) % |
| June 30, 2005 | 71,830 | 86,595 | (14,765) | 82.9 | 13,790 | (107.1) |
| June 30, 2006 | 81,968 | 92,557 | (10,589) | 88.6 | 14,790 | (71.6) |

Judges' Retirement Fund II

(amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Excess of Actuarial Value of Assets Over AAL (Unfunded) | | Covered Payroll (c) | Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c) |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| | | | Actuarial Accrued Liability (UAAL) (a - b) | Funded Ratio (a / b) | | |
| June 30, 2004 | \$ 129,153 | \$ 137,704 | \$ (8,551) | 93.8 % | \$ 99,005 | (8.6) % |
| June 30, 2005 | 167,556 | 177,761 | (10,205) | 94.3 | 111,767 | (9.1) |
| June 30, 2006 | 212,904 | 220,135 | (7,231) | 96.7 | 125,300 | (5.8) |

State Teachers' Retirement Defined Benefit Program

(amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) ² (b) | Excess of Actuarial Value of Assets Over AAL (Unfunded) | | Covered Payroll ² (c) | Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c) |
|--------------------------------|--|---|--|----------------------------|--|---|
| | | | Actuarial Accrued Liability (UAAL) (a - b) | Funded Ratio (a / b) | | |
| June 30, 2004 | \$ 114,094 | \$ 134,677 | \$ (20,583) | 84.7 % | \$ 22,591 | (91.1) % |
| June 30, 2005 | 121,882 | 142,193 | (20,311) | 85.7 | 23,257 | (87.3) |
| June 30, 2006 | 131,237 | 150,872 | (19,635) | 87.0 | 24,240 | (81.0) |

¹Actuarial valuations for the Judges' Retirement Fund and the Legislators' Retirement Fund are performed using the aggregate actuarial cost valuation method. The schedule of funding progress is not required if this method is used.

²Actuarial Accrued Liability and Covered Payroll figures for 2004 were revised on an estimated basis in 2006 to reflect data corrections.

Infrastructure Assets Using the Modified Approach

Pursuant to Governmental Accounting Standards Board (GASB), Statement No. 34, the State has adopted the Modified Approach as an alternative method to depreciating the cost of its infrastructure (state roadways and bridges). Under the Modified Approach, the State will not report depreciation expense for roads and bridges but will capitalize all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs will be 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, 2007, are in the following categories and amounts: state highway infrastructure (completed highway projects), totaling \$56.0 billion; land purchased for highway projects, totaling \$11.4 billion; and infrastructure construction-in-progress (uncompleted highway projects), totaling \$5.8 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. There were no donations for the fiscal year ending June 30, 2007. Relinquishments for the fiscal year ending June 30, 2007, are \$89 million of state highway infrastructure and \$18 million of infrastructure land.

B. Condition Baselines and Assessments

The State is providing the most recent and two previous condition assessments, as required by GASB Statement No. 34.

1. Bridges

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

From a deterioration standpoint, the Bridge Health Index (BHI) represents the remaining asset value of the bridge. A new bridge that has 100% of its asset value will have 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 State's established condition baseline and actual BHI for fiscal years 2004-05 through 2006-07 are as follows:

| Fiscal Year Ending June 30 | Established BHI Condition Baseline* | Actual BHI Condition |
|-------------------------------|-------------------------------------|----------------------|
| 2005 | 80.0 % | 94.3 % |
| 2006 | 80.0 | 94.5 |
| 2007 | 80.0 | 94.3 |

* The actual statewide Bridge Health Index (BHI) should not be lower than the minimum BHI established by the State.

The following table provides details on the State’s actual BHI and condition baseline as of June 30, 2007.

| BHI Description | Bridge Count | Percent | Network BHI |
|------------------------|---------------------|-----------------|--------------------|
| Excellent | 6,401 | 52.66 % | 99.9 % |
| Good | 4,576 | 37.65 | 96.2 |
| Acceptable | 831 | 6.84 | 87.0 |
| Fair | 197 | 1.62 | 75.8 |
| Poor | 150 | 1.23 | 60.8 |
| Total | 12,155 | 100.00 % | |

2. Roadways

The State uses AASHTO “Pavement Performance Data Collection Protocols” in its annual 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 and 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 State’s established condition baseline and actual distressed lane miles for fiscal years 2004-05 through 2006-07 are as follows:

| Fiscal Year Ending June 30 | Established Condition Baseline Distressed Lane Miles (maximum)* | Actual Distressed Lane Miles | Actual Distressed Lane Miles as Percent of Total Lane Miles |
|---|--|---|--|
| 2005 | 18,000 | 12,624 | 25.5 % |
| 2006 | 18,000 | 13,845 | 27.9 |
| 2007 | 18,000 | 12,905 | 26.0 |

* The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.

The following table provides details on the pavement condition of the State’s roadways as of June 30, 2007.

| Pavement Condition | Lane Miles | Distressed Lane Miles |
|---------------------------|-------------------|------------------------------|
| Excellent/Good | 36,572 | — |
| Fair | 571 | 571 |
| Poor | 12,334 | 12,334 |
| Total | 49,477 | 12,905 |

C. Budgeted and Actual Preservation Costs

The State provides only budgeted and actual preservation costs starting with the fiscal year ending June 30, 2004, instead of the last five fiscal years, because the information was not previously required by GASB. In succeeding years, the State will add the previous fiscal years' budgeted and actual preservation cost information until the number of fiscal years being reported reaches five, as required by GASB Statement No. 34.

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

| Fiscal Year Ending June 30 | Estimated Budgeted Preservation Costs (in millions) | Actual Preservation Costs (in millions) |
|-------------------------------|--|--|
| 2004 | \$ 975 | \$ 916 |
| 2005 | 1,049 | 994 |
| 2006 | 2,025 | 1,836 |
| 2007 | 2,313 | 1,713 |

Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2007
(amounts in thousands)

| | General | | | |
|---|--------------------|--------------------|---------------------|------------------|
| | Budgeted Amounts | | Actual | Variance With |
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Corporation tax | \$ — | \$ — | \$ 11,157,897 | \$ — |
| Intergovernmental | — | — | — | — |
| Cigarette and tobacco taxes | — | — | 115,368 | — |
| Inheritance, estate, and gift taxes | — | — | 6,348 | — |
| Insurance gross premiums tax | — | — | 2,178,336 | — |
| Vehicle license fees | — | — | 26,981 | — |
| Motor vehicle fuel tax | — | — | — | — |
| Personal income tax | — | — | 52,409,766 | — |
| Retail sales and use taxes | — | — | 27,444,661 | — |
| Other major taxes and licenses | — | — | 336,059 | — |
| Other revenues | — | — | 2,257,517 | — |
| Total revenues | — | — | 95,932,933 | — |
| EXPENDITURES | | | | |
| State and consumer services | 655,559 | 612,817 | 605,222 | 7,595 |
| Business and transportation | 2,648,715 | 2,648,931 | 2,648,664 | 267 |
| Resources | 1,824,566 | 1,720,355 | 1,668,148 | 52,207 |
| Health and human services | 29,526,323 | 29,865,632 | 29,112,987 | 752,645 |
| Correctional programs | 8,785,783 | 9,288,959 | 8,993,306 | 295,653 |
| Education | 49,250,882 | 49,321,232 | 49,074,900 | 246,332 |
| General government: | | | | |
| Tax relief | 976,956 | 981,204 | 958,463 | 22,741 |
| Debt service | 3,387,674 | 3,401,691 | 3,397,681 | 4,010 |
| Other general government | 5,083,624 | 5,164,526 | 5,036,946 | 127,580 |
| Total expenditures | 102,140,082 | 103,005,347 | 101,496,317 | 1,509,030 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | — | — | 1,466,082 | — |
| Transfers to other funds | — | — | (1,568,898) | — |
| Other additions and deductions | — | — | 1,342,170 | — |
| Total other financing sources (uses) | — | — | 1,239,354 | — |
| Excess (deficiency) of revenues and other sources over (under) expenditures and other uses | — | — | (4,324,030) | — |
| Fund balances, July 1, 2006 (restated) | — | — | 11,447,742 | — |
| Fund balances, June 30, 2007 | \$ — | \$ — | \$ 7,123,712 | \$ — |

| Federal | | | | Transportation Construction | | | |
|-------------------|-------------------|--------------------|----------------------------|-----------------------------|------------------|---------------------|----------------------------|
| Budgeted Amounts | | Actual Amounts | Variance With Final Budget | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
| Original | Final | | | Original | Final | | |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| — | — | 41,596,613 | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | 3,399,694 | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | — | — | 997,283 | — |
| — | — | 534 | — | — | — | 340,494 | — |
| — | — | 41,597,147 | — | — | — | 4,737,471 | — |
| 31,045 | 31,045 | 31,045 | — | — | — | — | — |
| 3,077,185 | 3,077,185 | 3,077,185 | — | 5,794,293 | 5,737,862 | 4,813,019 | 924,843 |
| 342,836 | 342,836 | 342,836 | — | 12 | 12 | 12 | — |
| 28,467,197 | 28,467,197 | 28,467,197 | — | — | — | — | — |
| 199,461 | 199,461 | 199,461 | — | — | — | — | — |
| 6,676,932 | 6,676,932 | 6,676,932 | — | 980 | 980 | 980 | — |
| — | — | — | — | — | — | — | — |
| — | — | — | — | 700 | 700 | 624 | 76 |
| 1,107,490 | 1,107,490 | 1,107,490 | — | 1,255,219 | 849,925 | 848,727 | 1,198 |
| 39,902,146 | 39,902,146 | 39,902,146 | — | 7,051,204 | 6,589,479 | 5,663,362 | 926,117 |
| — | — | 5,070,481 | — | — | — | 6,724,856 | — |
| — | — | (6,761,913) | — | — | — | (5,893,462) | — |
| — | — | (3,426) | — | — | — | 1,157,520 | — |
| — | — | (1,694,858) | — | — | — | 1,988,914 | — |
| — | — | 143 | — | — | — | 1,063,023 | — |
| — | — | 11,326 | — | — | — | 3,269,360 | — |
| \$ — | \$ — | \$ 11,469 | \$ — | \$ — | \$ — | \$ 4,332,383 | \$ — |

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

June 30, 2007
(amounts in thousands)

| | Special Revenue Funds | | |
|---|-----------------------|------------------|--------------------------------|
| | General | Federal | Transportation Construction |
| Budgetary fund balance reclassified into | | | |
| GAAP statement fund structure | \$ 7,123,712 | \$ 11,469 | \$ 4,332,383 |
| Basis difference: | | | |
| Interfund receivables | 83,785 | — | 1,699,747 |
| Loans receivable | 99,768 | 43,465 | — |
| Interfund payables | (2,425,076) | — | — |
| Escheat property | (925,855) | — | — |
| Other | 1,468 | — | (81,812) |
| Timing difference: | | | |
| Liabilities budgeted in subsequent years | (5,865,340) | (17,210) | (70,709) |
| GAAP fund balance (deficit), June 30, 2007 | \$ (1,907,538) | \$ 37,724 | \$ 5,879,609 |

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, 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 a 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 their related appropriations that are legislatively authorized annually, continually, or by project. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs’ expenditures.

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 *Budgetary/Legal Basis Annual Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB’s *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2400.121. The Statement of Appropriations, Expenditures, and Balances and the Comparative Statement of Actual and Budgeted Expenditures include the comparison of the annual appropriated budget with expenditures at the legal level of control. The Federal Fund, which is a major special revenue fund, and certain programs of the Transportation Construction Fund are not included in the *Budgetary/Legal Basis Annual Report Supplement* statements

because they are considered fiduciary fund activities on the budgetary basis. A copy of the *Budgetary/Legal Basis Annual Report Supplement* is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250.

Reconciliation of Budgetary Basis 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 are presented on the previous page and are explained in the following paragraphs.

The beginning fund balances for the General Fund, Federal Fund, and Transportation Construction Fund on the budgetary basis are 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 whose 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 expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a \$84 million increase to the fund balance in the General Fund and a \$1.7 billion increase to the fund balance in the Transportation Construction Fund. The adjustments related to loans receivable caused increases of \$100 million in the General Fund and \$43 million in the Federal Fund.

Interfund Payables: Loans received from other funds are normally recorded as revenues on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a \$2.4 billion decrease to the budgetary fund balance in the General 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 in the interfund payables on a GAAP basis. This adjustment caused a \$926 million decrease to the General Fund balance.

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 increase of \$1 million in the General Fund and a fund balance decrease of \$82 million in the Transportation Construction 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 \$5.9 billion in the General Fund, \$17 million in the Federal Fund, and \$71 million in the Transportation Construction Fund. The large decrease in the General Fund primarily consists of \$2.0 billion for deferred apportionment payments to K-12 schools and community colleges, \$622 million of tax amnesty program overpayments, and \$1.8 billion for medical assistance.

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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 tax-supported 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 major capital projects, that are legally restricted to expenditures for specific purposes.

The **Transportation Safety Fund** accounts for automobile registration fees and other revenues that are used for transportation safety programs.

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 **Environmental and Natural Resources 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.

The **Financing for Local Governments and the Public Fund** accounts for fees, bond proceeds, appropriations from the State, and other revenues that are used to finance the construction and maintenance of schools, 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 Safety Fund** accounts for vehicle license fees and a 0.5% 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 **Unemployment Programs Administration Fund** accounts for transfers from the federal fund, appropriations from the State, penalties, and other revenues that are used to pay for the administration of the Unemployment Insurance Program and related programs.

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

(continued)

(continued)

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 bond proceeds that are used to purchase Tobacco Revenue Settlements from the State.

The **Economic Recovery Fund** was created for deposit of the proceeds of the Economic Recovery Bonds. The proceeds were transferred to the General Fund after all assurance and administrative costs were paid.

The **Other Special Revenue Programs Fund** accounts for all other proceeds of revenue sources, other than major capital projects that are legally restricted to expenditures for specific purposes.

Debt service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term obligations.

The **Economic Recovery Bond Sinking Fund** accounts for General Fund transfers, proceeds from 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.

Capital projects funds are used to account for the financial resources used to acquire or construct major state-owned capital facilities and for capital assistance grants to local governments and public authorities.

The **Prison Construction Fund** accounts for bond proceeds that are used to construct state prisons.

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

The **Natural Resources Acquisition and Enhancement Fund** accounts for bond proceeds and various revenues that are used to acquire or improve state parks, beaches, and other recreational areas.

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.

The *East Bay Building Authority* is an agreement with the City of Oakland.

The *Los Angeles Building Authority* is an agreement with the Community Redevelopment Agency of the City of Los Angeles.

The *San Francisco Building Authority* is an agreement with the San Francisco Redevelopment Agency of the City and County of San Francisco.

The *Oakland Building Authority* is an agreement with the Oakland Redevelopment Agency.

The *Riverside Building Authority* is an agreement with the County of Riverside and the Riverside County Redevelopment Agency.

The *San Bernardino Building Authority* is an agreement with the City of San Bernardino and the Redevelopment Agency of the City of San Bernardino.

Other capital projects funds account for transactions related to resources obtained and used to acquire or construct other major capital facilities.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2007
(amounts in thousands)

| | Special Revenue | | |
|--|----------------------------------|--|--|
| | Transportation Safety | Business and Professions Regulatory and Licensing | Environmental and Natural Resources |
| ASSETS | | | |
| Cash and pooled investments | \$ 890,370 | \$ 849,910 | \$ 2,418,179 |
| Investments | — | — | — |
| Receivables (net) | 52,699 | 61,770 | 331,596 |
| Due from other funds | 73,610 | 21,528 | 82,045 |
| Due from other governments | 2,833 | 15,126 | 15,023 |
| Interfund receivables | 114,000 | 52,290 | 392,365 |
| Loans receivable | — | 181,029 | 783,917 |
| Other assets | 9,414 | 736 | 180 |
| Total assets | \$ 1,142,926 | \$ 1,182,389 | \$ 4,023,305 |
| LIABILITIES | | | |
| Accounts payable | \$ 82,355 | \$ 39,597 | \$ 347,559 |
| Due to other funds | 94,524 | 8,639 | 95,956 |
| Due to component units | — | — | 927 |
| Due to other governments | 13,646 | 2,749 | 168,468 |
| Interfund payables | — | — | — |
| Tax overpayments | — | — | — |
| Deposits | 388 | 495 | 647 |
| Contracts and notes payable | — | — | — |
| Advance collections | 13,145 | 32,837 | 74,849 |
| Interest payable | — | — | — |
| General obligation bonds payable | — | — | — |
| Other liabilities | 89,262 | 8,938 | 7,544 |
| Total liabilities | 293,320 | 93,255 | 695,950 |
| FUND BALANCES | | | |
| Reserved for: | | | |
| Encumbrances | 279,501 | 229,419 | 1,709,148 |
| Interfund receivables | 114,000 | 52,290 | 392,365 |
| Loans receivable | — | 181,029 | 783,917 |
| Continuing appropriations | 20,489 | 22,049 | 1,531,382 |
| Debt service | — | — | — |
| Unreserved, reported in: | | | |
| Special revenue funds | 435,616 | 604,347 | (1,089,457) |
| Capital projects funds | — | — | — |
| Total fund balances (deficits) | 849,606 | 1,089,134 | 3,327,355 |
| Total liabilities and fund balances | \$ 1,142,926 | \$ 1,182,389 | \$ 4,023,305 |

| Special Revenue | | | | | | | |
|--|------------------------------------|---|--|---|---------------------|--|---|
| Financing for Local Governments and the Public | Cigarette and Tobacco Tax | Local Revenue and Public Safety | Unemployment Programs Administration | California State University Programs | Trial Courts | Golden State Tobacco Securitization Corporation | Other Special Revenue Programs |
| \$ 2,176,652 | \$ 656,040 | \$ 1,186,459 | \$ 150,094 | \$ 68,893 | \$ 1,543,712 | \$ 203,539 | \$ 2,016,234 |
| — | — | — | — | 1,289,628 | 426,143 | 471,170 | 8 |
| 9,077 | 85,105 | 2,640 | 69,216 | 146,547 | 271,774 | 1,228 | 232,438 |
| 199,350 | 8,084 | 35,766 | 242,172 | 24,080 | 17,127 | — | 1,235,668 |
| 26,641 | 24 | — | 2,127 | 3,676 | 24,836 | — | 26,240 |
| 36,094 | — | — | — | — | — | — | 131,800 |
| 1,197,647 | — | — | — | 108,587 | — | — | 76,494 |
| 79,287 | 2 | — | 13,563 | 29,735 | 36,254 | — | 223 |
| \$ 3,724,748 | \$ 749,255 | \$ 1,224,865 | \$ 477,172 | \$ 1,671,146 | \$ 2,319,846 | \$ 675,937 | \$ 3,719,105 |
| \$ 1,100,728 | \$ 107,364 | \$ — | \$ 81,614 | \$ 190,566 | \$ 199,508 | \$ 287 | \$ 601,799 |
| 48,311 | 64,376 | 100,655 | 30,786 | 7,859 | 73 | — | 167,810 |
| — | 56,503 | — | — | — | — | — | 3,054 |
| 299,537 | 94,826 | 1,128,736 | — | 1,237 | 272,228 | — | 401,890 |
| — | — | — | — | — | — | — | 13,849 |
| — | — | — | 9,420 | — | — | — | — |
| — | — | — | — | 6,340 | 280,154 | — | 14,469 |
| — | — | — | — | 65,706 | — | — | — |
| 683 | — | — | — | 129,303 | 3,415 | — | 46,359 |
| — | — | — | — | — | — | 26,716 | — |
| — | — | — | — | — | — | — | — |
| 452 | — | — | 9,740 | 30,326 | 361,037 | — | 29,022 |
| 1,449,711 | 323,069 | 1,229,391 | 131,560 | 431,337 | 1,116,415 | 27,003 | 1,278,252 |
| 333,520 | 40,539 | — | 273,839 | — | 133,275 | — | 160,173 |
| 36,094 | — | — | — | — | — | — | 131,800 |
| 1,197,647 | — | — | — | 108,587 | — | — | 76,494 |
| 3,263,823 | 360,168 | 3 | — | — | 57,991 | — | 68,607 |
| — | — | — | — | — | — | — | — |
| (2,556,047) | 25,479 | (4,529) | 71,773 | 1,131,222 | 1,012,165 | 648,934 | 2,003,779 |
| — | — | — | — | — | — | — | — |
| 2,275,037 | 426,186 | (4,526) | 345,612 | 1,239,809 | 1,203,431 | 648,934 | 2,440,853 |
| \$ 3,724,748 | \$ 749,255 | \$ 1,224,865 | \$ 477,172 | \$ 1,671,146 | \$ 2,319,846 | \$ 675,937 | \$ 3,719,105 |

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2007
(amounts in thousands)

| | Total Nonmajor Special Revenue | Debt Service | | |
|--|---|---|------------------------|-------------------------------------|
| | | Economic Recovery Bond Sinking | Prison Construction | Higher Education Construction |
| ASSETS | | | | |
| Cash and pooled investments | \$ 12,160,082 | \$ 1,485,975 | \$ — | \$ — |
| Investments | 2,186,949 | — | — | — |
| Receivables (net) | 1,264,090 | — | — | 46 |
| Due from other funds | 1,939,430 | 25,407 | — | 5,985 |
| Due from other governments | 116,526 | — | — | 356 |
| Interfund receivables | 726,549 | — | — | — |
| Loans receivable | 2,347,674 | — | — | — |
| Other assets | 169,394 | — | — | — |
| Total assets | \$ 20,910,694 | \$ 1,511,382 | \$ — | \$ 6,387 |
| LIABILITIES | | | | |
| Accounts payable | \$ 2,751,377 | \$ 28 | \$ 135 | \$ 385,702 |
| Due to other funds | 618,989 | — | 271 | 688,769 |
| Due to component units | 60,484 | — | — | — |
| Due to other governments | 2,383,317 | — | — | 60,145 |
| Interfund payables | 13,849 | — | — | — |
| Tax overpayments | 9,420 | — | — | — |
| Deposits | 302,493 | — | — | — |
| Contracts and notes payable | 65,706 | — | — | — |
| Advance collections | 300,591 | — | — | — |
| Interest payable | 26,716 | 168,659 | — | — |
| General obligation bonds payable | — | 189,705 | — | — |
| Other liabilities | 536,321 | — | — | — |
| Total liabilities | 7,069,263 | 358,392 | 406 | 1,134,616 |
| FUND BALANCES | | | | |
| Reserved for: | | | | |
| Encumbrances | 3,159,414 | — | — | 50,513 |
| Interfund receivables | 726,549 | — | — | — |
| Loans receivable | 2,347,674 | — | — | — |
| Continuing appropriations | 5,324,512 | — | 497 | — |
| Debt service | — | 1,152,990 | — | — |
| Unreserved, reported in: | | | | |
| Special revenue funds | 2,283,282 | — | — | — |
| Capital projects funds | — | — | (903) | (1,178,742) |
| Total fund balances (deficits) | 13,841,431 | 1,152,990 | (406) | (1,128,229) |
| Total liabilities and fund balances | \$ 20,910,694 | \$ 1,511,382 | \$ — | \$ 6,387 |

| Capital Projects | | | | | | | |
|--|-----------------------------|------------------------|--------------------------|-----------------|------------------|---------------------------|--|
| Natural Resources Acquisition and Enhancement | Building Authorities | | | | | | |
| | East Bay | Los Angeles | San Francisco | Oakland | Riverside | San Bernardino | |
| \$ 15,972 | \$ 18,993 | \$ 27,004 | \$ 23,829 | \$ 6,526 | \$ 1,076 | \$ 8,669 | |
| — | — | — | — | — | — | — | |
| 1 | — | — | — | — | — | — | |
| 30,128 | 2,059 | 6,610 | 9,587 | 2,739 | 371 | 1,665 | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| \$ 46,101 | \$ 21,052 | \$ 33,614 | \$ 33,416 | \$ 9,265 | \$ 1,447 | \$ 10,334 | |
| \$ 2,460 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | |
| 27 | — | — | 618 | 4 | — | 10 | |
| — | — | — | — | — | — | — | |
| 4,294 | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 82 | — | 4 | — | — | — | — | |
| — | 773 | 1,163 | 1,360 | 1,379 | 138 | 212 | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 6,863 | 773 | 1,167 | 1,978 | 1,383 | 138 | 222 | |
| 28,709 | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 41,360 | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| (30,831) | 20,279 | 32,447 | 31,438 | 7,882 | 1,309 | 10,112 | |
| 39,238 | 20,279 | 32,447 | 31,438 | 7,882 | 1,309 | 10,112 | |
| \$ 46,101 | \$ 21,052 | \$ 33,614 | \$ 33,416 | \$ 9,265 | \$ 1,447 | \$ 10,334 | |

