State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008



Controller *John Chiang*California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2008



Prepared by
The Office of the State Controller

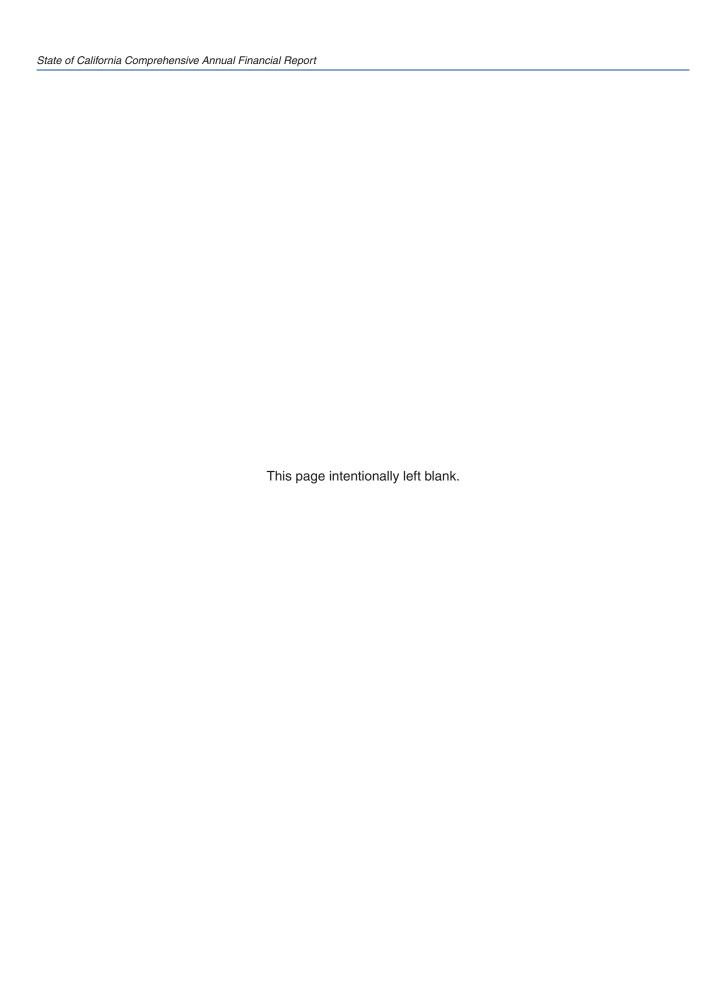
JOHN CHIANG
California State Controller

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Introductory Section



JOHN CHIANG
California State Controller



JOHN CHIANG California State Controller

March 24, 2009

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, 2008. 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 State of California is confronting serious fiscal challenges, similar to those faced by the rest of the nation—a deepening housing slump, a breakdown in mortgages, tighter credit markets, more volatile investments, rising energy prices, and reduced consumer spending. California's tax structure relies heavily on personal income taxes, corporation taxes, and sales and use taxes. For the 2007-08 fiscal year, these three taxes represented 94% of General Fund revenues. This dependency leaves the State budget especially vulnerable to erosions in personal income, capital gains, dividends, and sales resulting from the weakened economy.

California historically has engaged in budgeting for the short-term without sufficient regard for long-term consequences, repeatedly relying on short-term solutions that do not adequately address on-going commitments to schools, social programs, and other citizen services. Today we are left without enough cash in the State's bank account to pay all of our bills, paralyzing public works projects and making California the worst credit-rated state in the nation.

A recent 17-month budget agreement between the Governor and the Legislature, reached after three months of negotiations, is a long overdue step that does not immediately fill our treasury, but does include spending reductions, revenue increases, new borrowing, and an economic stimulus component. It also relies on three ballot measures that will require voter approval in May 2009. Because of the delay in reaching a budget agreement, it was necessary for the State Controller's Office to implement a payment deferral plan to preserve cash for education, debt service, and other payments required by the State Constitution, federal law, and court rulings. I am pleased that the delayed payments are now being released.

Even as the State grapples with a decline in revenues and higher expenditures during difficult economic times, it is important for lawmakers to begin crafting a long-range plan to meet the future obligation for retired state employees' health and dental benefits. A new actuarial report shows that California faces a \$48.2 billion future obligation for these benefits. By now setting aside additional dollars that can be invested in the future, we can grow new funds, in a responsible and fiscally prudent manner, to pay for the health benefits we have promised our retirees.

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 \$527 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 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

The current negative economic climate dominates the headlines across California and the nation. The initial weakening in the State's economy was due primarily to problems in the housing market—declining home prices and sales numbers and a slowing of residential construction—but the problems soon spread to the rest of the economy. Mortgage defaults and foreclosures led to a broader financial crisis. The drop in net wealth due to declining home prices and the plummet of stock prices in the financial markets are taking a toll on consumer spending. Corporate profits also are suffering and business spending is declining.

As we enter 2009, the troubles do not appear to be easing, as the weakened economy has created severe budget problems for California. With greater numbers of people out of work and losing their homes, major revenue sources for the state, such as personal income tax and sales and use taxes, have been negatively impacted. Economists forecast that the California unemployment rate, already at 10.1% in January 2009, will continue to rise through 2009. Home prices will continue to fall throughout the next two years and likely into 2011. Economists expect that, as in the third and fourth quarters of 2008, the Gross Domestic Product will contract in the first three quarters of 2009.