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2007
(amounts in thousands)

| | <u>Capital Projects</u> | | |
|--|---------------------------------------|--|--|
| | <u>Other Capital Projects</u> | <u>Total Nonmajor Capital Projects</u> | <u>Total Nonmajor Governmental</u> |
| ASSETS | | | |
| Cash and pooled investments | \$ — | \$ 102,069 | \$ 13,748,126 |
| Investments | — | — | 2,186,949 |
| Receivables (net) | — | 47 | 1,264,137 |
| Due from other funds | 234 | 59,378 | 2,024,215 |
| Due from other governments | — | 356 | 116,882 |
| Interfund receivables | — | — | 726,549 |
| Loans receivable | — | — | 2,347,674 |
| Other assets | — | — | 169,394 |
| Total assets | \$ 234 | \$ 161,850 | \$ 22,583,926 |
| LIABILITIES | | | |
| Accounts payable | \$ 1,099 | \$ 389,396 | \$ 3,140,801 |
| Due to other funds | 13,110 | 702,809 | 1,321,798 |
| Due to component units | — | — | 60,484 |
| Due to other governments | — | 64,439 | 2,447,756 |
| Interfund payables | — | — | 13,849 |
| Tax overpayments | — | — | 9,420 |
| Deposits | — | — | 302,493 |
| Contracts and notes payable | — | — | 65,706 |
| Advance collections | — | 86 | 300,677 |
| Interest payable | — | 5,025 | 200,400 |
| General obligation bonds payable | — | — | 189,705 |
| Other liabilities | — | — | 536,321 |
| Total liabilities | 14,209 | 1,161,755 | 8,589,410 |
| FUND BALANCES | | | |
| Reserved for: | | | |
| Encumbrances | 7,624 | 86,846 | 3,246,260 |
| Interfund receivables | — | — | 726,549 |
| Loans receivable | — | — | 2,347,674 |
| Continuing appropriations | — | 41,857 | 5,366,369 |
| Debt service | — | — | 1,152,990 |
| Unreserved, reported in: | | | |
| Special revenue funds | — | — | 2,283,282 |
| Capital projects funds | (21,599) | (1,128,608) | (1,128,608) |
| Total fund balances (deficits) | (13,975) | (999,905) | 13,994,516 |
| Total liabilities and fund balances | \$ 234 | \$ 161,850 | \$ 22,583,926 |

(concluded)

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

Nonmajor Governmental Funds

Year Ended June 30, 2007

(amounts in thousands)

| | Special Revenue | | |
|--|--------------------------|---|--|
| | Transportation Safety | Business and Professions Regulatory and Licensing | Environmental and Natural Resources |
| REVENUES | | | |
| Personal income taxes | \$ — | \$ — | \$ — |
| Sales and use taxes | — | — | — |
| Other taxes | — | 66,896 | 432,053 |
| Intergovernmental | — | — | — |
| Licenses and permits | 1,958,330 | 228,196 | 214,791 |
| Charges for services | 426,355 | 8,639 | 89,861 |
| Fees | 19,171 | 644,434 | 1,743,095 |
| Penalties | 48,729 | 15,517 | 18,432 |
| Investment and interest | 39,398 | 49,885 | 172,461 |
| Other | 7,441 | 12,614 | 185,879 |
| Total revenues | 2,499,424 | 1,026,181 | 2,856,572 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 46,029 | 436,894 | 87,484 |
| Education | 1,838 | 14,443 | 7,669 |
| Health and human services | 2,738 | 119,243 | 88,261 |
| Resources | 108,664 | 43,836 | 3,028,919 |
| State and consumer services | 97,021 | 214,384 | 41,004 |
| Business and transportation | 2,164,995 | 154,664 | 10,555 |
| Correctional programs | — | — | — |
| Capital outlay | — | — | 159,532 |
| Debt service: | | | |
| Bond and commercial paper retirement | — | — | 407,879 |
| Interest and fiscal charges | — | — | 59,866 |
| Total expenditures | 2,421,285 | 983,464 | 3,891,169 |
| Excess (deficiency) of revenues over (under) expenditures | 78,139 | 42,717 | (1,034,597) |
| OTHER FINANCING SOURCES (USES) | | | |
| General obligation bonds and commercial paper issued | — | — | 1,514,350 |
| Refunding bonds issued | — | — | 746,565 |
| Payment to refunding agent | — | — | (746,565) |
| Transfers in | 183 | 24,267 | 104,815 |
| Transfers out | (53,592) | (2,344) | (90,714) |
| Total other financing sources (uses) | (53,409) | 21,923 | 1,528,451 |
| Net change in fund balances | 24,730 | 64,640 | 493,854 |
| Fund balances (deficits), July 1, 2006 | 824,876 | 1,024,494 | 2,833,501 * |
| Fund balances (deficits), June 30, 2007 | \$ 849,606 | \$ 1,089,134 | \$ 3,327,355 |

* Restated

| Special Revenue | | | | | | | |
|--|------------------------------------|---|--|---|---------------------|--|---|
| Financing for Local Governments and the Public | Cigarette and Tobacco Tax | Local Revenue and Public Safety | Unemployment Programs Administration | California State University Programs | Trial Courts | Golden State Tobacco Securitization Corporation | Other Special Revenue Programs |
| \$ 938,760 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| — | — | 5,692,258 | — | — | — | — | — |
| 463,655 | 957,456 | — | 110,846 | — | — | — | 7,364 |
| — | — | — | — | 924,033 | 923,538 | — | 4,085 |
| 7,510 | — | 1,731,193 | — | — | — | — | 102,448 |
| 2,964 | 1,279 | — | — | — | 25,283 | — | 187,335 |
| 51 | — | — | — | 1,013,113 | 36,005 | — | 1,290,173 |
| 196 | — | — | 101,110 | — | 210,590 | — | 315,494 |
| 186,135 | 32,110 | 22,136 | 5,795 | 69,497 | 59,319 | 22,443 | 95,708 |
| 159,608 | 7,360 | — | 3,265 | 374,980 | 122,782 | 390,803 | 1,451,551 |
| 1,758,879 | 998,205 | 7,445,587 | 221,016 | 2,381,623 | 1,377,517 | 413,246 | 3,454,158 |
| 432,249 | 8,281 | 2,846,336 | 266 | — | 2,900,790 | — | 1,514,604 |
| 2,836,571 | 53,059 | — | — | 2,082,058 | — | — | 35,374 |
| 414,207 | 815,263 | 4,613,794 | 971,254 | — | — | — | 1,811,200 |
| 93,901 | 15,835 | — | — | — | — | — | 58,459 |
| 10,803 | — | — | — | — | 191 | — | 281,473 |
| 138,694 | — | — | — | — | — | — | 64,983 |
| 9 | — | — | — | — | — | — | 19,688 |
| — | — | — | — | — | 75 | — | — |
| 1,836,862 | — | — | — | — | — | 133,555 | 57,524 |
| 92,633 | — | — | — | — | — | 276,965 | 3,207 |
| 5,855,929 | 892,438 | 7,460,130 | 971,520 | 2,082,058 | 2,901,056 | 410,520 | 3,846,512 |
| (4,097,050) | 105,767 | (14,543) | (750,504) | 299,565 | (1,523,539) | 2,726 | (392,354) |
| 5,870,600 | — | — | — | — | — | — | 162,395 |
| 3,030,270 | — | — | — | — | — | 4,446,826 | — |
| (3,030,270) | — | — | — | — | — | (3,189,071) | — |
| 165,829 | — | 11,862 | 901,571 | 70,543 | 1,698,126 | — | 770,727 |
| (8,000) | (103,780) | — | (34,156) | (124) | — | (1,257,755) | (287,672) |
| 6,028,429 | (103,780) | 11,862 | 867,415 | 70,419 | 1,698,126 | — | 645,450 |
| 1,931,379 | 1,987 | (2,681) | 116,911 | 369,984 | 174,587 | 2,726 | 253,096 |
| 343,658 * | 424,199 | (1,845) * | 228,701 | 869,825 | 1,028,844 * | 646,208 | 2,187,757 * |
| \$ 2,275,037 | \$ 426,186 | \$ (4,526) | \$ 345,612 | \$ 1,239,809 | \$ 1,203,431 | \$ 648,934 | \$ 2,440,853 |

(continued)

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

Nonmajor Governmental Funds

| Year Ended June 30, 2007 (amounts in thousands) | Debt Service | | | |
|--|---|---|------------------------|-------------------------------------|
| | Total Nonmajor Special Revenue | Economic Recovery Bond Sinking | Prison Construction | Higher Education Construction |
| REVENUES | | | | |
| Personal income taxes | \$ 938,760 | \$ — | \$ — | \$ — |
| Sales and use taxes | 5,692,258 | 1,405,524 | — | — |
| Other taxes | 2,038,270 | — | — | — |
| Intergovernmental | 1,851,656 | — | — | — |
| Licenses and permits | 4,242,468 | — | — | — |
| Charges for services | 741,716 | — | — | — |
| Fees | 4,746,042 | — | — | — |
| Penalties | 710,068 | — | — | — |
| Investment and interest | 754,887 | 47,427 | 156 | 38,473 |
| Other | 2,716,283 | 526 | — | — |
| Total revenues | 24,432,408 | 1,453,477 | 156 | 38,473 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 8,272,933 | 1,926 | — | — |
| Education | 5,031,012 | — | — | 1,035 |
| Health and human services | 8,835,960 | — | — | — |
| Resources | 3,349,614 | — | — | — |
| State and consumer services | 644,876 | — | — | — |
| Business and transportation | 2,533,891 | — | — | — |
| Correctional programs | 19,697 | — | — | — |
| Capital outlay | 159,607 | — | 616 | 972,776 |
| Debt service: | | | | |
| Bond and commercial paper retirement | 2,435,820 | 960,235 | — | 778,399 |
| Interest and fiscal charges | 432,671 | 422,344 | 107 | 49,177 |
| Total expenditures | 31,716,081 | 1,384,505 | 723 | 1,801,387 |
| Excess (deficiency) of revenues over (under) expenditures | (7,283,673) | 68,972 | (567) | (1,762,914) |
| OTHER FINANCING SOURCES (USES) | | | | |
| General obligation bonds and commercial paper issued | 7,547,345 | — | — | 1,492,845 |
| Refunding bonds issued | 8,223,661 | — | 5,560 | 545,130 |
| Payment to refunding agent | (6,965,906) | — | (5,560) | (545,130) |
| Transfers in | 3,747,923 | 471,770 | — | — |
| Transfers out | (1,838,137) | — | — | — |
| Total other financing sources (uses) | 10,714,886 | 471,770 | — | 1,492,845 |
| Net change in fund balances | 3,431,213 | 540,742 | (567) | (270,069) |
| Fund balances (deficits), July 1, 2006 | 10,410,218 | 612,248 | 161 | (858,160) |
| Fund balances (deficits), June 30, 2007 | \$ 13,841,431 | \$ 1,152,990 | \$ (406) | \$ (1,128,229) |

* Restated

| Capital Projects | | | | | | | |
|---|----------------------|------------------|------------------|-----------------|-----------------|------------------|--|
| Natural Resources Acquisition and Enhancement | Building Authorities | | | | | | |
| | East Bay | Los Angeles | San Francisco | Oakland | Riverside | San Bernardino | |
| \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 402 | 970 | 1,574 | 1,225 | 358 | 56 | 442 | |
| 7,214 | — | — | — | 423 | — | — | |
| 7,616 | 970 | 1,574 | 1,225 | 781 | 56 | 442 | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 11,662 | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | 68 | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 24,179 | — | 248 | 2,628 | — | — | — | |
| — | 7,286 | 16,075 | 14,530 | 4,910 | 421 | 2,215 | |
| — | 2,278 | 6,265 | 11,350 | 6,128 | 572 | 2,635 | |
| 35,841 | 9,632 | 22,588 | 28,508 | 11,038 | 993 | 4,850 | |
| (28,225) | (8,662) | (21,014) | (27,283) | (10,257) | (937) | (4,408) | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| — | — | — | — | — | — | — | |
| 39,049 | 9,691 | 22,774 | 27,723 | 10,641 | 989 | 4,899 | |
| — | — | — | — | — | — | — | |
| 39,049 | 9,691 | 22,774 | 27,723 | 10,641 | 989 | 4,899 | |
| 10,824 | 1,029 | 1,760 | 440 | 384 | 52 | 491 | |
| 28,414 | 19,250 | 30,687 | 30,998 | 7,498 | 1,257 | 9,621 | |
| \$ 39,238 | \$ 20,279 | \$ 32,447 | \$ 31,438 | \$ 7,882 | \$ 1,309 | \$ 10,112 | |

(continued)

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

Nonmajor Governmental Funds

| | <u>Capital Projects</u> | | |
|--|---------------------------------------|--|--|
| | <u>Other Capital Projects</u> | <u>Total Nonmajor Capital Projects</u> | <u>Total Nonmajor Governmental</u> |
| Year Ended June 30, 2007 (amounts in thousands) | | | |
| REVENUES | | | |
| Personal income taxes | \$ — | \$ — | \$ 938,760 |
| Sales and use taxes | — | — | 7,097,782 |
| Other taxes | — | — | 2,038,270 |
| Intergovernmental | — | — | 1,851,656 |
| Licenses and permits | — | — | 4,242,468 |
| Charges for services | — | — | 741,716 |
| Fees | — | — | 4,746,042 |
| Penalties | — | — | 710,068 |
| Investment and interest | 1,300 | 44,956 | 847,270 |
| Other | 357 | 7,994 | 2,724,803 |
| Total revenues | 1,657 | 52,950 | 25,938,835 |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 1,408 | 1,408 | 8,276,267 |
| Education | — | 1,035 | 5,032,047 |
| Health and human services | — | — | 8,835,960 |
| Resources | — | 11,662 | 3,361,276 |
| State and consumer services | 500 | 500 | 645,376 |
| Business and transportation | — | 68 | 2,533,959 |
| Correctional programs | — | — | 19,697 |
| Capital outlay | 6,031 | 1,006,478 | 1,166,085 |
| Debt service: | | | |
| Bond and commercial paper retirement | 5,454 | 829,290 | 4,225,345 |
| Interest and fiscal charges | 1,145 | 79,657 | 934,672 |
| Total expenditures | 14,538 | 1,930,098 | 35,030,684 |
| Excess (deficiency) of revenues over (under) expenditures | (12,881) | (1,877,148) | (9,091,849) |
| OTHER FINANCING SOURCES (USES) | | | |
| General obligation bonds and commercial paper issued | — | 1,492,845 | 9,040,190 |
| Refunding bonds issued | 21,125 | 571,815 | 8,795,476 |
| Payment to refunding agent | (21,125) | (571,815) | (7,537,721) |
| Transfers in | — | 115,766 | 4,335,459 |
| Transfers out | — | — | (1,838,137) |
| Total other financing sources (uses) | — | 1,608,611 | 12,795,267 |
| Net change in fund balances | (12,881) | (268,537) | 3,703,418 |
| Fund balances (deficits), July 1, 2006 | (1,094) * | (731,368) | 10,291,098 |
| Fund balances (deficits), June 30, 2007 | \$ (13,975) | \$ (999,905) | \$ 13,994,516 |

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Cost Funds*

Year Ended June 30, 2007

(amounts in thousands)

| | Budget Amounts | Actual Amounts | Variance With Final Budget |
|--|-------------------|---------------------|-------------------------------|
| REVENUES | | | |
| Cigarette and tobacco taxes | \$ — | \$ 963,185 | \$ — |
| Vehicle license fees | — | 2,290,423 | — |
| Personal income tax | — | 943,139 | — |
| Retail sales and use taxes | — | 8,057,838 | — |
| Other major taxes and licenses | — | 1,897,190 | — |
| Other revenues | — | 8,217,623 | — |
| Total revenues | — | 22,369,398 | — |
| EXPENDITURES | | | |
| State and consumer services | 779,862 | 675,228 | 104,634 |
| Business and transportation | 3,544,955 | 2,497,109 | 1,047,846 |
| Resources | 2,764,385 | 2,602,215 | 162,170 |
| Health and human services | 6,718,044 | 6,626,923 | 91,121 |
| Correctional programs | 22,142 | 19,648 | 2,494 |
| Education | 180,174 | 179,086 | 1,088 |
| General government | 5,114,969 | 4,869,304 | 245,665 |
| Total expenditures | 19,124,531 | 17,469,513 | 1,655,018 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers from other funds | — | 13,600,075 | — |
| Transfers to other funds | — | (17,175,975) | — |
| Other additions and deductions | — | 179,294 | — |
| Total other financing sources (uses) | — | (3,396,606) | — |
| Excess (deficiency) of revenues and other sources over (under) expenditures and other uses | — | 1,503,279 | — |
| Fund balances, July 1, 2006 (restated) | — | 8,473,007 | — |
| Fund balances, June 30, 2007 | \$ — | \$ 9,976,286 | \$ — |

* On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds consist of the General Fund and other governmental cost funds into which revenues from taxes, licenses, and fees that support the general operations of the State are deposited. The appropriations of the budgetary basis governmental cost funds form the annual appropriated budget of the State. The nongovernmental cost funds consist of funds that are not subject to annual appropriated budgets and that derive their receipts from sources other than general and special taxes, licenses, fees, or state revenues. Additional information on the budgetary basis of accounting can be found in the Management's Discussion and Analysis, Note 2, Budgetary and Legal Compliance, and the notes to the Required Supplementary Information.

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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 **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 **Office of Systems Integration Fund** accounts for project management service costs associated with automation projects for the Department of Social Services and the Employment Development Department.

The **Department of Technology Services Fund** accounts for charges for technology services performed for various state departments by the Department of Technology Services.

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.

The **Equipment Service Fund** accounts for the purchase, maintenance, and administration costs of equipment used by the Department of Transportation.

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 Assets

Internal Service Funds

June 30, 2007
(amounts in thousands)

| | Architecture Revolving | Service Revolving | Prison Industries |
|---|-----------------------------------|------------------------------|------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and pooled investments | \$ 82,676 | \$ 91,613 | \$ 70,368 |
| Receivables (net) | 9,800 | 44,873 | 1,389 |
| Due from other funds | 102,828 | 8,307 | 12,452 |
| Due from other governments | 922 | 14,628 | 451 |
| Prepaid items | 87 | 50,095 | 857 |
| Inventories | — | 27,628 | — |
| Other assets | — | — | 50,751 |
| Total current assets | 196,313 | 237,144 | 136,268 |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | — | — | — |
| Buildings and other depreciable property | 584 | 249,469 | 146,411 |
| Less: accumulated depreciation | (578) | (151,627) | (92,782) |
| Construction in progress | — | — | — |
| Total noncurrent assets | 6 | 97,842 | 53,629 |
| Total assets | \$ 196,319 | \$ 334,986 | \$ 189,897 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 29,267 | \$ 25,736 | \$ 20,381 |
| Due to other funds | 404 | 152,636 | — |
| Due to component units | — | — | — |
| Due to other governments | — | — | 6 |
| Deposits | — | 442 | — |
| Contracts and notes payable | — | 4,515 | — |
| Advance collections | 179,378 | 11,477 | 5,714 |
| Current portion of long-term obligations | 3,948 | 1,503 | 9,601 |
| Other liabilities | 1,922 | 6 | — |
| Total current liabilities | 214,919 | 196,315 | 35,702 |
| Noncurrent liabilities: | | | |
| Interfund payables | — | — | — |
| Compensated absences payable | 813 | 33,226 | — |
| Capital lease obligations | — | 9,115 | — |
| Other noncurrent liabilities | 711 | 16,030 | 9,165 |
| Total noncurrent liabilities | 1,524 | 58,371 | 9,165 |
| Total liabilities | 216,443 | 254,686 | 44,867 |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | 6 | 80,300 | 53,629 |
| Unrestricted | (20,130) | — | 91,401 |
| Total net assets (deficit) | (20,124) | 80,300 | 145,030 |
| Total liabilities and net assets | \$ 196,319 | \$ 334,986 | \$ 189,897 |

| Office of Systems Integration | Department of Technology Services | Water Resources Revolving | Equipment Service | Other Internal Service Programs | Total |
|-------------------------------------|---|---------------------------------|----------------------|--|--------------|
| \$ 21,073 | \$ 42,676 | \$ 3,542 | \$ — | \$ 472,761 | \$ 784,709 |
| 6 | 7,006 | 53,962 | — | 173 | 117,209 |
| 95,100 | 76,058 | 33,761 | — | 300 | 328,806 |
| — | 842 | — | — | — | 16,843 |
| 11 | 1,899 | 16,085 | — | 175 | 69,209 |
| — | — | 681 | — | — | 28,309 |
| — | — | — | — | — | 50,751 |
| 116,190 | 128,481 | 108,031 | — | 473,409 | 1,395,836 |
| — | — | — | — | 231 | 231 |
| — | 151,076 | 15,321 | — | 6,169 | 569,030 |
| — | (122,263) | (15,321) | — | (5,232) | (387,803) |
| — | — | — | — | 3,536 | 3,536 |
| — | 28,813 | — | — | 4,704 | 184,994 |
| \$ 116,190 | \$ 157,294 | \$ 108,031 | \$ — | \$ 478,113 | \$ 1,580,830 |
| \$ 69,370 | \$ 22,579 | \$ 11,297 | \$ — | \$ 21,638 | \$ 200,268 |
| 168 | — | 172 | — | 370,103 | 523,483 |
| — | — | — | — | 6,921 | 6,921 |
| — | — | — | — | 7 | 13 |
| — | 5,900 | — | — | — | 6,342 |
| — | 1,274 | — | — | — | 5,789 |
| 46,652 | 41 | 1,222 | — | — | 244,484 |
| — | — | — | — | — | 15,052 |
| — | 31 | 823 | — | 333 | 3,115 |
| 116,190 | 29,825 | 13,514 | — | 399,002 | 1,005,467 |
| — | — | 94,517 | — | 1,220 | 95,737 |
| — | 12,873 | — | — | — | 46,912 |
| — | — | — | — | — | 9,115 |
| — | 3,956 | — | — | — | 29,862 |
| — | 16,829 | 94,517 | — | 1,220 | 181,626 |
| 116,190 | 46,654 | 108,031 | — | 400,222 | 1,187,093 |
| — | 23,583 | — | — | 4,704 | 162,222 |
| — | 87,057 | — | — | 73,187 | 231,515 |
| — | 110,640 | — | — | 77,891 | 393,737 |
| \$ 116,190 | \$ 157,294 | \$ 108,031 | \$ — | \$ 478,113 | \$ 1,580,830 |

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Internal Service Funds

Year Ended June 30, 2007

(amounts in thousands)

| | Architecture Revolving | Service Revolving | Prison Industries |
|--|---------------------------|----------------------|----------------------|
| OPERATING REVENUES | | | |
| Services and sales | \$ 391,536 | \$ 822,053 | \$ 234,380 |
| Investment and interest | — | — | — |
| Total operating revenues | 391,536 | 822,053 | 234,380 |
| OPERATING EXPENSES | | | |
| Personal services | 34,158 | 233,704 | 63,429 |
| Supplies | — | — | 3,838 |
| Services and charges | 361,005 | 551,967 | 157,944 |
| Depreciation | — | 18,696 | 8,352 |
| Interest expense | — | 734 | — |
| Total operating expenses | 395,163 | 805,101 | 233,563 |
| Operating income (loss) | (3,627) | 16,952 | 817 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment and interest income | — | — | 1,101 |
| Interest expense and fiscal charges | — | — | (61) |
| Other | — | — | 1,154 |
| Total nonoperating revenue (expenses) | — | — | 2,194 |
| Income (loss) before capital contributions and transfers | (3,627) | 16,952 | 3,011 |
| Transfers out | — | (3,185) | — |
| Change in net assets | (3,627) | 13,767 | 3,011 |
| Total net assets (deficit), July 1, 2006 | (16,497) | 66,533 | 142,019 |
| Total net assets (deficit), June 30, 2007 | \$ (20,124) | \$ 80,300 | \$ 145,030 |

* Restated

| Office of Systems Integration | Department of Technology Services | Water Resources Revolving | Equipment Service | Other Internal Service Programs | Total |
|-------------------------------------|---|---------------------------------|----------------------|--|-------------------|
| \$ 154,651 | \$ 204,279 | \$ 257,085 | \$ — | \$ 141,487 | \$ 2,205,471 |
| — | — | — | — | 289 | 289 |
| 154,651 | 204,279 | 257,085 | — | 141,776 | 2,205,760 |
| — | 71,594 | 248,549 | (10,719) | — | 640,715 |
| — | — | 7,928 | — | — | 11,766 |
| 154,651 | 116,606 | — | — | 119,264 | 1,461,437 |
| — | 12,187 | 608 | — | 83 | 39,926 |
| — | — | — | — | — | 734 |
| 154,651 | 200,387 | 257,085 | (10,719) | 119,347 | 2,154,578 |
| — | 3,892 | — | 10,719 | 22,429 | 51,182 |
| — | 1,830 | — | — | — | 2,931 |
| — | (296) | — | — | — | (357) |
| — | — | — | (286,355) | — | (285,201) |
| — | 1,534 | — | (286,355) | — | (282,627) |
| — | 5,426 | — | (275,636) | 22,429 | (231,445) |
| — | — | — | (35,651) | — | (38,836) |
| — | 5,426 | — | (311,287) | 22,429 | (270,281) |
| — | 105,214 * | — | 311,287 | 55,462 | 664,018 |
| \$ — | \$ 110,640 | \$ — | \$ — | \$ 77,891 | \$ 393,737 |

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2007

(amounts in thousands)

| | Architecture Revolving | Service Revolving |
|--|-----------------------------------|------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 401,718 | \$ 782,565 |
| Receipts from interfund services provided | — | 73,606 |
| Payments to suppliers | (366,973) | (511,384) |
| Payments to employees | (33,633) | (233,704) |
| Payments for interfund services used | (7,359) | (36,424) |
| Claims paid to other than employees | — | — |
| Other receipts (payments) | (1,110) | (15,648) |
| Net cash provided by (used in) operating activities | (7,357) | 59,011 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Change in interfund payables and loans payable | — | — |
| Interest paid on operating debt | — | — |
| Transfers out | — | (3,185) |
| Net cash provided by (used in) noncapital financing activities | — | (3,185) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition of intangible assets | — | — |
| Acquisition of capital assets | — | (27,382) |
| Proceeds from sale of capital assets | 68 | — |
| Principal paid on notes payable and commercial paper | — | — |
| Interest paid | — | (734) |
| Net cash provided by (used in) capital and related financing activities | 68 | (28,116) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Earnings on investments | — | — |
| Net cash provided by investing activities | — | — |
| Net increase (decrease) in cash and pooled investments | (7,289) | 27,710 |
| Cash and pooled investments at July 1, 2006 | 89,965 | 63,903 |
| Cash and pooled investments at June 30, 2007 | \$ 82,676 | \$ 91,613 |

| Prison Industries | Office of Systems Integration | Department of Technology Services | Water Resources Revolving | Equipment Service | Other Internal Service Programs | Total |
|-------------------|-------------------------------|-----------------------------------|---------------------------|-------------------|---------------------------------|-------------------|
| \$ 234,626 | \$ 145,545 | \$ 198,204 | \$ 229,630 | \$ — | \$ 262,758 | \$ 2,255,046 |
| — | 1,103 | — | 15,208 | — | 98 | 90,015 |
| (154,493) | (132,634) | (122,477) | (7,601) | — | (115,624) | (1,411,186) |
| (61,992) | — | (69,261) | (248,549) | — | — | (647,139) |
| — | (15,180) | — | — | — | (22,628) | (81,591) |
| (11,276) | — | — | — | — | (1,543) | (12,819) |
| 2 | — | — | (707) | — | 104,658 | 87,195 |
| 6,867 | (1,166) | 6,466 | (12,019) | — | 227,719 | 279,521 |
| 1,640 | — | — | — | — | — | 1,640 |
| (61) | — | — | — | — | — | (61) |
| — | — | — | — | (35,651) | — | (38,836) |
| 1,579 | — | — | — | (35,651) | — | (37,257) |
| — | — | (2,831) | — | — | — | (2,831) |
| (16,209) | — | (13,068) | (608) | — | (66) | (57,333) |
| 446 | — | — | — | — | — | 514 |
| — | — | (1,227) | — | — | — | (1,227) |
| — | — | (296) | — | — | — | (1,030) |
| (15,763) | — | (17,422) | (608) | — | (66) | (61,907) |
| 1,265 | — | 1,517 | — | — | — | 2,782 |
| 1,265 | — | 1,517 | — | — | — | 2,782 |
| (6,052) | (1,166) | (9,439) | (12,627) | (35,651) | 227,653 | 183,139 |
| 76,420 | 22,239 | 52,115 | 16,169 | 35,651 | 245,108 | 601,570 |
| \$ 70,368 | \$ 21,073 | \$ 42,676 | \$ 3,542 | \$ — | \$ 472,761 | \$ 784,709 |

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2007
(amounts in thousands)

| | <u>Architecture Revolving</u> | <u>Service Revolving</u> |
|---|-----------------------------------|------------------------------|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (3,627) | \$ 16,952 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Interest expense on operating debt | — | 734 |
| Depreciation | — | 18,696 |
| Change in assets and liabilities: | | |
| Receivables | (67) | (39,488) |
| Due from other funds | (11,768) | (36,424) |
| Due from other governments | (258) | (1,290) |
| Prepaid items | (87) | (19,352) |
| Inventories | — | (4,989) |
| Other current assets | — | — |
| Accounts payable | (5,881) | 40,583 |
| Due to other funds | 4,409 | 73,606 |
| Due to component units | — | — |
| Due to other governments | — | — |
| Deposits | — | (318) |
| Contracts and notes payable | — | 2,321 |
| Advance collections | 10,507 | 1,908 |
| Other current liabilities | (1,206) | (28) |
| Compensated absences payable | 525 | 5,720 |
| Capital lease obligations | — | 603 |
| Other noncurrent liabilities | 96 | (223) |
| Total adjustments | <u>(3,730)</u> | <u>42,059</u> |
| Net cash provided by (used in) operating activities | <u>\$ (7,357)</u> | <u>\$ 59,011</u> |

| <u>Prison Industries</u> | <u>Office of Systems Integration</u> | <u>Department of Technology Services</u> | <u>Water Resources Revolving</u> | <u>Equipment Service</u> | <u>Other Internal Service Programs</u> | <u>Total</u> |
|------------------------------|--|--|--|------------------------------|--|-------------------|
| \$ 817 | \$ — | \$ 3,892 | \$ — | \$ 10,719 | \$ 22,429 | \$ 51,182 |
| — | — | — | — | — | — | 734 |
| 8,352 | — | 12,187 | 608 | — | 83 | 39,926 |
| (946) | 4 | (90) | (36,693) | — | 107,256 | 29,976 |
| (571) | (11,121) | (11,110) | 17,130 | — | (1,993) | (55,857) |
| (100) | — | (720) | — | — | — | (2,368) |
| (319) | (11) | 876 | (286) | — | 13 | (19,166) |
| (2,403) | — | — | 327 | — | — | (7,065) |
| (165) | — | — | — | — | (8) | (173) |
| (72) | 22,543 | (5,091) | 4,678 | — | 4,788 | 61,548 |
| (1,612) | (3,305) | (1,054) | 172 | — | 94,721 | 166,937 |
| — | — | — | — | — | 113 | 113 |
| 6 | (166) | — | — | — | 2 | (158) |
| — | — | 5,900 | — | — | — | 5,582 |
| — | — | — | — | — | — | 2,321 |
| 2,027 | (9,110) | (55) | 1,222 | — | — | 6,499 |
| 58 | — | — | 823 | — | 315 | (38) |
| 434 | — | 2,507 | — | (10,719) | — | (1,533) |
| — | — | — | — | — | — | 603 |
| 1,361 | — | (776) | — | — | — | 458 |
| <u>6,050</u> | <u>(1,166)</u> | <u>2,574</u> | <u>(12,019)</u> | <u>(10,719)</u> | <u>205,290</u> | <u>228,339</u> |
| <u>\$ 6,867</u> | <u>\$ (1,166)</u> | <u>\$ 6,466</u> | <u>\$ (12,019)</u> | <u>\$ —</u> | <u>\$ 227,719</u> | <u>\$ 279,521</u> |

(concluded)

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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, where 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.

The **State University Dormitory Building Maintenance and Equipment Fund** accounts for charges to students for housing and parking, for student fees for campus unions, and for revenue bond proceeds for constructing or acquiring dormitories and other facilities.

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 Assets

Nonmajor Enterprise Funds

June 30, 2007
(amounts in thousands)

| | High Technology Education | State University Dormitory Building Maintenance and Equipment |
|---|---------------------------------|--|
| ASSETS | | |
| Current assets: | | |
| Cash and pooled investments | \$ — | \$ 643,705 |
| Investments | — | 254,960 |
| Restricted assets: | | |
| Cash and pooled investments | 31,443 | — |
| Due from other governments | — | — |
| Net investment in direct financing leases | 14,609 | — |
| Receivables (net) | 2,291 | 16,972 |
| Due from other funds | 674 | 9,477 |
| Due from other governments | — | — |
| Prepaid items | — | 518 |
| Inventories | — | — |
| Other current assets | — | — |
| Total current assets | 49,017 | 925,632 |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and pooled investments | 15,370 | — |
| Investments | 11,239 | — |
| Loans receivable | — | — |
| Investments | — | — |
| Net investment in direct financing leases | 101,613 | — |
| Interfund receivables | — | — |
| Loans receivable | — | — |
| Deferred charges | 227 | 20,963 |
| Capital assets: | | |
| Land | — | 39,748 |
| Collections – nondepreciable | — | 29 |
| Buildings and other depreciable property | — | 2,684,402 |
| Less: accumulated depreciation | — | (977,054) |
| Construction in progress | — | 246,856 |
| Other noncurrent assets | — | — |
| Total noncurrent assets | 128,449 | 2,014,944 |
| Total assets | \$ 177,466 | \$ 2,940,576 |

| State Water Pollution Control | Housing Loan | Other Enterprise Programs | Total |
|-------------------------------------|---------------------|---------------------------------|---------------------|
| \$ 378,491 | \$ 657,402 | \$ 379,664 | \$ 2,059,262 |
| — | — | 863 | 255,823 |
| 40,047 | — | — | 71,490 |
| 55,965 | — | — | 55,965 |
| — | — | — | 14,609 |
| — | 8,130 | 3,686 | 31,079 |
| 9,467 | 6,999 | 4,392 | 31,009 |
| 112,798 | — | 3,631 | 116,429 |
| — | — | 60 | 578 |
| — | — | 3,682 | 3,682 |
| 92 | — | 453 | 545 |
| <u>596,860</u> | <u>672,531</u> | <u>396,431</u> | <u>2,640,471</u> |
| — | — | — | 15,370 |
| — | — | — | 11,239 |
| 512,173 | — | — | 512,173 |
| — | 60,987 | — | 60,987 |
| — | — | — | 101,613 |
| — | — | 2,188 | 2,188 |
| 1,677,656 | 1,521,426 | 115,808 | 3,314,890 |
| 427 | 14,133 | — | 35,750 |
| — | 444 | 1,651 | 41,843 |
| — | — | — | 29 |
| — | 15,818 | 1,263,901 | 3,964,121 |
| — | (15,177) | (767,165) | (1,759,396) |
| — | — | — | 246,856 |
| — | 6,903 | — | 6,903 |
| <u>2,190,256</u> | <u>1,604,534</u> | <u>616,383</u> | <u>6,554,566</u> |
| <u>\$ 2,787,116</u> | <u>\$ 2,277,065</u> | <u>\$ 1,012,814</u> | <u>\$ 9,195,037</u> |

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2007
(amounts in thousands)

| | High Technology Education | State University Dormitory Building Maintenance and Equipment |
|--|---------------------------------|--|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ — | \$ 46,177 |
| Due to other funds | 3,490 | 12,318 |
| Due to component units | 5,563 | — |
| Due to other governments | — | 17 |
| Deferred revenue | — | 58,282 |
| Deposits | — | 3,787 |
| Advance collections | 2,399 | — |
| Interest payable | 621 | 21,074 |
| Current portion of long-term obligations | 17,422 | 42,509 |
| Other current liabilities | — | 4,909 |
| Total current liabilities | 29,495 | 189,073 |
| Noncurrent liabilities: | | |
| Interfund payables | — | 2,188 |
| Benefits payable | — | — |
| Compensated absences payable | — | 5,601 |
| Certificates of participation, commercial paper, and other borrowings | — | 30,420 |
| General obligation bonds payable | — | — |
| Revenue bonds payable | 117,132 | 2,372,859 |
| Other noncurrent liabilities | — | — |
| Total noncurrent liabilities | 117,132 | 2,411,068 |
| Total liabilities | 146,627 | 2,600,141 |
| NET ASSETS | | |
| Investment in capital assets, net of related debt | — | (449,373) |
| Restricted – expendable: | | |
| Construction | — | 290,071 |
| Debt service | 30,839 | 478 |
| Security for revenue bonds | — | — |
| Other purposes | — | — |
| Total expendable | 30,839 | 290,549 |
| Unrestricted | — | 499,259 |
| Total net assets | 30,839 | 340,435 |
| Total liabilities and net assets | \$ 177,466 | \$ 2,940,576 |

| State Water Pollution Control | Housing Loan | Other Enterprise Programs | Total |
|-------------------------------------|---------------------|---------------------------------|---------------------|
| \$ — | \$ — | \$ 12,638 | \$ 58,815 |
| 385 | — | 18,414 | 34,607 |
| — | — | — | 5,563 |
| — | 1,272 | 8 | 1,297 |
| 78 | — | — | 58,360 |
| — | — | 81 | 3,868 |
| — | — | 1,706 | 4,105 |
| 2,555 | 23,870 | — | 48,120 |
| 24,711 | 140,553 | 5,766 | 230,961 |
| — | — | 28 | 4,937 |
| <u>27,729</u> | <u>165,695</u> | <u>38,641</u> | <u>450,633</u> |
| — | — | — | 2,188 |
| — | 8,881 | — | 8,881 |
| — | — | 1,960 | 7,561 |
| — | 16,000 | — | 46,420 |
| — | 1,233,395 | — | 1,233,395 |
| 215,164 | 618,076 | — | 3,323,231 |
| 563 | — | 132,880 | 133,443 |
| <u>215,727</u> | <u>1,876,352</u> | <u>134,840</u> | <u>4,755,119</u> |
| <u>243,456</u> | <u>2,042,047</u> | <u>173,481</u> | <u>5,205,752</u> |
| — | 1,084 | 498,387 | 50,098 |
| — | — | — | 290,071 |
| 23,076 | — | — | 54,393 |
| 568,138 | — | — | 568,138 |
| — | 233,934 | 311,956 | 545,890 |
| 591,214 | 233,934 | 311,956 | 1,458,492 |
| 1,952,446 | — | 28,990 | 2,480,695 |
| <u>2,543,660</u> | <u>235,018</u> | <u>839,333</u> | <u>3,989,285</u> |
| <u>\$ 2,787,116</u> | <u>\$ 2,277,065</u> | <u>\$ 1,012,814</u> | <u>\$ 9,195,037</u> |

(concluded)

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Enterprise Funds

Year Ended June 30, 2007

(amounts in thousands)

| | High Technology Education | State University Dormitory Building Maintenance and Equipment |
|--|---------------------------------|--|
| OPERATING REVENUES | | |
| Student tuition and fees | \$ — | \$ 499,667 |
| Services and sales | — | — |
| Investment and interest | 3,602 | — |
| Rent | 19,364 | — |
| Other | — | 7,127 |
| Total operating revenues | 22,966 | 506,794 |
| OPERATING EXPENSES | | |
| Personal services | — | 137,737 |
| Services and charges | 1,514 | 507,277 |
| Depreciation | — | 63,084 |
| Interest expense | 21,062 | 103,857 |
| Amortization (recovery) of deferred charges | 128 | — |
| Other | — | 26,091 |
| Total operating expenses | 22,704 | 838,046 |
| Operating income (loss) | 262 | (331,252) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment and interest income | — | 48,057 |
| Interest expense and fiscal charges | — | — |
| Other | — | (6,752) |
| Total nonoperating revenues | — | 41,305 |
| Income (loss) before capital contributions and transfers | 262 | (289,947) |
| Capital contributions | — | — |
| Transfers in | — | — |
| Transfers out | (66,601) | (22,372) |
| Change in net assets | (66,339) | (312,319) |
| Total net assets, July 1, 2006 | 97,178 | 652,754 * |
| Total net assets, June 30, 2007 | \$ 30,839 | \$ 340,435 |

* Restated

| State Water Pollution Control | Housing Loan | Other Enterprise Programs | Total |
|-------------------------------------|-------------------|---------------------------------|---------------------|
| \$ — | \$ — | \$ — | \$ 499,667 |
| — | 2,438 | 89,013 | 91,451 |
| 55,045 | 123,425 | 2,420 | 184,492 |
| — | — | 23,667 | 43,031 |
| — | 2,552 | 4,526 | 14,205 |
| 55,045 | 128,415 | 119,626 | 832,846 |
| 1,918 | 8,529 | 5,115 | 153,299 |
| — | 10,533 | 103,329 | 622,653 |
| — | 756 | 23,997 | 87,837 |
| — | 106,642 | 6 | 231,567 |
| — | 746 | — | 874 |
| 1,469 | — | 9,382 | 36,942 |
| 3,387 | 127,206 | 141,829 | 1,133,172 |
| 51,658 | 1,209 | (22,203) | (300,326) |
| 23,519 | 1,713 | 14,392 | 87,681 |
| (9,178) | — | (30) | (9,208) |
| (137) | 165 | — | (6,724) |
| 14,204 | 1,878 | 14,362 | 71,749 |
| 65,862 | 3,087 | (7,841) | (228,577) |
| 182,989 | — | — | 182,989 |
| — | — | 1,571 | 1,571 |
| — | — | (9,054) | (98,027) |
| 248,851 | 3,087 | (15,324) | (142,044) |
| 2,294,809 | 231,931 | 854,657 * | 4,131,329 |
| \$ 2,543,660 | \$ 235,018 | \$ 839,333 | \$ 3,989,285 |

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2007
(amounts in thousands)

| | High Technology Education | State University Dormitory Building Maintenance and Equipment |
|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers/employees | \$ — | \$ 521,085 |
| Receipts from interfund services provided | — | — |
| Payments to suppliers | (14,644) | (478,683) |
| Payments to employees | — | (137,068) |
| Payments for interfund services used | — | (8,266) |
| Claims paid to other than employees | — | — |
| Other receipts (payments) | 41,147 | (27,484) |
| Net cash provided by (used in) operating activities | 26,503 | (130,416) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Change in interfund payables and loans payable | — | — |
| Proceeds from bonds | — | — |
| Retirement of general obligation bonds | — | — |
| Retirement of revenue bonds | — | — |
| Interest paid on operating debt | — | — |
| Transfers in | — | — |
| Transfers out | (22,270) | (22,372) |
| Grants received | — | — |
| Net cash provided by (used in) noncapital financing activities | (22,270) | (22,372) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Changes in interfund payables and loans payable | — | (58) |
| Acquisition of intangible assets | — | (527) |
| Acquisition of capital assets | — | (495,558) |
| Proceeds from sale of capital assets | — | 313,497 |
| Proceeds from notes payable and commercial paper | — | 67,367 |
| Principal paid on notes payable and commercial paper | — | (85,277) |
| Proceeds from revenue bonds | — | 359,639 |
| Retirement of revenue bonds | (29,426) | (31,149) |
| Interest paid | — | (99,598) |
| Net cash provided by (used in) capital and related financing activities | (29,426) | 28,336 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | — | (254,960) |
| Proceeds from maturity and sale of investments | 18,960 | — |
| Earnings (loss) on investments | — | 48,057 |
| Net cash provided by (used in) investing activities | 18,960 | (206,903) |
| Net increase (decrease) in cash and pooled investments | (6,233) | (331,355) |
| Cash and pooled investments at July 1, 2006 | 53,046 | 975,060 |
| Cash and pooled investments at June 30, 2007 | \$ 46,813 | \$ 643,705 |

| State Water Pollution Control | Housing Loan | Other Enterprise Programs | Total |
|-------------------------------------|-------------------|---------------------------------|---------------------|
| \$ 49,412 | \$ — | \$ 112,067 | \$ 682,564 |
| — | — | 7,702 | 7,702 |
| (1,644) | (31,161) | (102,306) | (628,438) |
| (1,918) | (8,529) | (10,137) | (157,652) |
| — | (5,222) | (5,074) | (18,562) |
| — | — | (14) | (14) |
| (204,468) | 15,588 | (4,717) | (179,934) |
| (158,618) | (29,324) | (2,479) | (294,334) |
| — | 5,653 | (715) | 4,938 |
| — | 735,235 | — | 735,235 |
| — | (319,280) | — | (319,280) |
| (22,850) | (292,461) | — | (315,311) |
| (10,625) | — | (30) | (10,655) |
| — | — | 1,571 | 1,571 |
| — | (1,713) | (9,054) | (55,409) |
| 184,160 | — | — | 184,160 |
| 150,685 | 127,434 | (8,228) | 225,249 |
| — | — | 8,359 | 8,301 |
| — | — | — | (527) |
| — | — | (211) | (495,769) |
| — | — | 72 | 313,569 |
| — | — | — | 67,367 |
| — | — | — | (85,277) |
| — | — | — | 359,639 |
| — | — | — | (60,575) |
| — | — | — | (99,598) |
| — | — | 8,220 | 7,130 |
| — | (1) | (863) | (255,824) |
| — | 90,140 | — | 109,100 |
| 21,588 | 1,713 | 14,391 | 85,749 |
| 21,588 | 91,852 | 13,528 | (60,975) |
| 13,655 | 189,962 | 11,041 | (122,930) |
| 404,883 | 467,440 | 368,623 | 2,269,052 |
| \$ 418,538 | \$ 657,402 | \$ 379,664 | \$ 2,146,122 |

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2007

(amounts in thousands)

| | High Technology Education | State University Dormitory Building Maintenance and Equipment |
|---|--|--|
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ 262 | \$ (331,252) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Interest expense on operating debt | — | 99,598 |
| Depreciation | — | 63,084 |
| Accretion of capital appreciation bonds | 2,020 | — |
| Provisions and allowances | — | — |
| Amortization of discounts | 369 | — |
| Amortization of deferred charges | 6,642 | — |
| Other | 117 | (6,753) |
| Change in assets and liabilities: | | |
| Receivables | 1,853 | 10,957 |
| Due from other funds | (47) | 252 |
| Due from other governments | — | — |
| Prepaid items | — | (519) |
| Inventories | — | — |
| Net investment in direct financing leases | 14,228 | — |
| Other current assets | — | 1,248 |
| Loans receivable | — | — |
| Interfund receivables | — | — |
| Accounts payable | — | 29,112 |
| Due to other funds | 2,031 | (8,518) |
| Due to other governments | — | 17 |
| Deposits | — | 603 |
| Advance collections | — | — |
| Interest payable | (972) | 4,259 |
| Other current liabilities | — | 3,493 |
| Deferred revenue | — | 3,334 |
| Benefits payable | — | — |
| Compensated absences payable | — | 669 |
| Other noncurrent liabilities | — | — |
| Total adjustments | 26,241 | 200,836 |
| Net cash provided by (used in) operating activities | \$ 26,503 | \$ (130,416) |

| State Water Pollution Control | Housing Loan | Other Enterprise Programs | Total |
|-------------------------------------|--------------------|---------------------------------|---------------------|
| \$ 51,658 | \$ 1,209 | \$ (22,203) | \$ (300,326) |
| — | — | — | 99,598 |
| — | 756 | 23,997 | 87,837 |
| — | — | — | 2,020 |
| — | (1,421) | — | (1,421) |
| — | — | — | 369 |
| — | 746 | — | 7,388 |
| (4,471) | (170) | — | (11,277) |
| — | (639) | 1,634 | 13,805 |
| (1,008) | (1,861) | 5,638 | 2,974 |
| — | — | (2,572) | (2,572) |
| — | — | (2) | (521) |
| — | — | 283 | 283 |
| — | — | — | 14,228 |
| — | (244) | 40 | 1,044 |
| (204,458) | (17,106) | 2,254 | (219,310) |
| — | (5,222) | 1,190 | (4,032) |
| — | — | 8,176 | 37,288 |
| (176) | 368 | (10,471) | (16,766) |
| — | — | (17) | — |
| — | — | (36) | 567 |
| — | — | 93 | 93 |
| — | — | — | 3,287 |
| — | (1,785) | 286 | 1,994 |
| (163) | — | — | 3,171 |
| — | (3,954) | — | (3,954) |
| — | — | (5,022) | (4,353) |
| — | (1) | (5,747) | (5,748) |
| (210,276) | (30,533) | 19,724 | 5,992 |
| \$ (158,618) | \$ (29,324) | \$ (2,479) | \$ (294,334) |

(concluded)

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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 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 Assets

Private Purpose Trust Funds

June 30, 2007
(amounts in thousands)

| | Scholarshare Program Trust | Unclaimed Property | Other Private Purpose Trust | Total |
|---|----------------------------------|-----------------------|--------------------------------------|---------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 208 | \$ 38,303 | \$ 3,213 | \$ 41,724 |
| Investments | 2,729,123 | — | — | 2,729,123 |
| Receivables (net) | 5,272 | — | — | 5,272 |
| Due from other funds | — | 49,053 | 44 | 49,097 |
| Interfund receivables | — | 925,855 | — | 925,855 |
| Other assets | — | 107,725 | — | 107,725 |
| Total assets | 2,734,603 | 1,120,936 | 3,257 | 3,858,796 |
| LIABILITIES | | | | |
| Accounts payable | 1,390 | — | 841 | 2,231 |
| Due to other funds | — | — | 78 | 78 |
| Deposits | — | 107,725 | — | 107,725 |
| Other liabilities | — | 1,013,211 | 755 | 1,013,966 |
| Total liabilities | 1,390 | 1,120,936 | 1,674 | 1,124,000 |
| NET ASSETS | | | | |
| Held in trust for benefits and other purposes | <u>\$ 2,733,213</u> | <u>\$ —</u> | <u>\$ 1,583</u> | <u>\$ 2,734,796</u> |

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

Year Ended June 30, 2007

(amounts in thousands)

| | Scholarshare Program Trust | Unclaimed Property | Other Private Purpose Trust | Total |
|--|---|-------------------------------|--|---------------------|
| ADDITIONS | | | | |
| Investment income: | | | | |
| Interest, dividends, and other investment income | \$ 63,531 | \$ — | \$ — | \$ 63,531 |
| Receipts from depositors | 739,888 | — | 1,731 | 741,619 |
| Other | 223,456 | — | — | 223,456 |
| Total additions | 1,026,875 | — | 1,731 | 1,028,606 |
| DEDUCTIONS | | | | |
| Administrative expense | 8,235 | — | — | 8,235 |
| Payments to and for depositors | 385,535 | — | 744 | 386,279 |
| Total deductions | 393,770 | — | 744 | 394,514 |
| Change in net assets | 633,105 | — | 987 | 634,092 |
| Net assets, July 1, 2006 | 2,100,108 | — | 596 | 2,100,704 |
| Net assets, June 30, 2007 | \$ 2,733,213 | \$ — | \$ 1,583 | \$ 2,734,796 |

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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 assets 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.