Budget Outlook

2008-09 Fiscal Year

The 2008 Budget Act was enacted on September 23, 2008, and authorized total spending of \$144.5 billion: \$103.4 billion from the General Fund, \$28.2 billion from special funds, and \$12.9 billion from bond funds. Total General Fund resources in this budget were projected to be \$106.0 billion, and a year-end reserve for economic uncertainty of \$1.7 billion was projected. Due to negative developments in worldwide and national financial markets and the continued weakening of California's economy, by December 2008 revenues were so far under expectations that it was estimated that the General Fund would have a \$14.8 billion deficit for the 2008-09 fiscal year.

In light of the situation's urgency, the Governor called a special session of the Legislature and proposed a variety of spending reductions and revenue increases to bring spending closer in line with available revenues. On February 20, 2009, an unprecedented 17-month budget package covering the remainder of the 2008-09 fiscal year and the 2009-10 fiscal year was enacted. This budget package contains \$11.4 billion in solutions for the 2008-09 fiscal year that include: \$6.7 billion in expenditure reductions, mainly in K-12 education; \$2.8 billion in federal funds from the recent economic stimulus law; \$1.5 billion in revenue from increased rates of sales and use tax and the vehicle license fee; and \$268 million from internal borrowing. Even with these solutions, it is expected that the General Fund will end the 2008-09 fiscal year with a \$2.3 billion deficit.

2009-10 Fiscal Year

The 17-month budget package enacted on February 20, 2009, provides the fiscal blueprint to solve the \$41.6 billion budget shortfall that was predicted in the 2009-10 Governor's proposed budget released on January 9, 2009. This enacted budget projects total General Fund revenue of \$97.7 billion and expenditures of \$92.2 billion. The difference of \$5.5 billion between revenues and expenditures is being used to cover the anticipated year-end deficit of \$2.3 billion in the 2008-09 fiscal year and to build up reserve accounts of \$3.2 billion. This budget package includes more than \$30.2 billion in solutions for the 2009-10 fiscal

year—\$9.0 billion in expenditure reductions, \$11.0 billion in revenue from temporary tax increases, \$5.2 billion in federal stimulus revenue, and \$5.1 billion in borrowing against future Lottery profits and internal sources. As part of the budget package, several statewide propositions will be placed on the May 2009 ballot that require voter approval to execute the budget's provisions. The 2009-10 budget depends on access to about \$6 billion related to three propositions on that ballot—\$5 billion from borrowing from future Lottery profits (Proposition 1C), up to \$608 million from redirecting dedicated childhood development funds (Proposition 1D), and about \$230 million from redirecting dedicated mental health funds (Proposition 1E). If the voters reject these measures, the 2009-10 budget will not be in balance under current revenue projections. The Governor and the Legislature would need to agree to billions of dollars of additional spending cuts, tax increases, or other budgetary solutions to bring the budget back into balance.

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, 2007. 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 also am 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, 2007

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.

UNITED STATES

UNITED STATES

UNITED STATES

UNITED STATES

CAMPAGA

CAMPAG

President

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 Chu, Member, Fourth District

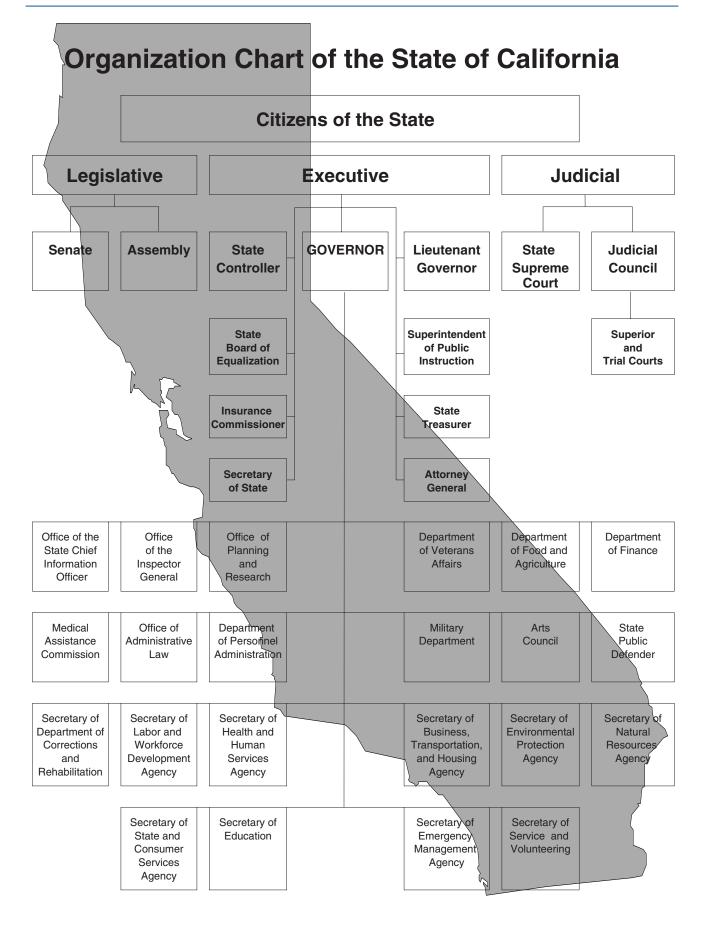
Legislative Branch

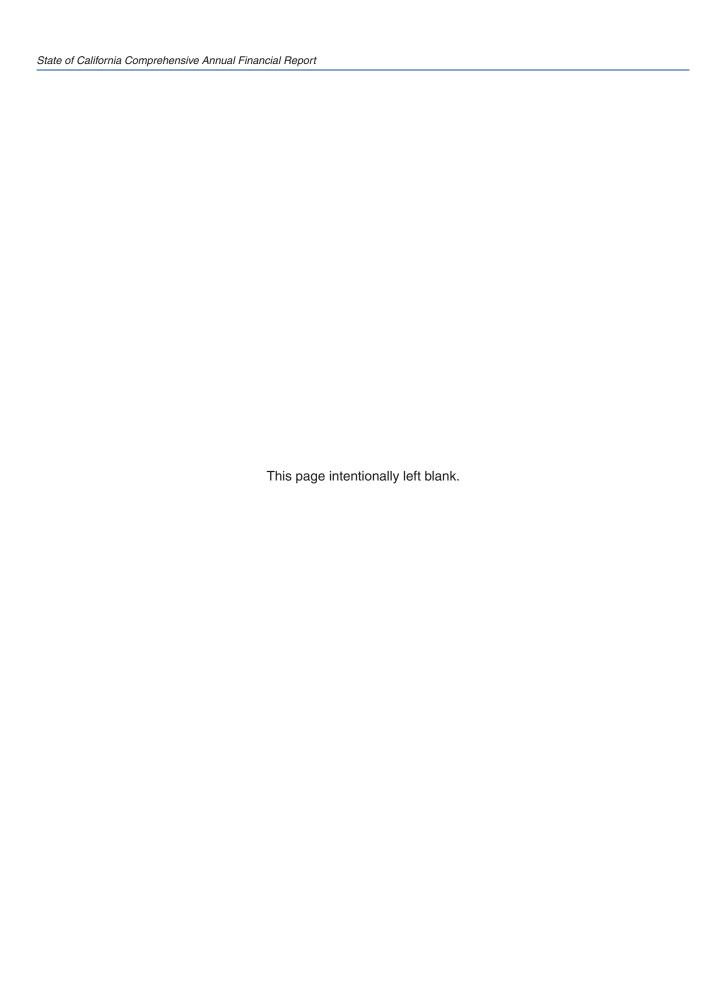
Darrell Steinberg
President pro Tempore, Senate

Karen Bass Speaker of the Assembly

Judicial Branch

Ronald M. George Chief Justice, State Supreme Court





Financial Section



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Elaine M. Howle State Auditor

Doug Cordiner Chief Deputy

CALIFORNIA STATE AUDITOR

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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, 2008, 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 86 percent, 53 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 90 percent, 81 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 91 percent, 93 percent, and 12 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, 2008, 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.

John 7. Collini TI

JOHN F. COLLINS II, CPA

Deputy State Auditor

February 25, 2009

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, 2008. 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 weakening of the State's economy had a significant impact on state revenues in the 2007-08 fiscal year. General revenues rose by only 1.0%, the smallest increase since 2001, primarily in personal income, corporate, and sales tax revenues. However, expenses for the State's governmental activities grew by 8.2%—one of the highest rates of growth since 2001—resulting in a decrease in governmental activities' net assets. Total expenses for the State's business-type activities also exceeded revenues for the year, primarily because unemployment benefits exceeded employers' contributions. The net assets for the 2007-08 fiscal year for both governmental and business-type activities decreased by 25.3% from last year.

Net Assets — The primary government's net assets as of June 30, 2008, were \$35.0 billion. After the total net assets are reduced by \$84.3 billion for investment in capital assets (net of related debt) and by \$17.0 billion for restricted net assets, the resulting unrestricted net assets totaled a negative \$66.3 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Almost two-thirds of the negative \$66.3 billion consists of \$40.1 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 \$11.9 billion (25.3%) during the year ended June 30, 2008. Net assets of governmental activities decreased by \$10.3 billion (29.2%), while net assets of business-type activities decreased by \$1.6 billion (13.6%).

Fund Highlights

Governmental Funds — As of June 30, 2008, the primary government's governmental funds reported a combined ending fund balance of \$12.7 billion, a decrease of \$5.3 billion from the previous fiscal year. After the total fund balance is reduced by \$21.6 billion in reserves, the unreserved fund balance totaled a negative \$8.9 billion.

Proprietary Funds — As of June 30, 2008, the primary government's proprietary funds reported combined ending net assets of \$10.3 billion, a decrease of \$1.5 billion from the previous fiscal year. After the total net assets are reduced by \$218 million for investment in capital assets (net of related debt) and expendable restrictions of \$6.9 billion, the unrestricted net assets totaled \$3.2 billion.

Noncurrent Assets and Liabilities

As of June 30, 2008, the primary government's noncurrent assets totaled \$127.7 billion, of which \$102.2 billion is related to capital assets. State highway infrastructure assets of \$58.5 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled \$107.1 billion, which consists of \$55.5 billion in general obligation bonds, \$29.6 billion in revenue bonds, and \$22.0 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 94250-5872.

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

Required Supplementary Information

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

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased 25.3%, from \$46.8 billion as restated at June 30, 2007, to \$35.0 billion a year later.

The primary government's \$84.3 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 \$17.0 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, 2008, governmental activities showed an unrestricted net assets deficit of \$69.3 billion and business-type activities showed unrestricted net assets of \$3.0 billion.