The **Public Employees' Retirement Fund** is administered by the 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 **Public Employees' Health Benefits Fund** is administered by CalPERS and accounts for the voluntary contributions from participating employers of the agent multiple-employer other post-employment benefits plan that provides prefunding accounts to pay for health care or other post-employment benefits in accordance with the terms of the participating employer's plans.

The **State Teachers' Retirement Fund** is administered by the 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 **Teachers' Health Benefits Fund** is administered by CalSTRS and accounts for post-employment health benefits to retired members of the defined benefit program.

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

The **Judges' Retirement Fund** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-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.

(continued)

(continued)

The **Judges' Retirement Fund II** is administered by CalPERS and accounts for the employee and employer contributions of the agent multiple-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 1, 1990, constitutional officers, and legislative statutory officers who elect to participate in the plan.

The **Volunteer Firefighters' Length of Service Award Fund** is administered by CalPERS and accounts for employer contributions of the agent multiple-employer retirement plan that provides awards to volunteer firefighters.

The **State Peace Officers' and Firefighters' Defined Contribution Plan Fund** is administered by CalPERS and accounts for the employer contributions to the defined contribution plan that supplements the retirement benefits provided to eligible correctional employees in the State of California.

The **Supplemental Contributions Program Fund** is administered by CalPERS and accounts for deposits by participating employees to their accounts in this plan. This fund accepts voluntary after-tax contributions and invests these contributions for the benefit of the participants in the program.

Other pension and other employee benefit trust funds account for contributions from professional boxers, managers, and promoters, and fees collected from admission charges to boxing events to finance a retirement fund for professional boxer and funds contributed by permanent employees who elect to participate in and contribute to a flexible benefits program that permits eligible employees to receive one or more benefits that qualify for exclusion from gross income instead of receiving a portion of salary.

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Combining Statement of Fiduciary Net Assets

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

June 30, 2007

(amounts in thousands)

| | Public Employees' Retirement | Public Employees' Health Benefits | State Teachers' Retirement | Teachers' Health Benefits | Deferred Compensation | Judges' Retirement |
|---------------------------------------|------------------------------------|--|----------------------------------|---------------------------------|--------------------------|-----------------------|
| ASSETS | | | | | | |
| Cash and pooled investments ... | \$ 579,168 | \$ 5,469 | \$ 691,373 | \$ 2,199 | \$ 10,760 | \$ 6,962 |
| Investments, at fair value: | | | | | | |
| Short-term | 3,375,748 | 54 | 1,457,430 | — | 30,958 | 3,233 |
| Equity securities | 149,704,501 | 4,428 | 105,813,332 | — | 524,650 | — |
| Debt securities | 61,218,907 | 1,489 | 35,395,073 | — | 152,160 | — |
| Real estate | 20,074,625 | — | 18,013,265 | — | — | — |
| Other | 16,821,589 | — | 12,634,835 | — | 7,293,129 | — |
| Securities lending collateral ... | 46,337,538 | — | 32,066,614 | — | — | — |
| Total investments | 297,532,908 | 5,971 | 205,380,549 | — | 8,000,897 | 3,233 |
| Receivables (net) | 5,075,382 | — | 4,268,565 | 1,519 | 8,361 | 1,828 |
| Due from other funds | 408,747 | — | 3,569 | 72 | 141 | — |
| Due from other governments | — | — | — | — | 12 | — |
| Other assets | 397,813 | — | 1,382 | — | — | — |
| Total assets | 303,994,018 | 11,440 | 210,345,438 | 3,790 | 8,020,171 | 12,023 |
| LIABILITIES | | | | | | |
| Accounts payable | — | — | 5,765,657 | — | 2,137 | — |
| Due to other funds | — | — | 13,605 | 9 | 635 | 64 |
| Due to other governments | — | — | 59,830 | — | — | — |
| Benefits payable | 210,957 | — | 55,027 | — | — | 4 |
| Securities lending obligations ... | 46,337,538 | — | 32,066,614 | — | — | — |
| Other liabilities | 6,322,530 | — | 6,787 | 18 | 1,784 | 282 |
| Total liabilities | 52,871,025 | — | 37,967,520 | 27 | 4,556 | 350 |
| NET ASSETS | | | | | | |
| Held in trust for benefits and | | | | | | |
| other purposes | \$ 251,122,993 | \$ 11,440 | \$ 172,377,918 | \$ 3,763 | \$ 8,015,615 | \$ 11,673 |

| Judges' Retirement II | Legislators' Retirement | Volunteer Firefighters' Length of Service Award | State Peace Officers' and Firefighters' Defined Contribution Plan | Supplemental Contributions Program | Other Pension and Other Employee Benefit Trust | Total |
|-----------------------|-------------------------|---|---|------------------------------------|--|-----------------------|
| \$ 32,618 | \$ 621 | \$ 99 | \$ 4,567 | \$ 459 | \$ 9,058 | \$ 1,343,353 |
| 320 | 47 | 20 | — | 181 | — | 4,867,991 |
| 141,100 | 57,261 | 1,909 | 326,913 | 16,705 | — | 256,590,799 |
| 89,646 | 84,503 | 1,293 | — | 5,994 | — | 96,949,065 |
| 24,807 | — | 318 | — | — | — | 38,113,015 |
| — | — | — | — | — | — | 36,749,553 |
| — | — | — | — | — | — | 78,404,152 |
| 255,873 | 141,811 | 3,540 | 326,913 | 22,880 | — | 511,674,575 |
| 2,442 | 37 | 365 | 4,221 | 31 | — | 9,362,751 |
| — | — | — | — | — | 127 | 412,656 |
| — | — | — | — | — | — | 12 |
| — | — | — | — | — | — | 399,195 |
| 290,933 | 142,469 | 4,004 | 335,701 | 23,370 | 9,185 | 523,192,542 |
| — | — | — | — | — | 1,618 | 5,769,412 |
| 11 | 29 | 8 | — | — | 110 | 14,471 |
| — | — | — | — | — | — | 59,830 |
| — | 199 | — | — | — | — | 266,187 |
| — | — | — | — | — | — | 78,404,152 |
| 190 | 32 | — | 323 | 32 | — | 6,331,978 |
| 201 | 260 | 8 | 323 | 32 | 1,728 | 90,846,030 |
| \$ 290,732 | \$ 142,209 | \$ 3,996 | \$ 335,378 | \$ 23,338 | \$ 7,457 | \$ 432,346,512 |

Combining Statement of Changes in Fiduciary Net Assets

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

Year Ended June 30, 2007
(amounts in thousands)

| | Public Employees' Retirement | Public Employees' Health Benefits | State Teachers' Retirement | Teachers' Health Benefits | Deferred Compensation | Judges' Retirement |
|--|---|--|---|--|----------------------------------|-------------------------------|
| ADDITIONS | | | | | | |
| Contributions: | | | | | | |
| Employer | \$ 6,444,593 | \$ 11,469 | \$ 3,370,629 | \$ 32,257 | \$ 200 | \$ 131,372 |
| Plan member | 3,262,699 | — | 2,334,954 | — | 626,015 | 10,398 |
| Total contributions | 9,707,292 | 11,469 | 5,705,583 | 32,257 | 626,215 | 141,770 |
| Investment income: | | | | | | |
| Net appreciation (depreciation) in fair value of investments | 35,682,869 | (33) | — | — | 85,865 | — |
| Interest, dividends, and other investment income | 9,699,457 | 4 | 31,479,546 | 240 | 901,972 | 1,186 |
| Less: investment expense | (4,634,015) | — | (1,639,662) | — | (2,792) | — |
| Net investment income | 40,748,311 | (29) | 29,839,884 | 240 | 985,045 | 1,186 |
| Other | 9,119 | — | 555 | — | 12,123 | 2,591 |
| Total additions | 50,464,722 | 11,440 | 35,546,022 | 32,497 | 1,623,383 | 145,547 |
| DEDUCTIONS | | | | | | |
| Distributions to beneficiaries | 10,072,612 | — | 7,168,425 | 31,270 | 8,451 | 151,059 |
| Refunds of contributions | 181,574 | — | 106,153 | — | — | — |
| Administrative expense | 278,453 | — | 105,902 | 190 | 11,031 | 701 |
| Payments to and for depositors .. | — | — | — | — | 383,763 | — |
| Total deductions | 10,532,639 | — | 7,380,480 | 31,460 | 403,245 | 151,760 |
| Change in net assets | 39,932,083 | 11,440 | 28,165,542 | 1,037 | 1,220,138 | (6,213) |
| Net assets, July 1, 2006 | 211,190,910 | — | 144,212,376 | 2,726 | 6,795,477 | 17,886 |
| Net assets, June 30, 2007 | \$ 251,122,993 | \$ 11,440 | \$ 172,377,918 | \$ 3,763 | \$ 8,015,615 | \$ 11,673 |

| Judges' Retirement II | Legislators' Retirement | Volunteer Firefighters' Length of Service Award | State Peace Officers' and Firefighters' Defined Contribution Plan | Supplemental Contributions Program | Other Pension and Other Employee Benefit Trust | Total |
|--------------------------|----------------------------|---|--|--|--|-----------------------|
| \$ 27,062 | \$ — | \$ 328 | \$ 48,948 | \$ — | \$ — | \$ 10,066,858 |
| 11,694 | 129 | — | — | 457 | 20,600 | 6,266,946 |
| 38,756 | 129 | 328 | 48,948 | 457 | 20,600 | 16,333,804 |
| 33,564 | 16,521 | 365 | 39,768 | 3,604 | — | 35,862,523 |
| 1,863 | 9 | 105 | 156 | 15 | — | 42,084,553 |
| — | — | — | (2,111) | — | — | (6,278,580) |
| 35,427 | 16,530 | 470 | 37,813 | 3,619 | — | 71,668,496 |
| — | — | — | — | 389 | — | 24,777 |
| 74,183 | 16,659 | 798 | 86,761 | 4,465 | 20,600 | 88,027,077 |
| 1,005 | 7,666 | 120 | 10,828 | — | 21,546 | 17,472,982 |
| 981 | 92 | — | — | — | — | 288,800 |
| 451 | 323 | 116 | — | — | — | 397,167 |
| — | — | — | — | 1,918 | — | 385,681 |
| 2,437 | 8,081 | 236 | 10,828 | 1,918 | 21,546 | 18,544,630 |
| 71,746 | 8,578 | 562 | 75,933 | 2,547 | (946) | 69,482,447 |
| 218,986 | 133,631 | 3,434 | 259,445 | 20,791 | 8,403 | 362,864,065 |
| \$ 290,732 | \$ 142,209 | \$ 3,996 | \$ 335,378 | \$ 23,338 | \$ 7,457 | \$ 432,346,512 |

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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 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.

The **Departmental Trust Fund** accounts for various deposits held in trust by state departments.

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, 2007
(amounts in thousands)

| | Receipting and Disbursing |
|-----------------------------------|--|
| ASSETS | |
| Cash and pooled investments | \$ 2,268,982 |
| Receivables (net) | 623,314 |
| Due from other funds | 7,792,011 |
| Due from other governments | 12,176 |
| Prepaid Items | 29,470 |
| Loans receivable | 66,936 |
| Other assets | 168 |
| Total assets | \$ 10,793,057 |
| LIABILITIES | |
| Accounts payable | \$ 4,609,246 |
| Due to other governments | 5,799,607 |
| Tax overpayments | 2,354 |
| Benefits payable | 224,916 |
| Deposits | 36,150 |
| Advance collections | 53,237 |
| Interfund payables | 66,936 |
| Other liabilities | 611 |
| Total liabilities | \$ 10,793,057 |

| <u>Deposit</u> | <u>Departmental Trust</u> | <u>Other Agency Activities</u> | <u>Total</u> |
|---------------------|-------------------------------|--|----------------------|
| \$ 429,303 | \$ 126,397 | \$ 82,887 | \$ 2,907,569 |
| 687,913 | 421 | 3,650 | 1,315,298 |
| 174,720 | 178 | 5,619 | 7,972,528 |
| 49,762 | — | 5 | 61,943 |
| 1,440 | — | — | 30,910 |
| — | — | 11,532 | 78,468 |
| 36 | 184 | — | 388 |
| \$ 1,343,174 | \$ 127,180 | \$ 103,693 | \$ 12,367,104 |
| \$ 59,558 | \$ 74 | \$ 51,375 | \$ 4,720,253 |
| 83,085 | 6 | 31,486 | 5,914,184 |
| — | — | — | 2,354 |
| — | — | — | 224,916 |
| 663,048 | 126,077 | 7,362 | 832,637 |
| 12,038 | 16 | — | 65,291 |
| — | — | — | 66,936 |
| 525,445 | 1,007 | 13,470 | 540,533 |
| \$ 1,343,174 | \$ 127,180 | \$ 103,693 | \$ 12,367,104 |

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2007

(amounts in thousands)

Receipting and Disbursing Fund

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|-----------------------------------|-------------------------|-----------------------|-----------------------|--------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 2,380,766 * | \$ 130,864,293 | \$ 130,976,077 | \$ 2,268,982 |
| Receivables (net) | 403,959 | 11,912,643 | 11,693,288 | 623,314 |
| Due from other funds | 7,307,380 * | 12,612,426 | 12,127,795 | 7,792,011 |
| Due from other governments | 11,413 | 2,496 | 1,733 | 12,176 |
| Prepaid items | 29,166 | 29,470 | 29,166 | 29,470 |
| Loans receivable | 35,341 | 37,177 | 5,582 | 66,936 |
| Other assets | 174 | — | 6 | 168 |
| Total assets | \$ 10,168,199 | \$ 155,458,505 | \$ 154,833,647 | \$ 10,793,057 |
| LIABILITIES | | | | |
| Accounts payable | \$ 3,989,369 | \$ 34,403,569 | \$ 33,783,692 | \$ 4,609,246 |
| Due to other governments | 6,062,869 * | 25,637,233 | 25,900,495 | 5,799,607 |
| Tax overpayments | 6,601 | 52,860 | 57,107 | 2,354 |
| Benefits payable | — | 224,916 | — | 224,916 |
| Deposits | 22,959 | 13,191 | — | 36,150 |
| Advance collections | 50,106 | 1,764,325 | 1,761,194 | 53,237 |
| Interfund payables | 35,341 | 37,177 | 5,582 | 66,936 |
| Other liabilities | 954 | 374 | 717 | 611 |
| Total liabilities | \$ 10,168,199 | \$ 62,133,645 | \$ 61,508,787 | \$ 10,793,057 |

* Restated

Deposit Fund

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|-----------------------------------|-------------------------|----------------------|----------------------|--------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 937,096 | \$ 15,897,547 | \$ 16,405,340 | \$ 429,303 |
| Receivables (net) | 232,690 | 3,999,659 | 3,544,436 | 687,913 |
| Due from other funds | 122,599 | 123,823 | 71,702 | 174,720 |
| Due from other governments | 55,493 | 823 | 6,554 | 49,762 |
| Prepaid items | 711 | 729 | — | 1,440 |
| Other assets | 37 | 26 | 27 | 36 |
| Total assets | \$ 1,348,626 | \$ 20,022,607 | \$ 20,028,059 | \$ 1,343,174 |
| LIABILITIES | | | | |
| Accounts payable | \$ 88,089 | \$ 3,746,143 | \$ 3,774,674 | \$ 59,558 |
| Due to other governments | 6,464 | 76,907 | 286 | 83,085 |
| Deposits | 774,239 | 149,217 | 260,408 | 663,048 |
| Advance collections | 11,223 | 12,038 | 11,223 | 12,038 |
| Other liabilities | 468,611 | 4,489,538 | 4,432,704 | 525,445 |
| Total liabilities | \$ 1,348,626 | \$ 8,473,843 | \$ 8,479,295 | \$ 1,343,174 |

Departmental Trust Fund

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|-----------------------------------|-------------------------|---------------|-----------------|--------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 126,628 | \$ — | \$ 231 | \$ 126,397 |
| Receivables (net) | 239 | 182 | — | 421 |
| Due from other funds | 2,839 | — | 2,661 | 178 |
| Other assets | 97 | 155 | 68 | 184 |
| Total assets | \$ 129,803 | \$ 337 | \$ 2,960 | \$ 127,180 |
| LIABILITIES | | | | |
| Accounts payable | \$ 415 | \$ 74 | \$ 415 | \$ 74 |
| Due to other governments | 7 | — | 1 | 6 |
| Deposits | 128,862 | — | 2,785 | 126,077 |
| Advance collections | 11 | 5 | — | 16 |
| Other liabilities | 508 | 499 | — | 1,007 |
| Total liabilities | \$ 129,803 | \$ 578 | \$ 3,201 | \$ 127,180 |

Other Agency Activity Funds

| | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|-----------------------------------|-------------------------|-----------------|------------------|--------------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 92,066 | \$ 4,020 | \$ 13,199 | \$ 82,887 |
| Receivables (net) | 4,080 | — | 430 | 3,650 |
| Due from other funds | 8,018 | 215 | 2,614 | 5,619 |
| Due from other governments | 5 | — | — | 5 |
| Loans receivable | 9,259 | 2,273 | — | 11,532 |
| Total assets | \$ 113,428 | \$ 6,508 | \$ 16,243 | \$ 103,693 |
| LIABILITIES | | | | |
| Accounts payable | \$ 63,311 | \$ — | \$ 11,936 | \$ 51,375 |
| Due to other governments | 31,961 | 1,116 | 1,591 | 31,486 |
| Deposits | 5,263 | 2,099 | — | 7,362 |
| Other liabilities | 12,893 | 722 | 145 | 13,470 |
| Total liabilities | \$ 113,428 | \$ 3,937 | \$ 13,672 | \$ 103,693 |

(continued)

Combining Statement of Changes in Fiduciary Assets and Liabilities (continued)

Agency Funds

Year Ended June 30, 2007

(amounts in thousands)

| Total | Balance | | | Balance |
|-----------------------------------|----------------------|-----------------------|-----------------------|----------------------|
| | July 1, 2006 | Additions | Deductions | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 3,536,556 * | \$ 146,765,860 | \$ 147,394,847 | \$ 2,907,569 |
| Receivables (net) | 640,968 | 15,912,484 | 15,238,154 | 1,315,298 |
| Due from other funds | 7,440,836 * | 12,736,464 | 12,204,772 | 7,972,528 |
| Due from other governments | 66,911 | 3,319 | 8,287 | 61,943 |
| Prepaid items | 29,877 | 30,199 | 29,166 | 30,910 |
| Loans receivable | 44,600 | 39,450 | 5,582 | 78,468 |
| Other assets | 308 | 181 | 101 | 388 |
| Total assets | \$ 11,760,056 | \$ 175,487,957 | \$ 174,880,909 | \$ 12,367,104 |
| LIABILITIES | | | | |
| Accounts payable | \$ 4,141,184 | \$ 38,149,786 | \$ 37,570,717 | \$ 4,720,253 |
| Due to other governments | 6,101,301 * | 25,715,256 | 25,902,373 | 5,914,184 |
| Tax overpayments | 6,601 | 52,860 | 57,107 | 2,354 |
| Benefits payable | — | 224,916 | — | 224,916 |
| Deposits | 931,323 | 164,507 | 263,193 | 832,637 |
| Advance collections | 61,340 | 1,776,368 | 1,772,417 | 65,291 |
| Interfund payables | 35,341 | 37,177 | 5,582 | 66,936 |
| Other liabilities | 482,966 | 4,491,133 | 4,433,566 | 540,533 |
| Total liabilities | \$ 11,760,056 | \$ 70,612,003 | \$ 70,004,955 | \$ 12,367,104 |

* Restated

(concluded)

Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with GAAP. The inclusion of component units in the State's financial statements reflects the State's financial accountability for these entities. Following are brief descriptions of nonmajor component units.

The **California Alternative Energy and Advanced Transportation Financing Authority** was created to provide financing for alternative energy and advanced transportation technologies.

The **California Infrastructure and Economic Development Bank** provides financing for business development and public improvements.

The **California Pollution Control Financing Authority** was created to provide financing for pollution control facilities.

The **California Health Facilities Financing Authority** was created to provide financing for the construction, equipping, and acquisition of health facilities.

The **California Educational Facilities Authority** was created 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. The EdFund financial report included in this component unit is as of and for the year ended September 30, 2006.

The **California School Finance Authority** was created for the purpose of providing loans to school and community college districts, to assist them in obtaining equipment and facilities.

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.

District agricultural associations were created to exhibit all of the industries, industrial enterprises, resources, and products of the state. This information is as of and for the year ended December 31, 2006.

The **University of California Hastings College of the Law** was established as the law department of the University of California to provide legal education programs and it has a discretely presented component unit that provides private sources of funds for academic programs, scholarships, and faculty research.

The **San Joaquin River Conservancy** was created to acquire and manage public lands within the San Joaquin River Parkway.

(continued)

(continued)

The **California Urban Waterfront Area Restoration Financing Authority** was created to provide financing for coastal and inland urban waterfront restoration projects.

The **California Consumer Power and Conservation Financing Authority** was created to provide financing for projects to increase power supplies, reduce demand for energy, and improve the efficiency and environmental performance of power plants.