A large portion of the negative unrestricted net assets of governmental activities comprises \$40.1 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.

Net Assets – Primary Government
June 30, 2007 and 2008

(amounts in millions)

	G	Governmental Activities				Business-type Activities			Total									
		2008		2007*		2008 2007* 2008		2008		2007*		2008		2008		2007*		
ASSETS																		
Current and other assets	\$	48,376	\$	51,048	\$	32,207	\$	34,234	\$	80,583	\$	85,282						
Capital assets		95,360		91,818		6,841		6,267		102,201	_	98,085						
Total assets		143,736		142,866		39,048		40,501		182,784	_	183,367						
LIABILITIES																		
Noncurrent liabilities		81,475		72,970		25,642		25,849		107,117		98,819						
Other liabilities		37,204		34,519		3,494		3,438		40,698	_	37,957						
Total liabilities		118,679		107,489		29,136		29,287		147,815	_	136,776						
NET ASSETS																		
Investment in capital assets																		
net of related debt		84,255		81,353		50		208		84,305		81,561						
Restricted		10,149		10,543		6,853		8,575		17,002		19,118						
Unrestricted		(69,347)		(56,519)		3,009		2,431		(66,338)		(54,088)						
Total net assets	\$	25,057	\$	35,377	\$	9,912	\$_	11,214	\$_	34,969	\$	46,591						
* Not restated																		

Changes in Net Assets

The expenses of the primary government totaled \$209.4 billion for the year ended June 30, 2008. Of this amount, \$87.4 billion (41.7%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving \$122.0 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of \$110.1 billion were less than the unfunded expenses. As a result, the total net assets decreased by \$11.9 billion, or 25.3%.

Of the total decrease, net assets for governmental activities decreased by \$10.3 billion, while those for business-type activities decreased by \$1.6 billion. The decrease in governmental activities is primarily due to increased spending for health and human services, education, 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, 2007 and 2008
(amounts in millions)

	Government	tal Activities	Business-ty	pe Activities	Total			
	2008	2007	2008	2007	2008	2007		
REVENUES								
Program revenues:								
Charges for services	\$ 20,296	\$ 18,822	\$ 19,828	\$ 20,614	\$ 40,124	\$ 39,436		
Operating grants and contributions	45,850	43,440	_	_	45,850	43,440		
Capital grants and contributions	1,207	1,165	189	183	1,396	1,348		
General revenues:								
Taxes	109,205	108,016	_	_	109,205	108,016		
Investment and interest	639	730	_	_	639	730		
Miscellaneous	282	334			282	334		
Total revenues	177,479	172,507	20,017	20,797	197,496	193,304		
EXPENSES								
Program expenses:								
General government	12,230	13,314	_	_	12,230	13,314		
Education	65,130	61,542	_	_	65,130	61,542		
Health and human services	74,310	69,980	_	_	74,310	69,980		
Resources	6,333	5,317	_	_	6,333	5,317		
State and consumer services	1,129	1,215	_	_	1,129	1,215		
Business and transportation	13,068	9,763	_	_	13,068	9,763		
Correctional programs	10,504	8,945	_	_	10,504	8,945		
Tax relief	957	948	_	_	957	948		
Interest on long-term debt	4,185	2,596	_	_	4,185	2,596		
Electric Power	_	_	5,362	5,865	5,362	5,865		
Water Resources	_	_	1,009	952	1,009	952		
Public Building Construction	_	_	372	335	372	335		
State Lottery	_	_	3,173	3,471	3,173	3,471		
Unemployment Programs	_	_	10,623	9,136	10,623	9,136		
Nonmajor enterprise			984	1,148	984	1,148		
Total expenses	187,846	173,620	21,523	20,907	209,369	194,527		
Excess (deficiency) before transfers	(10,367)	(1,113)	(1,506)	(110)	(11,873)	(1,223)		
Transfers	55	30	(55)	(30)				
Change in net assets	(10,312)	(1,083)	(1,561)	(140)	(11,873)	(1,223)		
Net assets, beginning of year (restated) \dots	35,369	36,460	11,473	11,354	46,842	47,814		
Net assets, end of year	\$ 25,057	\$ 35,377	\$ 9,912	\$ 11,214	\$ 34,969	\$ 46,591		

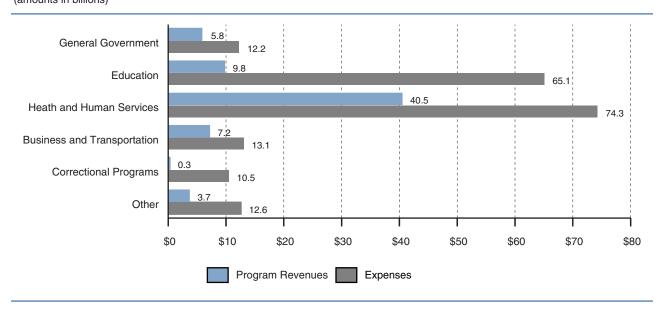
Governmental Activities

Governmental activities expenses totaled \$187.8 billion. Program revenues, including \$47.0 billion received in federal grants, funded \$67.3 billion (35.8%) of that amount, leaving \$120.5 billion to be funded with general revenues (mainly taxes). However, general revenues and transfers for governmental activities totaled only \$110.2 billion, so governmental activities' total net assets decreased by \$10.3 billion, or 29.2%, during the year ended June 30, 2008. 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