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Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2007
(amounts in thousands)

| | California Alternative Energy and Advanced Transportation Financing Authority | California Infrastructure and Economic Development Bank | California Pollution Control Financing Authority | California Health Facilities Financing Authority | California Educational Facilities Authority |
|--|--|--|---|---|--|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and pooled investments | \$ — | \$ 48,706 | \$ 35,980 | \$ 49,289 | \$ 99,753 |
| Investments | — | — | — | — | — |
| Restricted assets: | | | | | |
| Cash and pooled investments | — | — | — | — | 153 |
| Investments | — | 31,506 | — | — | 7,879 |
| Receivables (net) | — | 10,121 | 4 | 3,480 | 48,307 |
| Due from primary government | — | 637 | 498 | — | — |
| Due from other governments | — | — | — | — | 44,309 |
| Prepaid items | — | — | — | — | 1,490 |
| Inventories | — | — | — | — | — |
| Other current assets | — | — | — | — | 13,255 |
| Total current assets | <u>—</u> | <u>90,970</u> | <u>36,482</u> | <u>52,769</u> | <u>215,146</u> |
| Noncurrent assets: | | | | | |
| Restricted assets: | | | | | |
| Cash and pooled investments | — | — | — | — | — |
| Investments | — | 46,010 | — | — | 1,694 |
| Investments | — | — | — | — | — |
| Receivables (net) | — | — | — | — | 19,452 |
| Loans receivable | — | 276,512 | — | 18,902 | — |
| Deferred charges | — | 1,194 | — | — | 356 |
| Capital assets: | | | | | |
| Land | — | — | — | — | — |
| Collections – nondepreciable | — | — | — | — | — |
| Buildings and other depreciable property | — | — | 81 | 48 | 15,488 |
| Less: accumulated depreciation | — | — | (81) | (46) | (12,157) |
| Construction in progress | — | — | — | — | 44 |
| Other noncurrent assets | — | — | — | — | — |
| Total noncurrent assets | <u>—</u> | <u>323,716</u> | <u>—</u> | <u>18,904</u> | <u>24,877</u> |
| Total assets | \$ — | \$ 414,686 | \$ 36,482 | \$ 71,673 | \$ 240,023 |

| California School Finance Authority | California State University Auxiliary Organizations | District Agricultural Associations | University of California Hastings College of the Law | San Joaquin River Conservancy | California Urban Waterfront Area Restoration Financing Authority | California Consumer Power and Conservation Financing Authority | Total |
|--|---|--|--|-------------------------------------|--|--|---------------------|
| \$ 10 | \$ 328,894 | \$ 71,582 | \$ 4,669 | \$ 370 | \$ 58 | \$ 3,606 | \$ 642,917 |
| — | 237,378 | 9,469 | — | — | — | — | 246,847 |
| — | — | 6,348 | 1,815 | — | — | — | 8,316 |
| — | — | 6,596 | — | — | — | — | 45,981 |
| — | 272,712 | 7,421 | 3,365 | — | — | 35 | 345,445 |
| — | — | — | — | — | — | — | 1,135 |
| — | — | — | — | — | — | — | 44,309 |
| — | — | 638 | 622 | — | — | — | 2,750 |
| — | — | — | 313 | — | — | — | 313 |
| — | 43,898 | 1,282 | — | — | — | — | 58,435 |
| 10 | 882,882 | 103,336 | 10,784 | 370 | 58 | 3,641 | 1,396,448 |
| — | 128,334 | — | — | — | — | — | 128,334 |
| — | — | 15,480 | — | — | — | — | 63,184 |
| — | 1,006,351 | — | 45,301 | — | — | — | 1,051,652 |
| — | 211,717 | — | 12,775 | — | — | — | 243,944 |
| — | — | — | — | — | — | — | 295,414 |
| — | — | — | — | — | — | — | 1,550 |
| — | 67,718 | 20,181 | 5,789 | — | — | — | 93,688 |
| — | 3,944 | — | — | — | — | — | 3,944 |
| — | 830,721 | 560,619 | 106,624 | — | — | — | 1,513,581 |
| — | (277,165) | (291,037) | (34,525) | — | — | — | (615,011) |
| — | 54,610 | 1,153 | 984 | — | — | — | 56,791 |
| — | 73,295 | 701 | 8,633 | — | — | — | 82,629 |
| — | 2,099,525 | 307,097 | 145,581 | — | — | — | 2,919,700 |
| \$ 10 | \$ 2,982,407 | \$ 410,433 | \$ 156,365 | \$ 370 | \$ 58 | \$ 3,641 | \$ 4,316,148 |

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2007
(amounts in thousands)

| | California Alternative Energy and Advanced Transportation Financing Authority | California Infrastructure and Economic Development Bank | California Pollution Control Financing Authority | California Health Facilities Financing Authority | California Educational Facilities Authority |
|--|--|--|---|---|--|
| LIABILITIES | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ — | \$ 188 | \$ 711 | \$ 15,364 | \$ 7,326 |
| Due to other governments | — | — | 4 | — | — |
| Deferred revenue | — | 2,197 | — | — | — |
| Deposits | — | — | 178 | — | — |
| Contracts and notes payable | — | — | — | — | — |
| Advance collections | — | — | — | — | — |
| Interest payable | — | 1,065 | — | — | — |
| Current portion of long-term obligations | — | 2,745 | — | — | 8,311 |
| Other current liabilities | — | 36,554 | 325 | 142 | 49,013 |
| Total current liabilities | — | 42,749 | 1,218 | 15,506 | 64,650 |
| Noncurrent liabilities: | | | | | |
| Compensated absences payable..... | — | — | — | — | — |
| Certificates of participation, commercial paper, and other borrowings | — | — | — | — | — |
| Capital lease obligations | — | — | — | — | — |
| Revenue bonds payable | — | 100,766 | — | — | 32,275 |
| Other noncurrent liabilities | — | 20,722 | — | — | 4,468 |
| Total noncurrent liabilities | — | 121,488 | — | — | 36,743 |
| Total liabilities | — | 164,237 | 1,218 | 15,506 | 101,393 |
| NET ASSETS | | | | | |
| Investment in capital assets, net of related debt | — | — | — | — | 3,319 |
| Restricted: | | | | | |
| Nonexpendable – endowment | — | — | — | — | — |
| Expendable: | | | | | |
| Endowment | — | — | — | — | — |
| Education | — | — | — | — | — |
| Statute | — | 250,449 | — | — | — |
| Other purposes | — | — | 35,264 | 56,167 | 135,311 |
| Total expendable | — | 250,449 | 35,264 | 56,167 | 135,311 |
| Unrestricted | — | — | — | — | — |
| Total net assets | — | 250,449 | 35,264 | 56,167 | 138,630 |
| Total liabilities and net assets | \$ — | \$ 414,686 | \$ 36,482 | \$ 71,673 | \$ 240,023 |

| California School Finance Authority | California State University Auxiliary Organizations | District Agricultural Associations | University of California Hastings College of the Law | San Joaquin River Conservancy | California Urban Waterfront Area Restoration Financing Authority | California Consumer Power and Conservation Financing Authority | Total |
|--|---|--|--|-------------------------------------|--|--|---------------------|
| \$ — | \$ 77,506 | \$ 7,682 | \$ 4,506 | \$ 5 | \$ — | \$ — | \$ 113,288 |
| — | — | 29 | — | — | — | — | 33 |
| — | 53,698 | — | 421 | — | — | — | 56,316 |
| — | — | 985 | 331 | — | — | — | 1,494 |
| — | — | 10,598 | — | — | — | — | 10,598 |
| — | — | 370 | — | 239 | — | — | 609 |
| — | — | 887 | — | — | — | — | 1,952 |
| — | 95,338 | 2,676 | 977 | — | — | — | 110,047 |
| — | 90,321 | 4,814 | — | — | — | — | 181,169 |
| — | 316,863 | 28,041 | 6,235 | 244 | — | — | 475,506 |
| — | 3,413 | 6,491 | 373 | — | — | — | 10,277 |
| — | 52,333 | — | — | — | — | — | 52,333 |
| — | 230,857 | 448 | 70 | — | — | — | 231,375 |
| — | 262,421 | 45,632 | 7,896 | — | — | — | 448,990 |
| — | 279,119 | 1,289 | 8,473 | — | — | — | 314,071 |
| — | 828,143 | 53,860 | 16,812 | — | — | — | 1,057,046 |
| — | 1,145,006 | 81,901 | 23,047 | 244 | — | — | 1,532,552 |
| — | 190,736 | 232,984 | 70,542 | — | — | — | 497,581 |
| — | 629,274 | — | 18,290 | — | — | — | 647,564 |
| — | — | — | 9,793 | — | — | — | 9,793 |
| — | 636,304 | — | 16,452 | — | — | — | 652,756 |
| — | — | — | — | — | — | — | 250,449 |
| 10 | — | 28,224 | — | — | 58 | 3,641 | 258,675 |
| 10 | 636,304 | 28,224 | 26,245 | — | 58 | 3,641 | 1,171,673 |
| — | 381,087 | 67,324 | 18,241 | 126 | — | — | 466,778 |
| 10 | 1,837,401 | 328,532 | 133,318 | 126 | 58 | 3,641 | 2,783,596 |
| \$ 10 | \$ 2,982,407 | \$ 410,433 | \$ 156,365 | \$ 370 | \$ 58 | \$ 3,641 | \$ 4,316,148 |

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2007
(amounts in thousands)

| | California Alternative Energy and Advanced Transportation Financing Authority | California Infrastructure and Economic Development Bank | California Pollution Control Financing Authority | California Health Facilities Financing Authority | California Educational Facilities Authority |
|---|---|---|--|--|--|
| OPERATING EXPENSES | | | | | |
| Personal services | \$ — | \$ — | \$ — | \$ — | \$ 111,790 |
| Scholarships and fellowships | — | — | — | — | — |
| Supplies | — | — | — | — | — |
| Services and charges | 11 | 2,326 | 8,444 | 42,653 | 145,233 |
| Depreciation | — | — | — | — | 1,934 |
| Interest expense and fiscal charges | — | 4,631 | — | — | 1,877 |
| Amortization of deferred charges | — | 89 | — | — | — |
| Other | — | — | — | — | 31,835 |
| Total operating expenses | 11 | 7,046 | 8,444 | 42,653 | 292,669 |
| PROGRAM REVENUES | | | | | |
| Charges for services | — | 15,635 | 2,895 | 5,211 | 297,910 |
| Operating grants and contributions | — | — | — | — | — |
| Capital grants and contributions | — | — | — | — | — |
| Total program revenues | — | 15,635 | 2,895 | 5,211 | 297,910 |
| Net revenues (expenses) | (11) | 8,589 | (5,549) | (37,442) | 5,241 |
| GENERAL REVENUES | | | | | |
| Investment and interest income | — | — | — | — | 5,009 |
| Other | — | — | — | — | 608 |
| Total general revenues | — | — | — | — | 5,617 |
| Change in net assets | (11) | 8,589 | (5,549) | (37,442) | 10,858 |
| Net assets (deficit), July 1, 2006 | 11 | 241,860 | 40,813 | 93,609 | 127,772 |
| Net assets, June 30, 2007 | \$ — | \$ 250,449 | \$ 35,264 | \$ 56,167 | \$ 138,630 |

* Restated

| California School Finance Authority | California State University Auxiliary Organizations | District Agricultural Associations | University of California Hastings College of the Law | San Joaquin River Conservancy | California Urban Waterfront Area Restoration Financing Authority | California Consumer Power and Conservation Financing Authority | Total |
|--|---|--|--|-------------------------------------|--|--|---------------------|
| \$ — | \$ 307,331 | \$ 65,490 | \$ 23,965 | \$ — | \$ — | \$ — | \$ 508,576 |
| — | 41,892 | — | 2,029 | — | — | — | 43,921 |
| — | — | — | 7,060 | — | — | — | 7,060 |
| 3 | 889,628 | 131,205 | 4,226 | 6 | 16 | 6,212 | 1,229,963 |
| — | 40,120 | 16,373 | 2,417 | — | — | — | 60,844 |
| — | 27,603 | 2,236 | 376 | — | — | — | 36,723 |
| — | — | — | — | — | — | — | 89 |
| — | 40,549 | — | 2,027 | — | — | — | 74,411 |
| 3 | 1,347,123 | 215,304 | 42,100 | 6 | 16 | 6,212 | 1,961,587 |
| — | 624,139 | 199,986 | 25,995 | — | — | 15,516 | 1,187,287 |
| — | 504,728 | 108 | 13,444 | 66 | — | — | 518,346 |
| — | 12,507 | 978 | 1,295 | — | — | — | 14,780 |
| — | 1,141,374 | 201,072 | 40,734 | 66 | — | 15,516 | 1,720,413 |
| (3) | (205,749) | (14,232) | (1,366) | 60 | (16) | 9,304 | (241,174) |
| — | 163,708 | 1,394 | 7,863 | — | — | — | 177,974 |
| 13 | 234,963 | 19,779 | 7,975 | — | 3 | — | 263,341 |
| 13 | 398,671 | 21,173 | 15,838 | — | 3 | — | 441,315 |
| 10 | 192,922 | 6,941 | 14,472 | 60 | (13) | 9,304 | 200,141 |
| — | 1,644,479 * | 321,591 | 118,846 * | 66 | 71 | (5,663) | 2,583,455 |
| \$ 10 | \$ 1,837,401 | \$ 328,532 | \$ 133,318 | \$ 126 | \$ 58 | \$ 3,641 | \$ 2,783,596 |

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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 Assets by Component

Schedule of Changes in Net Assets

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 Assets by Component

For the Past Six Fiscal Years

(accrual basis of accounting, amounts in thousands)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|------------------------------|-------------------------------|-----------------------------|-----------------------------|
| Governmental activities | | | | |
| Invested in capital assets, net of related debt ¹ | \$ 10,983,863 | \$ 14,180,116 | \$ 77,734,545 | \$ 79,579,676 |
| Restricted | 6,717,078 | 5,230,983 | 7,126,013 | 7,631,057 |
| Unrestricted ² | <u>(19,417,429)</u> | <u>(43,927,987)</u> | <u>(52,897,395)</u> | <u>(52,631,090)</u> |
| Total governmental activities net assets | <u>\$ (1,716,488)</u> | <u>\$ (24,516,888)</u> | <u>\$ 31,963,163</u> | <u>\$ 34,579,643</u> |
| Business-type activities | | | | |
| Invested in capital assets, net of related debt | \$ 905,632 | \$ 1,405,232 | \$ 1,058,136 | \$ 836,524 |
| Restricted | 7,793,710 | 7,925,726 | 5,667,623 | 7,235,373 |
| Unrestricted | <u>15,567</u> | <u>(125,809)</u> | <u>1,316,631</u> | <u>1,566,246</u> |
| Total business-type activities net assets | <u>\$ 8,714,909</u> | <u>\$ 9,205,149</u> | <u>\$ 8,042,390</u> | <u>\$ 9,638,143</u> |
| Primary government | | | | |
| Invested in capital assets, net of related debt ¹ | \$ 11,889,495 | \$ 15,585,348 | \$ 78,792,681 | \$ 80,416,200 |
| Restricted | 14,510,788 | 13,156,709 | 12,793,636 | 14,866,430 |
| Unrestricted ² | <u>(19,401,862)</u> | <u>(44,053,796)</u> | <u>(51,580,764)</u> | <u>(51,064,844)</u> |
| Total primary government net assets | <u>\$ 6,998,421</u> | <u>\$ (15,311,739)</u> | <u>\$ 40,005,553</u> | <u>\$ 44,217,786</u> |

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

¹ In fiscal year 2004, all infrastructure assets were included in the financial statements for the first time.

² Unrestricted net assets reflect a negative balance because of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. In fiscal year 2003, unrestricted net assets decreased primarily as a result of lower-than-expected general revenues caused by the near-stagnant economy and the State's continued structural budget deficits.

| <u>2006</u> | <u>2007</u> |
|-----------------------------|-----------------------------|
| \$ 83,489,137 | \$ 81,352,744 |
| 8,431,279 | 10,543,602 |
| <u>(54,710,847)</u> | <u>(56,519,478)</u> |
| <u>\$ 37,209,569</u> | <u>\$ 35,376,868</u> |
| | |
| \$ 818,405 | \$ 208,268 |
| 8,722,865 | 8,574,932 |
| <u>1,801,304</u> | <u>2,430,492</u> |
| <u>\$ 11,342,574</u> | <u>\$ 11,213,692</u> |
| | |
| \$ 84,307,542 | \$ 81,561,012 |
| 17,154,144 | 19,118,534 |
| <u>(52,909,543)</u> | <u>(54,088,986)</u> |
| <u>\$ 48,552,143</u> | <u>\$ 46,590,560</u> |

Schedule of Changes in Net Assets

For the Past Six Fiscal Years

(accrual basis of accounting, amounts in thousands)

| | 2002 | 2003 | 2004 | 2005 |
|---|------------------------|------------------------|-----------------------|---------------------|
| Governmental activities | | | | |
| Expenses | | | | |
| General government | \$ 7,973,649 | \$ 8,600,789 | \$ 8,010,598 | \$ 8,808,652 |
| Education | 45,882,706 | 51,446,964 | 51,457,841 | 53,152,986 |
| Health and human services | 53,056,652 | 59,141,547 | 60,020,524 | 62,016,344 |
| Resources | 3,594,345 | 3,430,853 | 4,436,309 | 4,160,949 |
| State and consumer services | 1,014,797 | 437,134 | 1,029,460 | 1,038,327 |
| Business and transportation | 7,532,507 | 7,514,723 | 7,579,221 | 7,142,209 |
| Correctional programs | 5,803,243 | 6,681,270 | 6,214,862 | 6,611,219 |
| Tax relief | 3,672,030 | 3,921,433 | 3,007,026 | 2,157,280 |
| Interest on long-term debt | 1,747,104 | 1,780,748 | 1,737,696 | 2,408,246 |
| Total expenses | 130,277,033 | 142,955,461 | 143,493,537 | 147,496,212 |
| Program revenues | | | | |
| Charges for services: | | | | |
| General government | 4,126,078 | 1,136,401 | 4,384,986 | 4,731,371 |
| Education | 2,323,881 | 2,710,369 | 2,631,859 | 2,936,693 |
| Health and human services | 2,114,441 | 4,867,578 | 1,751,752 | 3,280,970 |
| Resources | 1,246,058 | 1,189,327 | 1,544,260 | 1,934,532 |
| State and consumer services | 568,186 | 454,051 | 496,561 | 601,322 |
| Business and transportation | 2,810,411 | 2,759,007 | 2,295,747 | 2,541,072 |
| Correctional programs | 12,915 | 12,406 | 13,915 | 12,354 |
| Tax relief | 2,604 | 2,216 | 1,982 | 1,784 |
| Operating grants/contributions | 34,012,965 | 38,409,125 | 41,072,413 | 41,135,441 |
| Capital grants/contributions | 1,584,290 | 1,302,376 | 916,961 | 1,090,419 |
| Total program revenues | 48,801,829 | 52,842,856 | 55,110,436 | 58,265,958 |
| Total governmental activities net program expense | (81,475,204) | (90,112,605) | (88,383,101) | (89,230,254) |
| General revenues and other changes in net assets | | | | |
| General revenues: | | | | |
| Personal income taxes | 33,025,783 | 32,529,941 | 37,926,550 | 42,504,352 |
| Sales and use taxes | 26,026,927 | 26,930,469 | 28,651,768 | 32,488,563 |
| Corporation taxes | 4,564,596 | 6,489,209 | 9,027,816 | 11,174,937 |
| Insurance taxes | 1,599,064 | 1,886,312 | 2,119,315 | 2,231,060 |
| Other taxes | 2,882,163 | 2,897,469 | 2,329,987 | 2,507,729 |
| Investment and interest | 790,514 | 371,935 | 155,430 | 289,363 |
| Escheat ¹ | — | — | 598,681 | 525,897 |
| Other | 375,495 | 5,718 | 87,663 | — |
| Transfers | 13,475 | 66,630 | 32,965 | 27,727 |
| Nonoperating grants and gifts | — | 575,906 | — | — |
| Special item ² | — | — | — | — |
| Total general revenues and other changes in net assets | 69,278,017 | 71,753,589 | 80,930,175 | 91,749,628 |
| Total government activities change in net assets | \$ (12,197,187) | \$ (18,359,016) | \$ (7,452,926) | \$ 2,519,374 |

Note: The State did not begin reporting government-wide statements until it implemented GASB Statement No. 34 in fiscal year 2002.

¹ Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.

² In fiscal year 2006, a related organization assumed debt on the State's behalf.

³ Since fiscal year 2004, the Public Employees' Benefits Fund is reported as a discretely presented component unit.

| <u>2006</u> | <u>2007</u> |
|---------------------|-----------------------|
| \$ 9,674,816 | \$ 13,313,463 |
| 62,652,997 | 61,542,105 |
| 65,763,380 | 69,979,980 |
| 4,161,814 | 5,316,769 |
| 595,602 | 1,214,740 |
| 8,809,236 | 9,763,200 |
| 7,299,124 | 8,945,325 |
| 704,306 | 948,127 |
| 2,893,537 | 2,596,316 |
| 162,554,812 | 173,620,025 |
| 4,614,567 | 4,490,117 |
| 3,360,919 | 2,689,906 |
| 4,554,673 | 4,751,011 |
| 2,198,886 | 2,110,593 |
| 640,088 | 704,512 |
| 3,776,098 | 4,040,268 |
| 37,203 | 30,821 |
| 5,463 | 5,049 |
| 42,254,065 | 43,440,102 |
| 1,272,506 | 1,164,526 |
| 62,714,468 | 63,426,905 |
| (99,840,344) | (110,193,120) |
| 51,251,266 | 53,272,229 |
| 34,162,177 | 35,427,013 |
| 10,735,792 | 11,211,267 |
| 2,212,916 | 2,165,567 |
| 2,099,075 | 5,939,890 |
| 504,655 | 730,066 |
| 291,549 | 334,002 |
| — | — |
| 23,259 | 29,855 |
| — | — |
| 1,218,311 | — |
| 102,499,000 | 109,109,889 |
| \$ 2,658,656 | \$ (1,083,231) |

(continued)

Schedule of Changes in Net Assets (continued)