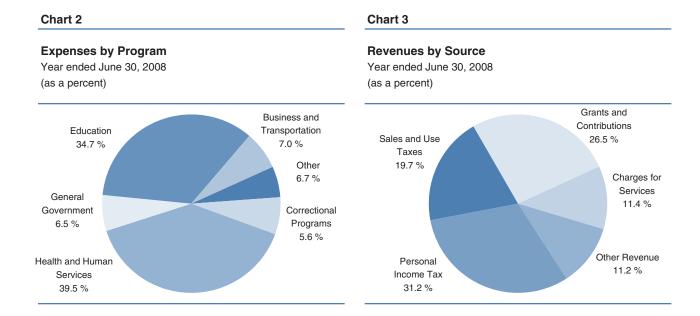
Expenses and Program Revenues – Governmental Activities Year Ended June 30, 2008 (amounts in billions)



For the year ended June 30, 2008, total state tax revenues collected for governmental activities increased by only 1.1% over the prior year, resulting in the weakest growth rate since the recession of 2001. Personal income and insurance taxes increased, but were offset by decreases in sales and use, corporation, and other taxes. The largest increase occurred in personal income taxes.

Overall expenses for governmental activities increased by \$14.2 billion (8.2%) over the prior year. The largest increases in expenses were a \$4.3 billion increase in health and human services spending, a \$3.6 billion increase in education spending, and a \$3.3 billion increase in business and transportation spending. The increase in health and human services spending was mainly due to increased services provided by the Medical Assistance program and other public health programs, most of which are funded through federal grants. The increase in education spending was primarily due to cost of living adjustments, increased funding for child care, and increased funding for enrollment growth in higher education. The increase in business and transportation expenses was the result of increased capital outlay and local assistance spending for transportation projects funded from bonds authorized by Proposition 1B, passed by voters in November 2006.

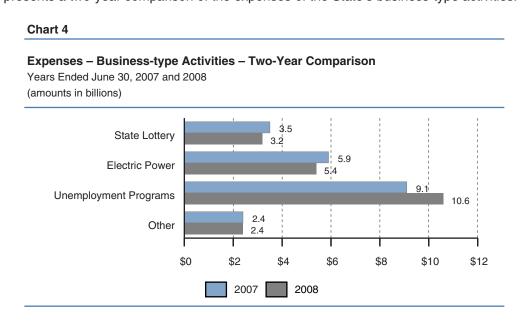
Charts 2 and 3 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.



Business-type Activities

Business-type activities expenses and transfers totaled \$21.6 billion. The program revenues of \$20.0 billion, primarily generated from charges for services, were not sufficient to cover these expenses. Consequently, business-type activities' total net assets decreased by \$1.6 billion, or 13.6%, during the year ended June 30, 2008. Most of the decrease was due to a \$1.8 billion 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.



Fund Financial Analysis

The State's weakening economy had the greatest effect on 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, it was the lowest increase the State has experienced since 2001. The expenditures of the governmental funds increased at a much higher rate than revenues. Most of the proprietary funds had revenues that exceeded their expenses for the year ended June 30, 2008. However, the total net assets of proprietary funds decreased because the Unemployment Programs Fund incurred a higher increase in benefit payments caused by California's rising unemployment.

Governmental Funds

The governmental funds' Balance Sheet reported \$52.0 billion in assets, \$39.3 billion in liabilities, and \$12.7 billion in fund balance as of June 30, 2008. The largest change in account balances was a \$5.2 billion decrease in cash and pooled investments. The State's budget shortfall, weakening revenues, increasing expenditures, and limited access to the credit markets caused it to significantly deplete its cash reserves. Within the total fund balance, \$21.6 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 (\$7.6 billion), noncurrent interfund receivables and loans receivable (\$5.0 billion), continuing appropriations (\$8.1 billion), and debt service (\$899 million). The unreserved balance of the governmental funds is a negative \$8.9 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows \$177.3 billion in revenues, \$197.4 billion in expenditures, and a net \$14.8 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2008, was \$12.7 billion, a \$5.3 billion decrease over the previous year's restated ending fund balance of \$18.0 billion. Personal income taxes, which account for 50.6% of tax revenues and 31.1% of total governmental fund revenues, increased by \$1.9 billion over the previous fiscal year. The slowing of California's economy and the housing market downturn have taken a toll on real estate-related profits and capital gains. Payroll withholding provided most of the increase in personal income tax revenue; but with the loss of more than 22,000 jobs in the second quarter of 2008 and declining investment and capital gain revenues, this increase was significantly smaller than increases in the previous four years and the smallest increase since the recession of 2001. Sales and use taxes, which account for 31.9% of tax revenues and 19.6% of total governmental fund revenues, decreased by \$687 million. The State's taxable sales have been negatively impacted by the decline in California's real estate market and its effect on sales of building materials, home furnishings, and related household items. Higher gasoline prices had a negative impact on consumer spending on vehicles.

The State's major governmental funds are the General Fund, the Federal Fund, and the Transportation Fund. The General Fund ended the fiscal year with a fund deficit of \$4.2 billion. The Federal Fund and the Transportation Fund ended the fiscal year with fund balances of \$43 million and \$5.4 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of \$11.4 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 \$14.2 billion, liabilities of \$18.4 billion, and fund balance reserves of \$2.1 billion, leaving the General Fund with an unreserved fund deficit of \$6.3 billion. The largest change in asset accounts was in cash and pooled investments, which decreased from \$6.0 billion to \$1.8 billion; cash reserves were used for current-year expenditures, as revenue collections were so far below expectations.