For the Past Six Fiscal Years

(accrual basis of accounting, amounts in thousands)

| | 2002 | 2003 | 2004 | 2005 |
|---|------------------------|------------------------|-----------------------|---------------------|
| Business-type activities | | | | |
| Expenses | | | | |
| Electric Power | \$ 4,241,000 | \$ 4,985,000 | \$ 5,203,000 | \$ 5,655,000 |
| Water Resources | 770,351 | 739,819 | 731,099 | 731,393 |
| Public Building Construction | 294,818 | 347,898 | 296,502 | 299,900 |
| State Lottery | 2,913,051 | 2,791,144 | 3,347,644 | 3,493,984 |
| Unemployment Programs | 8,900,546 | 10,651,949 | 10,271,962 | 8,939,654 |
| High Technology Education | 38,415 | 37,727 | 37,261 | 33,690 |
| Toll Facilities | 26,058 | 21,796 | 18,968 | 20,861 |
| State University Dormitory Building | | | | |
| Maintenance and Equipment | 168,513 | 220,334 | 426,187 | 449,080 |
| State Water Pollution Control Revolving | — | 14,970 | 15,131 | 14,638 |
| School Building Aid..... | 29,837 | — | — | — |
| Housing Loan | 217,523 | 206,864 | 173,629 | 142,085 |
| Public Employees' Benefits ³ | 1,760,926 | 1,694,231 | — | — |
| Other enterprise programs | 142,556 | 103,974 | 98,654 | 86,612 |
| Total expenses | 19,503,594 | 21,815,706 | 20,620,037 | 19,866,897 |
| Program revenues | | | | |
| Charges for services: | | | | |
| Electric Power | 4,241,000 | 4,985,000 | 5,203,000 | 5,655,000 |
| Water Resources | 761,222 | 693,566 | 714,647 | 750,282 |
| Public Building Construction | 320,220 | 317,741 | 307,910 | 315,718 |
| State Lottery | 2,966,270 | 2,936,030 | 3,143,408 | 3,512,126 |
| Unemployment Programs | 7,799,776 | 8,230,208 | 9,631,916 | 10,459,688 |
| High Technology Education | 44,127 | 44,268 | 34,052 | 36,737 |
| Toll Facilities | 5,933 | 172 | 121 | 66 |
| State University Dormitory Building | | | | |
| Maintenance and Equipment | 187,921 | 284,719 | 250,208 | 395,396 |
| State Water Pollution Control | | | | |
| Revolving | — | 54,201 | 51,687 | 55,218 |
| School Building Aid..... | 24,348 | — | — | — |
| Housing Loan | 222,086 | 189,812 | 143,805 | 121,063 |
| Public Employees' Benefits ³ | 1,682,323 | 2,066,530 | — | — |
| Other enterprise programs | 131,152 | 134,544 | 114,081 | 115,901 |
| Operating grants/contributions..... | 1,545 | 762 | — | — |
| Capital grants/contributions | — | 145,341 | 47,528 | 73,182 |
| Total program revenues | 18,387,923 | 20,082,894 | 19,642,363 | 21,490,377 |
| Total business-type activities net | | | | |
| program revenues (expenses) | (1,115,671) | (1,732,812) | (977,674) | 1,623,480 |
| Other changes in net assets | | | | |
| Transfers | (13,475) | (66,630) | (32,965) | (27,727) |
| Total business-type activities | | | | |
| change in net assets | \$ (1,129,146) | \$ (1,799,442) | \$ (1,010,639) | \$ 1,595,753 |
| Total primary government | | | | |
| change in net assets | \$ (13,326,333) | \$ (20,158,458) | \$ (8,463,565) | \$ 4,115,127 |

| | <u>2006</u> | <u>2007</u> |
|-----------|-------------------|-----------------------|
| \$ | 5,342,000 | \$ 5,865,000 |
| | 949,691 | 951,590 |
| | 334,094 | 334,777 |
| | 3,911,717 | 3,470,615 |
| | 8,584,521 | 9,136,218 |
| | 30,871 | 22,704 |
| | 18,265 | — |
| | 491,914 | 844,798 |
| | 20,427 | 12,702 |
| | — | — |
| | 138,988 | 127,206 |
| | — | — |
| | 113,976 | 141,859 |
| | 19,936,464 | 20,907,469 |
| | 5,342,000 | 5,865,000 |
| | 949,691 | 951,590 |
| | 384,442 | 396,895 |
| | 3,740,041 | 3,461,699 |
| | 10,263,447 | 9,017,969 |
| | 26,508 | 22,966 |
| | 21 | — |
| | 512,231 | 554,851 |
| | 64,740 | 78,564 |
| | — | — |
| | 127,733 | 130,293 |
| | — | — |
| | 129,048 | 134,018 |
| | — | — |
| | 56,942 | 182,989 |
| | 21,596,844 | 20,796,834 |
| | 1,660,380 | (110,635) |
| | (23,259) | (29,855) |
| \$ | 1,637,121 | \$ (140,490) |
| \$ | 4,295,777 | \$ (1,223,721) |

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Six Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-----------------------|------------------------|-----------------------|----------------------|
| General Fund | | | | |
| Reserved | \$ 2,465,632 | \$ 2,051,790 | \$ 1,691,034 | \$ 1,597,085 |
| Unreserved | (5,987,214) | (15,419,588) | (3,231,734) | (1,410,228) |
| Total General Fund | \$ (3,521,582) | \$ (13,367,798) | \$ (1,540,700) | \$ 186,857 |
| All other governmental funds | | | | |
| Reserved | \$ 15,119,363 | \$ 15,080,420 | \$ 14,625,056 | \$ 14,924,365 |
| Unreserved, reported in: | | | | |
| Special revenue funds | 446,626 | (3,563,435) | (1,343,432) | (329,018) |
| Capital projects funds | (456,682) | (225,697) | (226,919) | (403,106) |
| Total all other governmental funds | \$ 15,109,307 | \$ 11,291,288 | \$ 13,054,705 | \$ 14,192,241 |

Note: Due to changes in the State's fund structure made when implementing GASB Statement No. 34, consistent fund balance information is available only since fiscal year 2002.

| <u>2006</u> | <u>2007</u> |
|-----------------------------|------------------------------|
| \$ 1,999,953 | \$ 2,596,537 |
| 672,862 | (4,504,075) |
| <u>\$ 2,672,815</u> | <u>\$ (1,907,538)</u> |
| | |
| \$ 16,198,481 | \$ 21,955,300 |
| (806,558) | (914,843) |
| <u>(882,550)</u> | <u>(1,128,608)</u> |
| <u>\$ 14,509,373</u> | <u>\$ 19,911,849</u> |

Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

| | 1998 | 1999 | 2000 | 2001 |
|---|---------------------|---------------------|---------------------|---------------------|
| Revenues | | | | |
| Personal income taxes | \$ 27,858,619 | \$ 30,862,872 | \$ 39,516,018 | \$ 44,629,742 |
| Sales and use taxes | 21,304,784 | 22,878,316 | 25,398,317 | 26,385,224 |
| Corporation taxes | 5,601,526 | 5,421,742 | 6,569,805 | 6,580,178 |
| Insurance taxes | 1,221,541 | 1,272,953 | 1,301,346 | 1,502,250 |
| Other taxes | 2,033,100 | 2,626,849 | 2,805,536 | 2,925,693 |
| Intergovernmental | 26,503,684 | 29,667,982 | 31,543,220 | 34,136,903 |
| Licenses and permits | 3,188,395 | 3,334,863 | 3,245,851 | 3,276,612 |
| Charges for services | 607,153 | 812,336 | 848,352 | 831,988 |
| Fees and penalties | 1,972,623 | 1,857,098 | 1,998,676 | 2,239,817 |
| Investment and interest | 600,612 | 692,738 | 938,897 | 1,366,104 |
| Escheat ¹ | — | — | — | — |
| Other | 409,899 | 423,039 | 1,201,723 | 1,344,044 |
| Total revenues | 91,301,936 | 99,850,788 | 115,367,741 | 125,218,555 |
| Expenditures | | | | |
| General government | 4,026,111 | 5,256,688 | 6,011,645 | 6,061,660 |
| Education | 29,501,259 | 31,048,022 | 36,905,181 | 40,854,070 |
| Health and human services | 37,333,877 | 41,197,842 | 44,702,748 | 49,361,053 |
| Resources | 1,975,661 | 2,351,796 | 2,678,453 | 3,516,139 |
| State and consumer services | 747,211 | 797,127 | 850,322 | 941,884 |
| Business and transportation | 5,953,332 | 6,752,759 | 7,320,420 | 8,288,123 |
| Correctional programs | 4,092,202 | 4,382,129 | 4,601,199 | 5,125,032 |
| Tax relief | 617,320 | 599,004 | 2,173,459 | 3,686,373 |
| Capital outlay | 1,360,788 | 939,749 | 709,698 | 905,116 |
| Debt service: | | | | |
| Bond and commercial paper retirement | 2,579,211 | 3,295,530 | 3,857,694 | 5,031,347 |
| Interest and fiscal charges | 1,101,365 | 1,123,596 | 1,126,030 | 1,185,363 |
| Total expenditures | 89,288,337 | 97,744,242 | 110,936,849 | 124,956,160 |
| Excess (deficiency) of revenues over (under) expenditures | 2,013,599 | 2,106,546 | 4,430,892 | 262,395 |
| Other financing sources (uses) | | | | |
| General obligation bonds and commercial paper issued | 4,125,989 | 3,898,770 | 5,766,475 | 3,684,115 |
| Revenue bonds issued | 197,418 | — | 59,045 | — |
| Refunding/remarketing debt issued | 1,030,728 | 357,420 | — | 4,419,665 |
| Payment to refunding/remarketing agent | (1,030,728) | (357,420) | — | (619,665) |
| Capital leases ² | — | — | — | — |
| Transfers in | 2,848,221 | 3,922,416 | 4,563,443 | 9,144,852 |
| Transfers out | (2,802,024) | (3,996,505) | (4,533,817) | (9,691,975) |
| Transfers to component units ³ | (2,396,628) | (2,822,988) | (3,550,372) | (3,659,516) |
| Total other financing sources | 1,972,976 | 1,001,693 | 2,304,774 | 3,277,476 |
| Net change in fund balances | \$ 3,986,575 | \$ 3,108,239 | \$ 6,735,666 | \$ 3,539,871 |
| Debt service as a percentage of noncapital expenditures ⁴ | N/A | N/A | N/A | N/A |

Note: GASB Statement No. 34 was implemented in fiscal year 2002. The information presented prior to that time has not been restated for changes to the State's fund structure or other reporting changes required under GASB Statement No. 34.

¹ Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.

² Prior to fiscal year 2002, proceeds from capital leases is included with general obligation bonds and commercial paper issued.

³ Prior to implementation of GASB Statement No. 34, transfers to component units were classified as other financing uses.

Under GASB Statement No. 34, payments to component units are reported as expenditures rather than transfers.

⁴ Noncapital expenditures are not available prior to fiscal year 2002.

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|
| \$ | 32,874,734 | \$ 32,661,274 | \$ 37,722,839 | \$ 42,595,352 | \$ 50,798,418 | \$ 53,289,524 |
| | 25,907,118 | 26,945,705 | 28,685,600 | 32,201,242 | 34,300,402 | 35,451,311 |
| | 4,553,105 | 6,861,200 | 8,379,316 | 11,191,937 | 10,709,792 | 11,210,267 |
| | 1,599,064 | 1,886,312 | 2,119,315 | 2,231,060 | 2,212,916 | 2,165,567 |
| | 3,038,111 | 2,745,987 | 2,422,326 | 2,482,335 | 2,367,670 | 5,800,027 |
| | 36,827,930 | 41,934,230 | 42,918,982 | 42,933,381 | 45,466,185 | 46,442,519 |
| | 2,903,858 | 2,995,740 | 3,469,741 | 4,954,025 | 5,125,223 | 5,266,142 |
| | 853,874 | 907,481 | 919,280 | 949,147 | 1,002,410 | 911,387 |
| | 5,023,910 | 4,184,896 | 4,662,893 | 5,388,332 | 6,008,306 | 6,093,948 |
| | 1,179,775 | 614,240 | 377,694 | 576,097 | 1,058,119 | 1,555,202 |
| | — | — | 598,681 | 525,897 | 291,549 | 334,002 |
| | 2,958,572 | 3,043,575 | 2,999,820 | 3,755,426 | 4,518,621 | 3,732,591 |
| | 117,720,051 | 124,780,640 | 135,276,487 | 149,784,231 | 163,859,611 | 172,252,487 |
| | 7,767,621 | 8,043,449 | 8,028,399 | 8,511,482 | 8,584,072 | 13,104,916 |
| | 45,324,021 | 50,744,179 | 49,526,563 | 52,242,779 | 59,768,677 | 61,103,008 |
| | 53,142,973 | 58,996,212 | 59,820,274 | 62,015,628 | 65,968,433 | 70,157,806 |
| | 3,721,729 | 3,368,473 | 3,686,083 | 4,077,102 | 4,296,715 | 5,191,078 |
| | 1,091,008 | 940,665 | 935,427 | 973,466 | 1,111,128 | 1,214,752 |
| | 8,493,157 | 8,917,181 | 9,119,237 | 8,556,618 | 10,370,589 | 11,485,069 |
| | 5,593,033 | 5,841,103 | 6,236,725 | 6,658,614 | 7,552,790 | 9,030,299 |
| | 3,672,030 | 3,897,106 | 2,983,818 | 2,136,258 | 810,236 | 958,004 |
| | 1,654,494 | 1,666,932 | 1,245,871 | 1,534,150 | 2,128,050 | 1,345,021 |
| | 3,618,284 | 4,068,685 | 1,384,595 | 3,672,119 | 6,375,607 | 5,691,791 |
| | 1,418,880 | 1,803,378 | 1,686,776 | 2,243,764 | 3,135,763 | 2,881,849 |
| | 135,497,230 | 148,287,363 | 144,653,768 | 152,621,980 | 170,102,060 | 182,163,593 |
| | (17,777,179) | (23,506,723) | (9,377,281) | (2,837,749) | (6,242,449) | (9,911,106) |
| | 5,292,034 | 9,062,000 | 18,385,480 | 5,058,339 | 7,750,500 | 9,040,500 |
| | — | 3,000,000 | 4,347,570 | 99,250 | — | — |
| | 1,105,025 | 275,000 | 1,183,875 | 1,937,430 | 5,086,944 | 9,098,376 |
| | (1,105,025) | (275,000) | (1,183,875) | (1,937,430) | (4,561,944) | (7,840,621) |
| | 274,955 | 515,996 | 85,390 | 414,738 | 748,037 | 178,936 |
| | 5,948,918 | 8,253,164 | 18,475,032 | 4,580,201 | 5,137,895 | 9,311,462 |
| | (5,954,783) | (8,070,387) | (18,428,564) | (4,546,792) | (5,113,107) | (9,242,771) |
| | — | — | — | — | — | — |
| | 5,561,124 | 12,760,773 | 22,864,908 | 5,605,736 | 9,048,325 | 10,545,882 |
| \$ | (12,216,055) | (10,745,950) | (13,487,627) | (2,767,987) | (2,805,876) | (634,776) |
| | 3.8% | 4.0% | 2.2% | 3.9% | 5.7% | 4.8% |

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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)

| | 1997 | 1998 | 1999 | 2000 |
|--|-----------------------|-----------------------|-----------------------|-------------------------|
| Personal Income by Industry | | | | |
| Farm earnings | \$ 8,752,960 | \$ 8,259,762 | \$ 9,162,971 | \$ 8,088,563 |
| Forestry, fishing and other natural resources..... | 4,497,779 | 4,753,590 | 4,965,573 | 5,260,871 |
| Mining | 2,136,394 | 2,127,857 | 2,078,359 | 2,377,528 |
| Construction and utilities | 39,556,088 | 45,694,768 | 51,747,677 | 57,779,134 |
| Manufacturing | 95,904,677 | 101,914,351 | 112,058,691 | 130,175,679 |
| Wholesale trade | 31,695,355 | 35,115,800 | 37,271,078 | 40,801,983 |
| Retail trade | 45,652,309 | 49,468,297 | 53,519,782 | 58,255,765 |
| Transportation and warehousing | 20,088,412 | 21,556,474 | 22,827,125 | 25,073,185 |
| Information, finance, and insurance | 71,959,626 | 80,781,342 | 93,152,738 | 109,045,010 |
| Real estate | 15,411,007 | 18,864,435 | 19,259,547 | 19,309,071 |
| Services | 218,314,520 | 241,074,809 | 261,658,240 | 294,424,391 |
| Federal, civilian | 17,452,491 | 17,861,217 | 18,164,400 | 19,008,148 |
| Military | 8,913,571 | 8,806,833 | 8,876,585 | 9,315,046 |
| State and local government | 78,759,490 | 83,176,888 | 87,348,684 | 95,207,893 |
| Other ² | 201,450,201 | 216,552,238 | 217,136,733 | 229,719,645 |
| Total personal income | \$ 860,544,880 | \$ 936,008,661 | \$ 999,228,183 | \$ 1,103,841,912 |
| Average effective rate ³ | 4.1% | 4.4% | 4.3% | 4.8% |

Source: Bureau of Economic Analysis, U.S. Department of Commerce

¹ 2003-2005 information updated.

² Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.

³ The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

| | 1997 | 1998 | 1999 | 2000 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Taxable Sales by Industry | | | | |
| Retail | | | | |
| Apparel | \$ 11,530,373 | \$ 11,730,772 | \$ 11,458,278 | \$ 12,847,372 |
| General merchandise | 36,525,845 | 38,777,403 | 42,547,887 | 45,829,364 |
| Specialty | 33,826,628 | 36,175,924 | 40,848,458 | 45,845,021 |
| Food | 15,924,286 | 16,114,103 | 17,177,888 | 18,374,398 |
| Restaurant and Bars | 28,253,848 | 30,046,028 | 32,456,606 | 35,461,731 |
| Household | 9,632,898 | 10,535,061 | 11,976,832 | 13,592,904 |
| Building materials | 15,642,903 | 17,168,811 | 19,924,798 | 22,488,577 |
| Automotive | 57,339,036 | 59,751,806 | 69,377,586 | 81,937,244 |
| Other | 8,572,860 | 9,106,561 | 9,821,053 | 10,691,086 |
| Business and Personal Service | 16,972,011 | 18,816,348 | 20,331,101 | 22,185,850 |
| All Other | 106,870,946 | 110,635,561 | 118,815,758 | 132,600,865 |
| Total taxable sales | \$ 341,091,634 | \$ 358,858,378 | \$ 394,736,245 | \$ 441,854,412 |
| Direct sales tax rate ¹ | 5.00% | 5.00% | 5.00% | 5.00% |

Source: California State Board of Equalization

¹ 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.

² Rate change was effective on July 1, 2004.

| | <u>2001</u> | <u>2002</u> | <u>2003¹</u> | <u>2004¹</u> | <u>2005¹</u> | <u>2006</u> |
|----|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| \$ | 7,167,545 | \$ 7,778,068 | \$ 8,964,050 | \$ 9,788,846 | \$ 9,593,112 | \$ 7,526,032 |
| | 5,410,185 | 5,410,649 | 5,675,370 | 5,806,282 | 6,051,174 | 6,458,449 |
| | 2,642,910 | 2,402,962 | 2,754,718 | 3,294,458 | 3,591,416 | 4,398,206 |
| | 62,724,622 | 63,900,542 | 68,043,951 | 76,268,681 | 86,304,039 | 91,641,195 |
| | 118,420,332 | 113,263,518 | 114,111,266 | 120,799,277 | 125,939,596 | 131,717,740 |
| | 42,309,691 | 42,965,708 | 44,708,331 | 47,482,928 | 51,149,810 | 55,575,234 |
| | 61,363,150 | 62,928,800 | 64,616,590 | 66,707,680 | 70,238,635 | 72,498,125 |
| | 26,013,211 | 26,000,139 | 26,286,097 | 29,342,713 | 30,286,701 | 32,093,591 |
| | 113,383,250 | 112,419,788 | 115,161,637 | 124,171,975 | 131,620,663 | 136,511,399 |
| | 25,192,062 | 26,668,286 | 30,064,709 | 32,274,848 | 33,942,681 | 34,910,388 |
| | 292,076,247 | 296,714,117 | 306,800,598 | 328,707,636 | 346,380,646 | 372,075,100 |
| | 18,595,668 | 19,804,777 | 20,317,662 | 21,774,579 | 22,681,531 | 23,118,574 |
| | 9,994,601 | 11,002,415 | 12,684,992 | 14,004,021 | 14,655,220 | 15,347,565 |
| | 105,229,758 | 113,289,511 | 120,403,379 | 126,306,200 | 133,007,918 | 141,458,557 |
| | 244,780,828 | 243,166,424 | 246,446,794 | 258,926,983 | 282,499,608 | 309,579,403 |
| | \$ 1,135,304,060 | \$ 1,147,715,704 | \$ 1,187,040,144 | \$ 1,265,657,107 | \$ 1,347,942,750 | \$ 1,434,909,558 |
| | 5.9% | 4.5% | 4.3% | 4.5% | 4.6% | 5.1% |

| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|----|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| \$ | 13,388,444 | \$ 14,029,200 | \$ 15,179,710 | \$ 16,957,137 | \$ 18,712,125 | \$ 19,829,416 |
| | 47,191,016 | 48,486,891 | 50,550,818 | 53,939,532 | 56,787,153 | 59,264,894 |
| | 43,976,514 | 43,539,120 | 45,191,191 | 48,961,996 | 52,376,758 | 54,695,680 |
| | 18,823,587 | 18,951,412 | 19,407,823 | 19,825,771 | 21,128,469 | 21,864,179 |
| | 36,849,193 | 38,079,830 | 40,049,699 | 43,275,038 | 46,412,847 | 49,229,418 |
| | 13,332,175 | 13,983,287 | 15,104,217 | 16,405,347 | 17,388,704 | 17,383,449 |
| | 24,208,900 | 25,816,009 | 28,200,869 | 34,154,543 | 36,152,218 | 36,163,326 |
| | 85,400,884 | 87,749,497 | 94,766,776 | 103,528,856 | 112,167,922 | 115,154,535 |
| | 10,785,808 | 10,977,060 | 11,765,951 | 13,124,468 | 14,681,929 | 15,481,675 |
| | 22,240,823 | 21,812,699 | 21,648,470 | 22,306,787 | 23,090,910 | 23,650,322 |
| | 125,320,216 | 117,525,089 | 118,230,944 | 127,597,308 | 138,005,393 | 146,935,543 |
| | \$ 441,517,560 | \$ 440,950,094 | \$ 460,096,468 | \$ 500,076,783 | \$ 536,904,428 | \$ 559,652,437 |
| | 4.75% | 5.00% | 5.00% | 5.25% ² | 5.25% | 5.25% |

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 1997 and 2005

Personal Income Tax Filers and Liability by Income Level ¹

| | 1997 | | | | 2005 | | | |
|---------------------|-------------------|------------------|----------------------------|------------------|-------------------|------------------|----------------------------|------------------|
| | Number of Filers | Percent of Total | Tax Liability ² | Percent of Total | Number of Filers | Percent of Total | Tax Liability ² | Percent of Total |
| Under \$ 5,000 | 1,160,539 | 9.3 % | \$ 10,692 | 0.0 % | 1,057,675 | 7.5 % | \$ 7,321 | 0.0 % |
| 5,000 to 9,999 | 1,385,646 | 11.1 | 17,114 | 0.1 | 1,099,188 | 7.8 | 8,748 | 0.0 |
| 10,000 to 14,999 | 1,295,073 | 10.4 | 47,163 | 0.2 | 1,147,479 | 8.1 | 21,138 | 0.0 |
| 15,000 to 19,999 | 1,166,826 | 9.4 | 123,436 | 0.5 | 1,163,356 | 8.3 | 54,558 | 0.1 |
| 20,000 to 24,999 | 971,772 | 7.8 | 205,063 | 0.9 | 1,015,039 | 7.2 | 105,701 | 0.2 |
| 25,000 to 29,999 | 849,962 | 6.8 | 302,085 | 1.3 | 909,952 | 6.5 | 176,933 | 0.4 |
| 30,000 to 39,999 | 1,385,152 | 11.1 | 938,818 | 3.9 | 1,544,745 | 11.0 | 578,243 | 1.3 |
| 40,000 to 49,999 | 1,021,706 | 8.2 | 1,092,999 | 4.6 | 1,220,580 | 8.6 | 857,355 | 2.0 |
| 50,000 to 99,999 | 2,298,942 | 18.4 | 5,434,490 | 22.7 | 3,014,900 | 21.4 | 5,517,572 | 12.9 |
| \$ 100,000 and over | 937,855 | 7.5 | 15,705,942 | 65.8 | 1,914,982 | 13.6 | 35,803,085 | 83.1 |
| Total | 12,473,473 | 100.00 % | \$ 23,877,802 | 100.00 % | 14,087,896 | 100.00 % | \$ 43,130,654 | 100.00 % |

Source: California Franchise Tax Board

¹ For California resident tax returns. Calendar year 2005 is the most recent year for which data is available.

² Amounts in thousands.

Sales Tax Permits and Tax Liability by Industry

| | 1997 | | | | 2006 | | | |
|------------------------------|--------------------------------|------------------|----------------------------|------------------|--------------------------------|------------------|----------------------------|------------------|
| | Number of Permits ¹ | Percent of Total | Tax Liability ² | Percent of Total | Number of Permits ¹ | Percent of Total | Tax Liability ² | Percent of Total |
| Retail | | | | | | | | |
| Apparel | 26,207 | 2.7 % | \$ 576,519 | 3.4 % | 45,053 | 4.3 % | \$ 1,041,044 | 3.5 % |
| General merchandise . | 11,712 | 1.2 | 1,826,292 | 10.7 | 17,897 | 1.7 | 3,111,407 | 10.6 |
| Specialty | 125,841 | 13.0 | 1,691,331 | 9.9 | 207,230 | 19.8 | 2,871,523 | 9.8 |
| Food | 24,505 | 2.5 | 796,214 | 4.7 | 24,975 | 2.4 | 1,147,869 | 3.9 |
| Restaurant and Bars ... | 72,097 | 7.5 | 1,412,692 | 8.3 | 88,021 | 8.4 | 2,584,545 | 8.8 |
| Household | 22,970 | 2.4 | 481,645 | 2.8 | 34,168 | 3.3 | 912,631 | 3.1 |
| Building materials | 9,051 | 0.9 | 782,145 | 4.6 | 11,760 | 1.1 | 1,898,575 | 6.5 |
| Automotive | 30,384 | 3.2 | 2,866,952 | 16.8 | 37,649 | 3.6 | 6,045,613 | 20.6 |
| Other | 19,461 | 2.0 | 428,643 | 2.5 | 23,245 | 2.2 | 812,788 | 2.8 |
| Business and Personal | | | | | | | | |
| Service..... | 104,021 | 10.8 | 848,601 | 5.0 | 103,343 | 9.8 | 1,241,642 | 4.2 |
| All Other | 518,974 | 53.8 | 5,343,547 | 31.3 | 455,017 | 43.4 | 7,714,116 | 26.2 |
| Total | 965,223 | 100.00 % | \$ 17,054,581 | 100.00 % | 1,048,358 | 100.00 % | \$ 29,381,753 | 100.00 % |

Source: California Franchise Tax Board

¹ As of July 1.