The largest change in liability account balances was a decrease in interfund payables (from \$3.4 billion to \$2.2 billion). The decrease in interfund payables is attributable to a change in accounting for the liability for unclaimed property. Rather than reporting the liability as an interfund payable to the Unclaimed Property Fund, the General Fund is now reporting this liability to the depositors in the unclaimed property liability account.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had \$97.8 billion in revenues, \$99.0 billion in expenditures, and a net \$1.1 billion disbursement from other financing sources (uses) for the year ended June 30, 2008. The largest source of General Fund revenue was \$94.7 billion in taxes, comprised primarily of personal income taxes (\$54.2 billion) and sales and use taxes (\$26.6 billion).

Total General Fund tax revenues increased by \$1.0 billion, or 1.1%, resulting in the lowest tax revenue growth rate since 2001. Revenues from personal income and insurance taxes increased, but were offset by decreases in sales and use, corporation, and other taxes. The largest increase in revenues came from personal income taxes, which increased by \$1.9 billion (3.6%). Sales and use taxes decreased by \$804 million (2.9%), to \$26.6 billion.

General Fund expenditures increased by \$2.8 billion, to \$99.0 billion. The programs with the largest increases were education, which increased by \$1.8 billion, to \$51.1 billion, and correctional programs, which increased by \$884 million, to \$9.7 billion. The General Fund's ending fund balance (including reserves) for the year ended June 30, 2008, was a negative \$4.2 billion, a decrease of \$2.3 billion over the previous year's ending fund balance of negative \$1.9 billion. The increase in education expenditures consists mainly of cost-of-living adjustments, increased funding for child care, and increased funding for enrollment growth in higher education. The increased expenditures in correctional programs was mainly for inmate medical services, in order to comply with recent court orders and implementation of new parole programs to reduce recidivism.

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 \$34.9 billion (76.0%) of the total \$46.0 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—\$6.4 billion (13.9%)—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 \$5 million increase in fund balance from the prior year.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. Expenditures increased by 70.5%, while revenues increased by 51.9% from the prior year. The increase in revenues and expenditures is the result of combining the Transportation Safety Fund and certain other nonmajor governmental funds with the Transportation Construction Fund into the newly named Transportation Fund. Fund expenditures of \$12.4 billion exceeded revenues by \$4.2 billion; however, there were receipts of \$2.8 billion in other financing sources, so the fund balance decreased by only \$1.3 billion over the previous year's restated fund balance.

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. However, the dramatic increase in California's unemployment rate had an equally dramatic effect on the Unemployment Programs Fund net assets, which decreased by \$1.8 billion.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were \$39.5 billion as of June 30, 2008. Of this amount, current assets totaled \$11.6 billion and noncurrent assets totaled \$27.9 billion. The largest change in asset account balances was a \$1.2 billion decrease in cash and pooled investments, mainly in the Unemployment Programs Fund. The total liabilities of the enterprise funds were \$29.5 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 small.

Total net assets of the enterprise funds were \$9.9 billion as of June 30, 2008. Total net assets consisted of three segments: expendable restricted net assets of \$6.9 billion, investment in capital assets (net of related debt) of \$50 million, and unrestricted net assets of \$3.0 billion. The Unemployment Programs Fund had the largest net assets, with \$3.8 billion (38.6% of the enterprise funds' total net assets). The expendable restricted net assets of the Unemployment Programs Fund decreased by \$1.8 billion.

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 \$18.3 billion, operating expenses of \$19.1 billion, and net disbursements from other transactions of \$809 million. The largest sources of operating revenue were unemployment and disability insurance receipts of \$8.5 billion in the Unemployment Programs Fund and power sales of \$4.3 billion collected by the Electric Power Fund. The largest operating expenses were distributions to beneficiaries of \$10.4 billion by the Unemployment Programs Fund and power purchases (net of recoverable costs) of \$4.3 billion by the Electric Power Fund. The ending net assets of the enterprise funds for the year ended June 30, 2008, were \$9.9 billion, or \$1.6 billion less than the previous year's restated ending fund balance of \$11.5 billion.

The large decrease in the cash and pooled investments account and the net assets of the Unemployment Programs Fund were the result of the fund's reserves being used to cover the increased demand for unemployment benefits. Several years ago, a legislative change nearly doubled the maximum unemployment weekly benefit, but there was no corresponding increase to the tax rate schedule or the taxable wage base that would have generated additional revenue to cover the increased benefit. This imbalanced financing structure caused a brief insolvency in the Unemployment Programs Fund in 2004, but as the economy improved and unemployment decreased, the fund was able to build a modest reserve. However, as unemployment began to dramatically increase during the 2007-08 fiscal year, the fund's unemployment insurance receipts for the year once again fell short of the amount needed to pay the current-year unemployment benefits.

Since June 30, 2008, the condition of the Unemployment Programs Fund deteriorated more quickly than anticipated, as California's unemployment rate rose to 10.1% in January 2009, and the State had to obtain a federal loan to cover the deficit projected for the first quarter of 2009. The State anticipates requesting another loan to cover the second quarter of 2009. It is estimated that proposed changes to the financing structure, including increases to the tax rates and the taxable wage base, will restore solvency to the fund by the end of 2010.