² Calculated by multiplying the taxable sales by industry shown on pages 238 and 239 by the direct sales tax rate. Amounts in thousands.

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Schedule of Personal Income Tax Rates

Calendar Years 1997 - 2006

| Married Filing Jointly and Surviving Spouse | | | | |
|---|----------------------|----------------------|----------------------|----------------------|
| Tax Rate | 1997 Income Level | 1998 Income Level | 1999 Income Level | 2000 Income Level |
| 1.0 | Up to \$10,032 | Up to \$10,262 | Up to \$10,528 | Up to \$10,918 |
| 2.0 | 10,032 – 23,776 | 10,262 – 24,322 | 10,528 – 24,954 | 10,918 – 25,878 |
| 4.0 | 23,776 – 37,522 | 24,322 – 38,386 | 24,954 – 39,384 | 25,878 – 40,842 |
| 6.0 | 37,522 – 52,090 | 38,386 – 53,288 | 39,384 – 56,674 | 40,842 – 56,696 |
| 8.0 | 52,090 – 65,832 | 53,288 – 67,346 | 56,674 – 69,096 | 56,696 – 71,652 |
| 9.3 | \$65,832 and over | \$67,346 and over | \$69,096 and over | \$71,652 and over |

| Single and Married Filing Separately | | | | |
|--------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Tax Rate | 1997 Income Level | 1998 Income Level | 1999 Income Level | 2000 Income Level |
| 1.0 | Up to \$5,016 | Up to \$5,131 | Up to \$5,264 | Up to \$5,459 |
| 2.0 | 5,016 – 11,888 | 5,131 – 12,161 | 5,264 – 12,477 | 5,459 – 12,939 |
| 4.0 | 11,888 – 18,761 | 12,161 – 19,193 | 12,477 – 19,692 | 12,939 – 20,421 |
| 6.0 | 18,761 – 26,045 | 19,193 – 26,644 | 19,692 – 27,337 | 20,421 – 28,348 |
| 8.0 | 26,045 – 32,916 | 26,644 – 33,673 | 27,337 – 34,548 | 28,348 – 35,826 |
| 9.3 | \$32,916 and over | \$ 33,673 and over | \$34,548 and over | \$35,826 and over |

| Head of Household | | | | |
|-------------------|----------------------|----------------------|----------------------|----------------------|
| Tax Rate | 1997 Income Level | 1998 Income Level | 1999 Income Level | 2000 Income Level |
| 1.0 | Up to \$10,033 | Up to \$10,264 | Up to \$10,531 | Up to \$10,921 |
| 2.0 | 10,033 – 23,776 | 10,264 – 24,323 | 10,531 – 24,955 | 10,921 – 25,878 |
| 4.0 | 23,776 – 30,648 | 24,323 – 31,353 | 24,955 – 32,168 | 25,878 – 33,358 |
| 6.0 | 30,648 – 37,931 | 31,353 – 38,803 | 32,168 – 39,812 | 33,358 – 41,285 |
| 8.0 | 37,931 – 44,803 | 38,803 – 45,833 | 39,812 – 47,025 | 41,285 – 48,765 |
| 9.3 | \$44,803 and over | \$45,833 and over | \$47,025 and over | \$48,765 and over |

Source: California Franchise Tax Board

¹ Beginning in 2005, there is an additional tax of 1% on taxable income over \$1 million for the expansion of mental health services.

Average Effective Rate

(amounts in thousands)

| | 1997 | 1998 | 1999 | 2000 |
|---|-------------|-------------|-------------|-------------|
| Personal income tax revenue ¹ | 23,176,711 | 27,858,619 | 30,862,872 | 39,516,018 |
| Adjusted gross income (in thousands) ² ... | 570,690,810 | 627,433,733 | 721,662,168 | 829,547,001 |
| Average effective rate ³ | 4.1% | 4.4% | 4.3% | 4.8% |

¹ Personal income tax revenue is reported on a fiscal year basis.

² Source: California Franchise Tax Board. 2005 updated with most current information. 2006 information reflects returns processed as of December 2007.

³ The average effective rate equals personal income tax revenue divided by adjusted gross income.

| Married Filing Jointly and Surviving Spouse | | | | | |
|--|------------------------------|------------------------------|------------------------------|---|------------------------------|
| 2001 Income Level | 2002 Income Level | 2003 Income Level | 2004 Income Level | 2005 ¹ Income Level | 2006 Income Level |
| Up to \$11,496 | Up to \$11,668 | Up to \$11,924 | Up to \$12,294 | Up to \$12,638 | Up to \$13,244 |
| 11,496 – 27,250 | 11,668 – 27,658 | 11,924 – 28,266 | 12,294 – 29,142 | 12,638 – 29,958 | 13,244 – 31,963 |
| 27,250 – 43,006 | 27,658 – 43,652 | 28,266 – 44,612 | 29,142 – 45,994 | 29,958 – 47,282 | 31,963 – 49,552 |
| 43,006 – 59,700 | 43,652 – 60,596 | 44,612 – 61,930 | 45,994 – 63,850 | 47,282 – 65,638 | 49,552 – 68,788 |
| 59,700 – 75,450 | 60,596 – 76,582 | 61,930 – 78,266 | 63,850 – 80,692 | 65,638 – 82,952 | 68,788 – 86,934 |
| \$75,450 and over | \$76,582 and over | \$78,266 and over | \$80,692 and over | \$82,952 and over | \$86,934 and over |

| Single and Married Filing Separately | | | | | |
|---|------------------------------|------------------------------|------------------------------|---|------------------------------|
| 2001 Income Level | 2002 Income Level | 2003 Income Level | 2004 Income Level | 2005 ¹ Income Level | 2006 Income Level |
| Up to \$5,748 | Up to \$5,834 | Up to \$5,962 | Up to \$6,147 | Up to \$6,319 | Up to \$6,622 |
| 5,748 – 13,625 | 5,834 – 13,829 | 5,962 – 14,133 | 6,147 – 14,571 | 6,319 – 14,979 | 6,622 – 15,698 |
| 13,625 – 21,503 | 13,829 – 21,826 | 14,133 – 22,306 | 14,571 – 22,997 | 14,979 – 23,641 | 15,698 – 24,776 |
| 21,503 – 29,850 | 21,826 – 30,298 | 22,306 – 30,965 | 22,997 – 31,925 | 23,641 – 32,819 | 24,776 – 34,394 |
| 29,850 – 37,725 | 30,298 – 38,291 | 30,965 – 39,133 | 31,925 – 40,346 | 32,819 – 41,476 | 34,394 – 43,467 |
| \$37,725 and over | \$38,291 and over | \$39,133 and over | \$40,346 and over | \$41,476 and over | \$43,467 and over |

| Head of Household | | | | | |
|------------------------------|------------------------------|------------------------------|------------------------------|---|------------------------------|
| 2001 Income Level | 2002 Income Level | 2003 Income Level | 2004 Income Level | 2005 ¹ Income Level | 2006 Income Level |
| Up to \$11,500 | Up to \$11,673 | Up to \$11,930 | Up to \$12,300 | Up to \$12,644 | Up to \$13,251 |
| 11,500 – 27,250 | 11,673 – 27,659 | 11,930 – 28,267 | 12,300 – 29,143 | 12,644 – 29,959 | 13,251 – 31,397 |
| 27,250 – 35,126 | 27,659 – 35,653 | 28,267 – 36,347 | 29,143 – 37,567 | 29,959 – 38,619 | 31,397 – 40,473 |
| 35,126 – 43,473 | 35,653 – 44,125 | 36,347 – 45,096 | 37,567 – 46,494 | 38,619 – 47,796 | 40,473 – 50,090 |
| 43,473 – 51,350 | 44,125 – 52,120 | 45,096 – 53,267 | 46,494 – 54,918 | 47,796 – 54,456 | 50,090 – 59,166 |
| \$51,350 and over | \$ 52,120 and over | \$53,267 and over | \$54,918 and over | \$54,456 and over | \$59,166 and over |

| 2001 | 2002 | 2003 | 2004 | 2005 ² | 2006 |
|-------------|-------------|-------------|-------------|--------------------------|-------------|
| 44,629,742 | 32,874,734 | 32,661,274 | 37,722,839 | 42,595,352 | 50,798,418 |
| 754,140,238 | 731,160,385 | 762,491,998 | 841,229,496 | 932,142,017 | 991,032,200 |
| 5.9% | 4.5% | 4.3% | 4.5% | 4.6% | 5.1% |

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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 Report.

Schedule of Ratios of Outstanding Debt by Type

For the Past Six Fiscal Years

(amounts in thousands, except per capita)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Governmental Activities | | | | |
| General obligation bonds | \$ 22,110,822 | \$ 26,757,371 | \$ 43,924,636 | \$ 45,541,417 |
| Revenue bonds | 784,015 | 3,752,040 | 8,101,855 | 8,068,980 |
| Certificates of participation and commercial paper | 540,092 | 1,856,702 | 849,360 | 752,013 |
| Capital lease obligations | 3,597,536 | 3,906,423 | 3,745,410 | 3,918,560 |
| Total governmental activities | <u>27,032,465</u> | <u>36,272,536</u> | <u>56,621,261</u> | <u>58,280,970</u> |
| Business-type activities | | | | |
| General obligation bonds | 3,221,310 | 2,809,275 | 2,215,800 | 2,090,105 |
| Revenue bonds | 8,900,472 | 21,557,908 | 22,239,016 | 22,943,536 |
| Certificates of participation and commercial paper | 3,937,426 | 101,528 | 97,179 | 51,093 |
| Total business-type activities | <u>16,059,208</u> | <u>24,468,711</u> | <u>24,551,995</u> | <u>25,084,734</u> |
| Total primary government | <u>\$ 43,091,673</u> | <u>\$ 60,741,247</u> | <u>\$ 81,173,256</u> | <u>\$ 83,365,704</u> |
| Debt as a percentage of personal income ¹ | 3.8% | 5.3% | 6.8% | 6.6% |
| Amount of debt per capita ² | \$ 1,239 | \$ 1,716 | \$ 2,255 | \$ 2,283 |

Note: Details regarding the State's outstanding debt can be found in Notes 10 through 16 of the financial statements.

¹ Ratio calculated using personal income data shown on pages 256 and 257 for the prior calendar year.

² Amount calculated using population data shown on pages 256 and 257 for the prior calendar year.

| 2006 | 2007 |
|----------------------|----------------------|
| \$ 47,003,817 | \$ 50,269,442 |
| 7,300,638 | 8,009,784 |
| 923,890 | 1,358,051 |
| 4,466,828 | 4,346,179 |
| 59,695,173 | 63,983,456 |
| 1,963,305 | 1,954,220 |
| 22,812,509 | 22,934,094 |
| 231,121 | 179,782 |
| 25,006,935 | 25,068,096 |
| \$ 84,702,108 | \$ 89,051,552 |

| | |
|----------|----------|
| 6.3% | 6.2% |
| \$ 2,290 | \$ 2,378 |

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Six Fiscal Years

(amounts in thousands, except per capita)

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Net general bonded debt | | | | |
| General obligation bonds | \$ 25,332,132 | \$ 29,566,646 | \$ 35,244,356 | \$ 36,735,442 |
| Economic Recovery bonds | — | — | 10,896,080 | 10,896,080 |
| Less: restricted debt | | | | |
| service fund | — | — | — | — |
| Net Economic Recovery bonds | — | — | 10,896,080 | 10,896,080 |
| Net general bonded debt | <u>\$ 25,332,132</u> | <u>\$ 29,566,646</u> | <u>\$ 46,140,436</u> | <u>\$ 47,631,522</u> |
| Net general bonded debt as | | | | |
| a percentage of personal income ¹ | 2.2% | 2.6% | 3.9% | 3.8% |
| Amount of net general bonded | | | | |
| debt per capita ² | \$ 728 | \$ 835 | \$ 1,282 | \$ 1,304 |

Note: Details regarding the State's general obligation bonds can be found in Note 15 of the financial statements.

¹ Ratio calculated using personal income data shown on pages 256 and 257 for the prior calendar year.

² Amount calculated using population data shown on pages 256 and 257 for the prior calendar year.

| <u>2006</u> | <u>2007</u> |
|----------------------|----------------------|
| \$ 39,034,092 | \$ 43,234,702 |
| 9,933,030 | 8,988,960 |
| 212,883 | 792,841 |
| 9,720,147 | 8,196,119 |
| \$ 48,754,239 | \$ 51,430,821 |

| | |
|------|------|
| 3.6% | 3.6% |
|------|------|

| | |
|----------|----------|
| \$ 1,318 | \$ 1,374 |
|----------|----------|

Schedule of General Obligation Bonds Outstanding

June 30, 2007

(amounts in thousands)

Governmental activity

| | |
|---|----------------------|
| California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection | \$ 785,250 |
| California Library Construction and Renovation | 185,410 |
| California Park and Recreational Facilities | 66,290 |
| California Parklands | 12,415 |
| California Safe Drinking Water | 120,815 |
| California Wildlife, Coastal, and Park Land Conservation | 291,745 |
| Children's Hospital | 154,900 |
| Class-size Reduction Public Education Facilities | 8,057,330 |
| Clean Air and Transportation Improvement | 1,179,620 |
| Clean Water | 51,665 |
| Clean Water and Water Conservation | 13,690 |
| Clean Water and Water Reclamation | 39,550 |
| Community Parklands | 23,240 |
| County Correctional Facility Capital Expenditure | 124,705 |
| County Correctional Facility Capital Expenditure and Youth Facility | 230,415 |
| County Jail Capital Expenditure | 23,050 |
| Earthquake Safety and Public Building Rehabilitation | 202,175 |
| Economic Recovery | 8,988,960 |
| Fish and Wildlife Habitat Enhancement | 15,665 |
| Higher Education Facilities | 992,710 |
| Housing and Emergency Shelter | 654,135 |
| Housing and Homeless | 5,095 |
| Kindergarten-University Public Education Facilities | 16,047,185 |
| Lake Tahoe Acquisitions | 12,775 |
| New Prison Construction | 534,715 |
| Passenger Rail and Clean Air | 428,415 |
| Public Education Facilities | 2,278,685 |
| Safe, Clean, Reliable Water Supply | 666,115 |
| Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection | 1,007,030 |
| Safe Neighborhood Parks | 1,411,730 |
| School Building and Earthquake | 25,315 |
| School Facilities | 2,764,072 |
| Seismic Retrofit | 1,574,955 |
| State School Building Lease-Purchase | 157,400 |
| State, Urban, and Coastal Park | 9,310 |
| Veterans' Homes | 3,080 |
| Voting Modernization | 27,910 |
| Water Conservation | 34,780 |
| Water Conservation and Water Quality | 56,210 |
| Water Security, Clean Drinking Water, Coastal and Beach Protection | 1,010,930 |
| Total governmental activity | 50,269,442 |
| Business-type activity | |
| California Water Resources Development | 634,750 |
| Veterans | 1,319,470 |
| Total business-type activity | 1,954,220 |
| Total general obligation bonds | \$ 52,223,662 |

Source: California State Treasurer's Office.

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years

(amounts in thousands)

| | June 30 | Gross Revenue ¹ | Operating Expenses ² | Net Revenue | Debt Service Requirements ³ | | | Coverage |
|-------------------------|---------|----------------------------|---------------------------------|----------------------------|--|----------|---------|----------|
| | | | | Available for Debt Service | Principal | Interest | Total | |
| Housing Loans | 1998 | 259,260 | 30,662 | 228,598 | 52,525 | 19,688 | 72,213 | 3.17 |
| | 1999 | 224,359 | 30,381 | 193,978 | 111,095 | 26,231 | 137,326 | 1.41 |
| | 2000 | 242,830 | 34,267 | 208,563 | 15,600 | 32,257 | 47,857 | 4.36 |
| | 2001 | 244,932 | 36,521 | 208,411 | 114,445 | 35,941 | 150,386 | 1.39 |
| | 2002 | 219,460 | 31,656 | 187,804 | 139,930 | 34,965 | 174,895 | 1.07 |
| | 2003 | 189,288 | 30,635 | 158,653 | 26,735 | 36,216 | 62,951 | 2.52 |
| | 2004 | 138,438 | 19,439 | 118,999 | 28,665 | 43,683 | 72,348 | 1.64 |
| | 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 |
| Water Resources | 1998 | 566,110 | 330,986 | 235,124 | 283,705 | 133,884 | 417,589 | 0.56 |
| | 1999 | 628,142 | 332,750 | 295,392 | 152,713 | 135,674 | 288,387 | 1.02 |
| | 2000 | 697,196 | 369,743 | 327,453 | 42,030 | 125,990 | 168,020 | 1.95 |
| | 2001 | 1,099,864 | 993,264 | 106,600 | 51,680 | 58,668 | 110,348 | 0.97 |
| | 2002 | 761,222 | 501,948 | 259,274 | 55,200 | 118,297 | 173,497 | 1.49 |
| | 2003 | 689,431 | 378,412 | 311,019 | 61,400 | 84,726 | 146,126 | 2.13 |
| | 2004 | 714,647 | 495,616 | 219,031 | 52,335 | 74,698 | 127,033 | 1.72 |
| | 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 |
| Water Pollution Control | 2003 | 54,201 | 5,032 | 49,169 | — | 9,830 | 9,830 | 5.00 |
| | 2004 | 51,687 | 4,059 | 47,628 | — | 10,923 | 10,923 | 4.36 |
| | 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 |

(continued)

Source: California State Controller's Office.

¹ Total gross revenues include 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 Building 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.

² Total operating expenses are exclusive of depreciation, interest expense, and amortization (recovery) of deferred charges. In addition, operating expenses of the governmental funds do not include capital outlay and debt service.

³ Debt service requirements include principal and interest of revenue bonds.

⁴ Data from 1999 through 2007 are reported under Public Buildings Construction, High Technology Education, and New Prison Construction.

⁵ In previous years, these were reported as Leasing of Public Assets.

⁶ All revenue bonds have been redeemed.

⁷ The only source of state revenue to pay these bonds is federal transportation funds, and the state obligation to pay debt service on these bonds is limited to and dependent upon receipt of the federal funds.

Schedule of Pledged Revenue Coverage (continued)

For the Past Ten Fiscal Years

(amounts in thousands)

| | June 30 | Gross Revenue ¹ | Operating Expenses ² | Net Revenue Available for Debt Service | Debt Service Requirements ³ | | | Coverage |
|--|---------|----------------------------|---------------------------------|--|--|----------|-----------|----------|
| | | | | | Principal | Interest | Total | |
| Electric Power | 2004 | 5,203,000 | 4,308,000 | 895,000 | 180,000 | 465,000 | 645,000 | 1.39 |
| | 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 |
| Leasing of Public Assets ⁴ | 1998 | 386,923 | 89,099 | 297,824 | 719,931 | 314,804 | 1,034,735 | 0.29 |
| Public Buildings Construction ⁵ | 1999 | 350,276 | 47,646 | 302,630 | 194,006 | 278,807 | 472,813 | 0.64 |
| | 2000 | 346,548 | 56,771 | 289,777 | 222,693 | 273,883 | 496,576 | 0.58 |
| | 2001 | 341,781 | 46,802 | 294,979 | 249,121 | 270,037 | 519,158 | 0.57 |
| | 2002 | 320,220 | 30,643 | 289,577 | 241,628 | 258,957 | 500,585 | 0.58 |
| | 2003 | 317,741 | 64,148 | 253,593 | 252,189 | 278,400 | 530,589 | 0.48 |
| | 2004 | 307,910 | 18,480 | 289,430 | 560,964 | 271,836 | 832,800 | 0.35 |
| | 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 |
| High Technology Education ⁵ | 1999 | 47,505 | 2,190 | 45,315 | 33,245 | 40,511 | 73,756 | 0.61 |
| | 2000 | 47,577 | 2,816 | 44,761 | 34,050 | 39,033 | 73,083 | 0.61 |
| | 2001 | 46,903 | 1,964 | 44,939 | 37,450 | 37,304 | 74,754 | 0.60 |
| | 2002 | 44,127 | 2,323 | 41,804 | 33,120 | 35,783 | 68,903 | 0.61 |
| | 2003 | 44,268 | 3,035 | 41,233 | 34,585 | 34,425 | 69,010 | 0.60 |
| | 2004 | 34,052 | 4,050 | 30,002 | 35,865 | 32,975 | 68,840 | 0.44 |
| | 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 |
| New Prison Construction ^{5,6} | 1999 | 3,521 | 2,831 | 690 | 9,550 | 2,140 | 11,690 | 0.06 |
| | 2000 | 2,546 | 983 | 1,563 | 10,340 | 1,308 | 11,648 | 0.13 |
| | 2001 | 1,377 | 1,791 | (414) | 11,205 | 396 | 11,601 | (0.04) |
| Toll Facilities ⁶ | 1998 | 188,103 | 31,805 | 156,298 | 50,405 | 1,053 | 51,458 | 3.04 |
| California State University | 1998 | 309,108 | 223,164 | 85,944 | 30,585 | 30,774 | 61,359 | 1.40 |
| | 1999 | 305,732 | 237,587 | 68,145 | 9,380 | 30,328 | 39,708 | 1.72 |
| | 2000 | 244,555 | 211,296 | 33,259 | 24,224 | 32,215 | 56,439 | 0.59 |
| | 2001 | 248,543 | 177,380 | 71,163 | 122,486 | 31,213 | 153,699 | 0.46 |
| | 2002 | 187,921 | 101,682 | 86,239 | 90,372 | 26,711 | 117,083 | 0.74 |
| | 2003 | 238,201 | 129,413 | 108,788 | 85,895 | 39,841 | 125,736 | 0.87 |
| | 2004 | 250,208 | 172,910 | 77,298 | 113,658 | 49,167 | 162,825 | 0.47 |
| | 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) |

| | June 30 | Gross Revenue ¹ | Operating Expenses ² | Net Revenue Available for Debt Service | Debt Service Requirements ³ | | | Coverage |
|--|---------|-------------------------------|------------------------------------|--|--|----------|---------|----------|
| | | | | | Principal | Interest | Total | |
| CSU Channel | 2003 | 5,844 | — | 5,844 | — | 4,058 | 4,058 | 1.44 |
| Island Financing Authority | 2004 | 5,449 | — | 5,449 | — | 4,205 | 4,205 | 1.30 |
| | 2005 | 8,149 | 10 | 8,139 | — | 5,541 | 5,541 | 1.47 |
| | 2006 | 8,377 | 11 | 8,366 | — | 6,123 | 6,123 | 1.37 |
| | 2007 | 7,397 | 8 | 7,389 | — | 6,951 | 6,951 | 1.06 |
| Building Authorities | 1998 | 38,288 | 15 | 38,273 | 19,026 | 18,886 | 37,912 | 1.01 |
| | 1999 | 76,634 | 96 | 76,538 | 19,834 | 35,936 | 55,770 | 1.37 |
| | 2000 | 172,770 | 23 | 172,747 | 32,482 | 49,581 | 82,063 | 2.11 |
| | 2001 | 61,166 | 316 | 60,850 | 35,917 | 45,762 | 81,679 | 0.74 |
| | 2002 | 86,474 | 123 | 86,351 | 37,646 | 43,748 | 81,394 | 1.06 |
| | 2003 | 84,391 | — | 84,391 | 39,065 | 43,040 | 82,105 | 1.03 |
| | 2004 | 82,823 | — | 82,823 | 40,600 | 40,403 | 81,003 | 1.02 |
| | 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 |
| Golden State Tobacco Securitization Corporation | 2003 | 4,947 | — | 4,947 | — | 59,369 | 59,369 | 0.08 |
| | 2004 | 427,159 | 367 | 426,792 | 60,427 | 298,708 | 359,135 | 1.19 |
| | 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 |
| Toll Bridge Seismic Retrofit ⁶ | 2004 | 139,366 | 119,141 | 20,225 | — | 28,615 | 28,615 | 0.71 |
| | 2005 | 131,791 | 97,386 | 34,405 | — | 28,615 | 28,615 | 1.20 |
| Grant Anticipation Revenue Vehicles ⁷ | 2004 | 13,150 | — | 13,150 | — | 13,150 | 13,150 | 1.00 |
| | 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 |

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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

| | 1997 | 1998 | 1999 | 2000 |
|--|--------------|--------------|--------------|--------------|
| Population (in thousands) | | | | |
| California ¹ | 32,452 | 32,862 | 33,417 | 34,099 |
| % Change | 1.5% | 1.3% | 1.7% | 2.0% |
| United States ² | 272,647 | 275,854 | 279,040 | 282,217 |
| % Change | 1.2% | 1.2% | 1.2% | 1.1% |
| Total personal income (in millions) | | | | |
| California ³ | \$ 860,545 | \$ 936,009 | \$ 999,228 | \$ 1,103,842 |
| % Change | 6.2% | 8.8% | 6.8% | 10.5% |
| United States ³ | \$ 6,907,332 | \$ 7,415,709 | \$ 7,796,137 | \$ 8,422,074 |
| % Change | 6.1% | 7.4% | 5.1% | 8.0% |
| Per capita personal income | | | | |
| California ⁴ | \$ 26,517 | \$ 28,483 | \$ 29,902 | \$ 32,372 |
| % Change | 4.6% | 7.4% | 5.0% | 8.3% |
| United States ⁴ | \$ 25,334 | \$ 26,883 | \$ 27,939 | \$ 29,843 |
| % Change | 4.8% | 6.1% | 3.9% | 6.8% |
| Labor force and employment (in thousands) | | | | |
| California | | | | |
| Civilian labor force ⁵ | 15,793 | 16,167 | 16,431 | 16,858 |
| Employed ⁵ | 14,781 | 15,204 | 15,567 | 16,024 |
| Unemployed ⁵ | 1,012 | 963 | 864 | 833 |
| Unemployment rate ⁵ | 6.4% | 6.0% | 5.3% | 4.9% |
| United States unemployment rate ⁶ | 4.9% | 4.5% | 4.2% | 4.0% |

¹ Source: Demographic Research Unit, California Department of Finance

² Source: Bureau of the Census, United States Department of Commerce

³ Source: Bureau of Economic Analysis, United States Department of Commerce

⁴ Calculated by dividing total personal income by population.

⁵ Source: Labor Market Information Division, California Employment Development Department

⁶ Source: Bureau of Labor Statistics, United States Department of Labor

⁷ 2002-2005 information updated.

| | <u>2001</u> | <u>2002⁷</u> | <u>2003⁷</u> | <u>2004⁷</u> | <u>2005⁷</u> | <u>2006</u> |
|----|-------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------|
| | 34,784 | 35,393 | 35,990 | 36,522 | 36,982 | 37,444 |
| | 2.0% | 1.8% | 1.7% | 1.5% | 1.3% | 1.2% |
| | 285,226 | 288,126 | 290,796 | 293,638 | 296,507 | 299,398 |
| | 1.1% | 1.0% | 0.9% | 1.0% | 1.0% | 1.0% |
| \$ | 1,135,304 | \$ 1,147,716 | \$ 1,187,040 | \$ 1,265,657 | \$ 1,347,943 | \$ 1,434,910 |
| | 2.9% | 1.1% | 3.4% | 6.6% | 6.5% | 6.5% |
| \$ | 8,716,992 | \$ 8,872,871 | \$ 9,150,320 | \$ 9,711,271 | \$ 10,284,378 | \$ 10,966,808 |
| | 3.5% | 1.8% | 3.1% | 6.1% | 5.9% | 6.6% |
| \$ | 32,639 | \$ 32,428 | \$ 32,982 | \$ 34,655 | \$ 36,449 | \$ 38,321 |
| | 0.8% | -0.6% | 1.7% | 5.1% | 5.2% | 5.1% |
| \$ | 30,562 | \$ 30,795 | \$ 31,466 | \$ 33,072 | \$ 34,685 | \$ 36,630 |
| | 2.4% | 0.8% | 2.2% | 5.1% | 4.9% | 5.6% |
| | 17,152 | 17,344 | 17,419 | 17,539 | 17,740 | 17,902 |
| | 16,220 | 16,181 | 16,227 | 16,445 | 16,782 | 17,029 |
| | 932 | 1,163 | 1,192 | 1,094 | 958 | 873 |
| | 5.4% | 6.7% | 6.8% | 6.2% | 5.4% | 4.9% |
| | 4.7% | 5.8% | 6.0% | 5.5% | 5.1% | 4.6% |

Schedule of Employment by Industry

For Calendar Years 1997 and 2006

| Industry | 1997 | | 2006 | |
|---|-------------------|--------------------------------------|-------------------|--------------------------------------|
| | Employees | Percentage of Total State Employment | Employees | Percentage of Total State Employment |
| Services | 4,839,800 | 35.8 % | 5,869,300 | 38.0 % |
| Government | | | | |
| Federal | 204,500 | 1.5 | 193,800 | 1.3 |
| Military | 80,100 | 0.6 | 53,800 | 0.3 |
| State and Local..... | 1,856,200 | 13.7 | 2,199,700 | 14.3 |
| Retail trade | 1,445,100 | 10.7 | 1,677,500 | 10.9 |
| Manufacturing | 1,841,700 | 13.6 | 1,504,500 | 9.7 |
| Information, finance, and insurance | 967,800 | 7.1 | 1,124,200 | 7.3 |
| Construction and utilities | 612,300 | 4.5 | 995,700 | 6.4 |
| Wholesale trade | 596,500 | 4.4 | 700,800 | 4.5 |
| Transportation and warehousing | 422,800 | 3.1 | 439,200 | 2.8 |
| Farming | 413,000 | 3.0 | 377,200 | 2.4 |
| Real estate | 246,100 | 1.8 | 289,300 | 1.9 |
| Natural resources and mining..... | 25,900 | 0.2 | 25,100 | 0.2 |
| Total | 13,551,800 | 100.0 % | 15,450,100 | 100.0 % |

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 | | Health and | | State and | Business | Correctional | Total |
|-------------------|------------|-----------|----------------|-----------|-------------------|--------------------|--------------|---------|
| | Government | Education | Human Services | Resources | Consumer Services | and Transportation | Programs | |
| 1998 | 27,225 | 93,891 | 29,493 | 17,999 | 13,124 | 37,147 | 45,672 | 264,551 |
| 1999 | 27,296 | 100,596 | 36,733 | 17,849 | 13,561 | 39,987 | 46,838 | 282,860 |
| 2000 ¹ | 22,713 | 106,971 | 43,860 | 18,732 | 14,112 | 42,327 | 47,361 | 296,076 |
| 2001 | 23,597 | 115,073 | 45,775 | 19,292 | 14,535 | 44,348 | 48,620 | 311,240 |
| 2002 | 22,007 | 122,078 | 48,749 | 20,575 | 14,927 | 45,145 | 48,796 | 322,277 |
| 2003 | 21,738 | 121,760 | 50,271 | 20,047 | 14,884 | 43,426 | 49,268 | 321,394 |
| 2004 | 20,661 | 122,040 | 49,868 | 19,343 | 15,039 | 41,448 | 48,461 | 316,860 |
| 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 |

Source: Annual Governor's Budget Summary, California Department of Finance

Note: The number of full-time equivalent employees is calculated by treating each person who works full time as one employee and those who work part time as fractional positions based on time worked.

¹ Beginning in fiscal year 1999-2000, employees for the State Compensation Insurance Fund moved from the general government classification to the health and human services classification.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

| | 1998 | 1999 | 2000 | 2001 |
|---|-----------|-----------|-----------|-----------|
| General Government | | | | |
| State Lottery | | | | |
| Total revenue ¹ | \$ 2,294 | \$ 2,498 | \$ 2,598 | \$ 2,894 |
| Allocation to Education Fund ¹ | \$ 804 | \$ 868 | \$ 907 | \$ 1,032 |
| Judicial Council of California | | | | |
| Supreme Court ² | | | | |
| Cases filed..... | 8,660 | 8,310 | 9,071 | 8,891 |
| Cases disposed..... | 8,235 | 8,608 | 8,880 | 9,047 |
| Courts of Appeal | | | | |
| Notices of appeal filed ³ | | | | |
| Civil | 8,256 | 7,866 | 7,473 | 6,843 |
| Criminal | 8,513 | 7,791 | 7,500 | 6,776 |
| Juvenile | 2,203 | 2,434 | 2,842 | 2,670 |
| Trial Courts | | | | |
| Total civil cases ^{4, 10} | | | | |
| Filings | 1,700,445 | 1,597,473 | 1,516,835 | 1,505,122 |
| Dispositions | 1,652,680 | 1,473,549 | 1,349,296 | 1,330,031 |
| Department of Food and Agriculture | | | | |
| Milk production--million lbs ⁵ | 27,620 | 30,444 | 32,245 | 33,217 |
| Acres of farm land ⁵ | 28,500 | 28,100 | 28,000 | 27,800 |
| Education | | | | |
| Public Colleges and Universities | | | | |
| Fall Enrollment ¹⁰ | | | | |
| Community Colleges..... | 1,331,758 | 1,400,954 | 1,585,238 | 1,686,896 |
| California State University..... | 349,804 | 359,179 | 367,363 | 387,311 |
| University of California..... | 173,643 | 178,410 | 183,355 | 191,903 |
| K-12 Schools | | | | |
| Fall Enrollment | | | | |
| Public..... | 5,727,303 | 5,844,111 | 5,951,612 | 6,050,895 |
| Private..... | 622,665 | 628,746 | 640,802 | 648,564 |

Sources: California Departments of Corrections and Rehabilitation, Finance, Fish and Game, Health Services, Motor Vehicles, Social Services, Transportation; California Energy Commission; California Highway Patrol; California State Lottery; Employment Development Department; Franchise Tax Board; Judicial Council of California; and the U.S. Department of Agriculture, National Agricultural Statistics Service

¹ Dollars in millions.

² Includes death penalty cases, habeas related to automatic appeals, petitions for review, original proceedings, and state bar matters.

³ Includes only one notice of appeal per case.

⁴ Includes personal injury, property damage, wrongful death, small claims, family law, probate, and other cases.

⁵ Data based on calendar year.

⁶ Total nonfarm and farm.

⁷ Items reported by license year as of December 31, 2007.

⁸ Data compiled from a 10% sample of California licensed drivers.

⁹ 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.

¹⁰ Some prior years were updated based on more current information.

N/A = not available

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|----|-------------|-------------|-------------|-------------|-------------|-------------|
| \$ | 2,896 | \$ 2,782 | \$ 2,974 | \$ 3,334 | \$ 3,585 | \$ 3,318 |
| \$ | 1,027 | \$ 977 | \$ 1,044 | \$ 1,149 | \$ 1,259 | \$ 1,177 |
| | 8,917 | 8,862 | 8,564 | 8,990 | 9,261 | N/A |
| | 8,802 | 8,652 | 8,565 | 8,535 | 9,878 | N/A |
| | 6,850 | 6,917 | 6,484 | 6,142 | 6,018 | N/A |
| | 6,361 | 6,493 | 6,625 | 6,312 | 6,516 | N/A |
| | 2,631 | 2,481 | 2,703 | 2,626 | 2,715 | N/A |
| | 1,571,351 | 1,550,157 | 1,504,237 | 1,426,696 | 1,418,490 | N/A |
| | 1,368,814 | 1,376,148 | 1,359,924 | 1,303,419 | 1,268,153 | N/A |
| | 35,065 | 35,437 | 36,465 | 37,564 | 38,830 | N/A |
| | 27,600 | 27,100 | 26,700 | 26,400 | 26,300 | N/A |
| | 1,746,602 | 1,634,340 | 1,583,543 | 1,606,858 | 1,637,767 | N/A |
| | 406,615 | 407,530 | 395,825 | 405,282 | 417,156 | N/A |
| | 201,297 | 208,391 | 207,909 | 209,080 | 214,298 | N/A |
| | 6,147,375 | 6,244,403 | 6,299,015 | 6,322,217 | 6,312,103 | 6,286,943 |
| | 635,719 | 611,350 | 599,605 | 591,056 | 594,597 | 583,794 |

(continued)

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

| | 1998 | 1999 | 2000 | 2001 |
|---|------------|------------|------------|------------|
| Health and Human Services | | | | |
| Department of Health Services | | | | |
| Vital Statistics | | | | |
| Live Births ⁵ | 521,265 | 518,073 | 531,285 | 527,371 |
| Department of Social Services | | | | |
| Total Food Stamp Households (avg per month) ¹⁰ | 918,045 | 795,222 | 716,177 | 663,395 |
| Employment Development Department | | | | |
| Total Payroll employment ^{1, 5, 6, 10} | 14,302,700 | 14,721,000 | 15,205,400 | 14,919,400 |
| Resources | | | | |
| Department of Fish and Game | | | | |
| Sport fishing licenses sold ^{7, 10} | 3,035,468 | 3,142,705 | 3,178,869 | 3,141,393 |
| Hunting licenses sold ^{7, 10} | 1,336,656 | 1,430,638 | 1,530,590 | 1,553,817 |
| California Energy Commission | | | | |
| Electrical energy generation (million kilowatt-hours) ¹⁰ | 276,412 | 275,803 | 280,496 | 265,059 |
| State and Consumer Services | | | | |
| Franchise Tax Board | | | | |
| Personal Income Tax ⁵ | | | | |
| Number of tax returns filed..... | 12,796,604 | 13,126,133 | 13,440,952 | 13,602,180 |
| Taxable Income ¹ | \$ 522,563 | \$ 609,167 | \$ 706,586 | \$ 621,512 |
| Total Tax Liability ¹ | \$ 26,204 | \$ 33,106 | \$ 40,370 | \$ 31,284 |
| Corporation Tax ⁵ | | | | |
| Number of returns..... | 460,567 | 481,036 | 497,844 | 520,056 |
| Income reported for taxation ¹ | \$ 50,521 | \$ 45,319 | \$ 33,860 | \$ 17,560 |
| Total Tax Liability ¹ | \$ 5,023 | \$ 5,305 | \$ 5,913 | \$ 5,122 |
| Business and Transportation | | | | |
| Department of Motor Vehicles | | | | |
| Motor vehicle registration ⁴ | 27,534,424 | 28,221,022 | 22,616,580 | 30,163,179 |
| License issued by age ^{5,8} | | | | |
| Under age 18..... | 312,585 | 268,542 | 266,807 | 278,440 |
| Between 18-80..... | 20,089,055 | 20,389,653 | 20,756,909 | 21,288,657 |
| Over age 80..... | 342,632 | 376,495 | 380,393 | 410,630 |
| California Highway Patrol | | | | |
| Total number of DUI arrests ⁵ | 89,079 | 86,357 | 81,383 | 80,312 |
| Department of Transportation | | | | |
| Highway center-line miles—rural ^{5,9} | 11,400 | 11,399 | 11,385 | 11,421 |
| Highway center-line miles—urban ^{5,9} | 3,806 | 3,807 | 3,795 | 3,780 |
| Correctional Programs | | | | |
| Department of Corrections and Rehabilitation | | | | |
| Division of Adult Institutions | | | | |
| Institution population at December 31 each year..... | 157,187 | 158,519 | 158,450 | 155,365 |
| Division of Juvenile Justice | | | | |
| Institution population at June 30 each year..... | 8,297 | 7,761 | 7,482 | 6,942 |

| <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 529,245 | 540,827 | 544,685 | 548,700 | N/A | N/A |
| 678,293 | 682,201 | 722,516 | 792,614 | 808,834 | N/A |
| 14,915,900 | 14,852,600 | 15,091,100 | 15,436,600 | 15,667,800 | 15,746,900 |
| 3,105,505 | 2,978,215 | 2,945,707 | 2,886,566 | 2,941,094 | 2,380,925 |
| 1,491,975 | 1,520,291 | 1,546,793 | 1,574,574 | 1,603,510 | 1,584,245 |
| 272,509 | 276,969 | 289,359 | 287,977 | 295,268 | N/A |
| 13,575,583 | 13,624,349 | 13,832,810 | 14,087,896 | N/A | N/A |
| \$ 601,713 | \$ 619,166 | \$ 695,075 | \$ 767,877 | N/A | N/A |
| \$ 28,568 | \$ 30,374 | \$ 36,093 | \$ 43,131 | N/A | N/A |
| 550,853 | 589,310 | 616,805 | 651,059 | N/A | N/A |
| \$ 29,686 | \$ 50,819 | \$ 82,328 | \$ 115,372 | N/A | N/A |
| \$ 5,601 | \$ 6,227 | \$ 7,123 | \$ 8,671 | N/A | N/A |
| 30,875,085 | 31,017,017 | 33,289,925 | 33,363,963 | 33,882,029 | N/A |
| 288,444 | 283,258 | 287,800 | 277,168 | 268,199 | N/A |
| 21,848,657 | 21,937,723 | 22,073,101 | 22,155,604 | 22,450,786 | N/A |
| 468,709 | 466,105 | 482,340 | 494,577 | 518,102 | N/A |
| 82,375 | 87,496 | 94,023 | 89,946 | 94,251 | N/A |
| 11,439 | 11,414 | 11,380 | 11,090 | 10,821 | N/A |
| 3,843 | 3,811 | 3,829 | 4,123 | 4,422 | N/A |
| 158,099 | 160,362 | 162,687 | 166,723 | 171,310 | 170,452 |
| 5,954 | 5,024 | 4,067 | 3,348 | 2,962 | 2,531 |

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Six Fiscal Years

| | 2002 ¹ | 2003 ² | 2004 ³ | 2005 |
|---|-------------------|-------------------|-------------------|--------|
| General Government | | | | |
| Department of Food and Agriculture | | | | |
| Vehicles | 786 | 941 | 929 | 903 |
| Square footage of structures (in thousands)..... | N/A | 1,539 | 1,526 | 1,526 |
| Department of Justice | | | | |
| Vehicles | 999 | 1,012 | 967 | 969 |
| Department of Military | | | | |
| Vehicles | 173 | 173 | 155 | 152 |
| Square footage of structures (in thousands)..... | N/A | 5,091 | 5,218 | 3,348 |
| Department of Veterans Affairs | | | | |
| Veterans homes..... | 3 | 3 | 3 | 3 |
| Vehicles | 180 | 157 | 157 | 139 |
| Square footage of structures (in thousands)..... | N/A | 1,141 | 1,598 | 1,598 |
| Education | | | | |
| California State University | | | | |
| Vehicles ⁴ | N/A | N/A | N/A | N/A |
| Campuses | 23 | 23 | 23 | 23 |
| Square footage of structures (in thousands) | NA | 50,476 | 58,983 | 59,588 |
| Health and Human Services | | | | |
| Department of Developmental Services | | | | |
| Vehicles | 771 | 886 | 900 | 836 |
| Developmental centers | 7 | 7 | 7 | 7 |
| Square footage of structures (in thousands) | N/A | 5,914 | 5,160 | 5,185 |
| Department of Mental Health | | | | |
| Vehicles | 421 | 425 | 438 | 439 |
| State hospitals | 4 | 4 | 4 | 4 |
| Square footage of structures (in thousands) | N/A | 4,527 | 4,628 | 4,626 |

Sources: Capital asset information is reported primarily by the California Department of General Services with some information from the California Departments of Corrections and Rehabilitation, Mental Health, Parks and Recreation, and the California State University.

¹ The California Department of General Services was not able to produce records for the square footage of structures for fiscal year 2002.

² For fiscal year 2003, the square footage of structures information is from February 2003 because June 2003 information is not available.

³ For fiscal year 2004, the square footage of structures information is from November 2004 because June 2004 information is not available.

⁴ Prior to fiscal year 2006, the California Department of General Services did not require the California State University to report its vehicles. For 2006, more campuses reported vehicle information.

⁵ For fiscal year 2006, the vehicles reported by the Department of Corrections and Rehabilitation did not include leased vehicles.

⁶ For fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.

N/A = not available

| <u>2006</u> | <u>2007</u> |
|-------------|-------------|
| 907 | 915 |
| 1,512 | 1,511 |
| 968 | 966 |
| 210 | 182 |
| 3,388 | 3,388 |
| 3 | 3 |
| 111 | 248 |
| 1,598 | 1,598 |
| 601 | 3,343 |
| 23 | 23 |
| 59,921 | 62,198 |
| 655 | 829 |
| 7 | 7 |
| 5,181 | 5,181 |
| 655 | 669 |
| 5 | 5 |
| 4,673 | 6,359 |

(continued)

Schedule of Capital Asset Statistics by Function (continued)

For the Past Six Fiscal Years

| | 2002 ¹ | 2003 ² | 2004 ³ | 2005 |
|---|-------------------|-------------------|-------------------|--------|
| Resources | | | | |
| Department of Fish and Game | | | | |
| Vehicles | 3,005 | 2,754 | 2,754 | 3,157 |
| Square footage of structures (in thousands) | N/A | 1,108 | 1,108 | 1,108 |
| Department of Forestry and Fire | | | | |
| Vehicles | 3,054 | 3,071 | 3,079 | 3,016 |
| Square footage of structures (in thousands) | N/A | 3,656 | 3,892 | 3,892 |
| Department of Parks and Recreation | | | | |
| Vehicles | 3,753 | 2,467 | 2,709 | 3,044 |
| State Parks | 266 | 273 | 277 | 278 |
| Acres of state park land (in thousands) | 1,433 | 1,461 | 1,488 | 1,506 |
| Square footage of structures (in thousands) | N/A | 6,732 | 6,510 | 6,348 |
| State Lands Commission | | | | |
| Vehicles | 58 | 56 | 56 | 56 |
| Acres of land (in thousands) | N/A | 4,608 | 4,498 | 4,498 |
| State and Consumer Services | | | | |
| Department of Consumer Affairs | | | | |
| Vehicles | 1,257 | 762 | 646 | 628 |
| Department of General Services | | | | |
| Vehicles | 6,087 | 7,451 | 6,895 | 6,883 |
| Square footage of structures (in thousands) | N/A | 14,812 | 15,981 | 15,995 |
| Business and Transportation | | | | |
| California Highway Patrol | | | | |
| Vehicles | 3,930 | 4,373 | 3,933 | 3,930 |
| Square footage of structures (in thousands) | N/A | 1,034 | 1,146 | 1,147 |
| Department of Motor Vehicles | | | | |
| Vehicles | 434 | 434 | 395 | 395 |
| Square footage of structures (in thousands) | N/A | 1,853 | 1,853 | 1,853 |
| Department of Transportation | | | | |
| Vehicles | 11,152 | 11,057 | 11,039 | 10,856 |
| Square footage of structures (in thousands) | N/A | 5,723 | 6,274 | 6,284 |
| Correctional Programs | | | | |
| Department of Corrections and Rehabilitation | | | | |
| Vehicles ⁵ | 6,795 | 7,221 | 7,189 | 7,006 |
| Prisons and juvenile facilities ⁶ | 32 | 32 | 32 | 32 |
| Square footage of structures (in thousands) | NA | 39,591 | 40,483 | 40,472 |

| <u>2006</u> | <u>2007</u> |
|-------------|-------------|
| 3,182 | 3,311 |
| 1,112 | 1,120 |
| 2,572 | 2,945 |
| 3,885 | 3,883 |
| 2,742 | 2,988 |
| 278 | 276 |
| 1,552 | 1,235 |
| 6,350 | 6,350 |
| 49 | 51 |
| 4,496 | 4,492 |
| 1,050 | 640 |
| 6,894 | 7,330 |
| 17,350 | 18,084 |
| 4,105 | 4,655 |
| 1,087 | 1,110 |
| 373 | 458 |
| 1,827 | 1,866 |
| 11,048 | 11,130 |
| 6,632 | 6,618 |
| 4,356 | 6,657 |
| 32 | 41 |
| 40,622 | 40,777 |

(concluded)

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