Internal Service Funds: Total net assets of the internal service funds were \$419 million as of June 30, 2008. These net assets consist of two segments: investment in capital assets (net of related debt) of \$169 million and unrestricted net assets of \$250 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 \$3.1 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of \$408.8 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of \$25.2 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2008, the fiduciary funds' combined net assets were \$437.1 billion, a \$17.8 billion decrease from prior year net assets. The net assets of the private purpose trust funds and the investment trust fund increased by \$407 million and \$5.4 billion, respectively, while the net assets of the pension and other employee benefit trust funds decreased by \$23.6 billion. The decrease in net assets for these funds was mainly attributable to a decline in investment income that actually resulted in a net loss for the year and a decrease in the fair value of their investments of over \$41.5 billion.

General Fund Budget Highlights

The original General Fund budget of \$103.6 billion was increased by \$349 million. This increase is mainly composed of increased resources spending due to additional fire protection needs, reductions to various education programs due to fiscal emergency measures, and a shift in funding from general government to correctional programs as a result of arbitration settlements. During the 2007-08 fiscal year, General Fund actual expenditures were \$102.8 billion, \$1.2 billion less than the final budgeted amounts.

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2008

(amounts in millions)

	Original	Final	 crease/ crease)
Budgeted amounts			 ,
State and consumer services	\$ 597	\$ 604	\$ 7
Business and transportation	1,433	1,433	0
Resources	1,191	1,650	459
Health and human services	29,885	29,940	55
Correctional programs	9,829	10,225	396
Education	50,854	50,455	(399)
General government:			
Tax relief	984	983	(1)
Debt service	3,524	3,543	19
Other general government	5,307	5,120	(187)
Total	\$ 103,604	\$ 103,953	\$ 349

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, 2008, amounted to \$102.2 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 and bridges.

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, 2008 (amounts in millions)

		ernmental ctivities	ness-type	Total		
Land	\$	16,059	\$ 53	\$	16,112	
State highway infrastructure		58,548	_		58,548	
Collections – nondepreciable		22	_		22	
Buildings and other depreciable property		22,253	8,714		30,967	
Less: accumulated depreciation		(9,261)	(3,802)		(13,063)	
Construction in progress		7,739	 1,876		9,615	
Total	\$	95,360	\$ 6,841	\$	102,201	

The budget authorized \$2.5 billion for the State's capital outlay program in the 2007-08 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 \$2.5 billion authorized, \$75 million was from the General Fund; \$458 million was from lease-revenue bonds; \$1.7 billion was from proceeds of various general obligation bonds; and \$267 million was from reimbursements, federal funds, and special funds. The major capital projects authorized include:

- \$1.4 billion for numerous construction projects within the University of California, the California State University, and the California Community Colleges;
- \$164 million for the Department of Forestry and Fire Protection to replace 16 wildland fire protection facilities, including two conservation camps, and increased funding for continuing projects, as well as to address critical infrastructure deficiencies and health and safety issues at emergency response facilities; and

 \$156 million for the Department of Corrections and Rehabilitation to construct waste-water and potable water treatment projects and other projects that address critical infrastructure deficiencies and health and safety issues.

In addition to the funding contained in the budget, legislation authorized \$7.3 billion in lease—revenue bonds for the Department of Corrections and Rehabilitation for the construction of infill beds, secure reentry facilities, local jail beds, and healthcare facilities. Legislation also appropriated \$300 million from the General Fund to make infrastructure improvements at existing state prisons.

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

Modified Approach for Infrastructure Assets

The State uses the modified approach to report the cost of its infrastructure assets (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for roads and bridges but capitalizes all costs that add to the capacity and efficiency of State-owned roads and bridges. All maintenance and preservation costs are expensed and not capitalized. Under the modified approach, the State maintains an asset management system to demonstrate that it is preserving the infrastructure at or above established condition levels. The State is responsible for maintaining 49,477 lane miles and 12,183 bridges.

During the 2007-08 fiscal year, the actual amount spent on preservation was 15.2% 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, 2008, the primary government had total bonded debt outstanding of \$89.1 billion. Of this amount, \$58.3 billion (65.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the \$58.3 billion of general obligation bonds is \$10.5 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 \$2.9 billion and the long-term portion is \$55.4 billion. The remaining \$30.8 billion (34.6%) 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 \$29.6 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, 2008 (amounts in millions)

	 ernmental ctivities	Business-type Activities		Total
Government-wide noncurrent liabilities				
General obligation bonds	\$ 53,682	\$ 1,772	\$	55,454
Revenue bonds	7,676	21,949		29,625
Certificates of participation and commercial paper	1,578	67		1,645
Capital lease obligations	4,131	_		4,131
Other noncurrent liabilities	 14,408	 1,854		16,262
Total noncurrent liabilities	81,475	25,642		107,117
Current portion of long-term obligations	 4,392	 1,722		6,114
Total long-term obligations	\$ 85,867	\$ 27,364	\$	113,231

The primary government's total long-term obligations increased during the year ended June 30, 2008. The largest change in governmental activities' long-term obligations is an increase of \$5.4 billion in general obligation bonds payable mainly attributed to the sale of \$3.2 billion of Economic Recovery bonds and \$1.1 billion of Highway Safety, Traffic Reduction, Air Quality, and Port Security (Proposition 1B) bonds. General obligation bonds also increased by a net \$925 million that represents the unamortized bond premiums and refunding losses that had previously not be included in the financial statements.

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

In February 2009, Standard & Poor's reduced the State's general obligation bond credit rating from "A+" to "A" due to the State's inability to reach an agreement on the mid-year budget revision and its rapidly eroding cash position. The current ratings from the other two rating services are "A1" from Moody's Investors Service and "A+" from Fitch. These ratings have remained unchanged for almost three years.

Economic Condition and Future Budgets

Economic Condition and Outlook

The current negative economic climate dominates the headlines across California and the nation. According to the National Bureau of Economic Research, the national recession is now official and had actually begun in December of 2007. The problems began in real estate as housing sales began to decline in 2005. Housing prices began to decline in 2006; prices are now down 21.3% from first-quarter-of-2006 peak levels. The decline in the real estate market began to put stress on the overall economy during 2007—first in the financial markets as the mortgage credit crisis began to show in mid-2007, and second in the labor market as unemployment started to rise at the end of 2007. In 2008, the problems intensified, and now California's economic woes have

spread far beyond real estate and financial markets to the entire state economy. Growth in the fourth quarter of 2008 was -6.2%, the worst in at least 25 years.

Over the past 16 years, credit expanded dramatically, with over \$20 trillion in new debt issued during this period. As the overall U.S. economy slowed, the extent of the credit crisis became obvious. In early 2008, Bear Stearns announced that it incurred a loss in the fourth quarter of 2007—the first in its history; investors lost confidence and share prices plummeted, and the company was finally purchased by JP Morgan. In July 2008, IndyMac Bank was seized by federal regulators following a run on deposits fueled by concerns over excessive exposure to the subprime mortgage market. IndyMac was the second-largest independent mortgage originator in the nation and the seventh-largest savings and loan institution in the country; its demise represents the largest thrift failure since 1984. A series of buyouts and failures of prominent financial firms followed, including those of Merrill Lynch, Washington Mutual, Wachovia, Lehman Brothers, and California's Downey Savings and Loan. In September 2008, the federal government rescued insurance giant AIG with a bailout package that has now reached \$160 billion.

The federal government has been using a variety of tools in an attempt to bolster the financial markets. In late September of 2008, the U.S. Treasury unveiled the \$700 billion Troubled Asset Relief Program (TARP), to purchase troubled assets and provide relief to banks that have seen an enormous erosion of balance sheets. Between September 2007 and December 2008, the Federal Reserve cut the federal funds rate by 50 basis points, to a historically low 0-to-0.25%, in order to improve credit conditions and promote a return to moderate economic growth. The Federal Reserve has also been buying debt from the non-financial market and, now that benchmark lending rates are near zero, it is considering buying up government treasury bonds to try to keep long-term interest rates low.

The situation was not much better outside the financial sector in 2008. What began as a decline in construction and financial activities spread to most other sectors by the end of the year. California, a center of much of the housing sector chaos, has led the nation in the downturn. Unemployment here has risen substantially since mid-2007, and by November 2008, the seasonally adjusted unemployment rate in California had reached 8.4%—its highest level in 14 years. In November 2008, 1.56 million Californians were unemployed and civilian employment had declined by more than 220,000 since November 2007. California's job market was hit harder than the nation's as a whole; the national unemployment rate was 7.2%, with 11.1 million people unemployed as of December 2008. Since the official start of the national recession in December 2007, the U.S. has shed roughly 2.96 million jobs.

The real estate markets are still in decline, due to loose lending practices coupled with a large discrepancy in the ratio of incomes to home prices; many banks made loans for homes that borrowers simply couldn't afford. In 2008, defaults and foreclosures in California were at their highest levels in over a decade. Between January and September 2008, 191,000 homes had been foreclosed upon and 311,000 were in default status. With layoffs on the rise, the newly unemployed may add to the number of foreclosures. In the third quarter of 2008, non-residential building permits were down 41% from the fourth quarter of 2007.

By September 2008, median home prices for both existing single-family homes and new single-family homes declined further and sat 40.2% and 21.5%, respectively, below their fourth-quarter-of-2006 levels. In the third quarter of 2008, home sales showed signs of responding to the decline in prices—there were nearly twice as many sales of existing homes and condos as in the first quarter. However, economists believe that sales of foreclosed properties were made primarily to speculators. Thus, these properties represent a "shadow inventory" that will reenter the market when prices increase—prolonging the downturn and delaying recovery.

The troubles do not appear to be easing as we enter 2009; the weakened economy has created severe budget problems for California. With greater numbers of people out of work and losing their homes, major revenue

sources for the State, such as personal income tax and sales and use taxes, have been negatively impacted. Reassessment of property values in the face of declining home prices will likely affect the property tax rolls as well. Economists forecast that the California unemployment rate, already at 10.1% in January 2009, will continue to rise through 2009. Home prices will continue to fall throughout the next two years and likely into 2011. Economists expect that, as in the third and fourth quarters of 2008, the Gross Domestic Product will contract in the first three quarters of 2009.

California's 2008-09 Budget

California's 2008-09 Budget Act was enacted on September 23, 2008, almost three months after the fiscal year began. The total spending plan adopted for the State was \$144.5 billion—\$103.4 billion from the General Fund, \$28.2 billion from special funds, and \$12.9 billion from bond funds. The General Fund's available resources were projected to be \$106.0 billion and the adopted budget included a reserve for economic uncertainty of \$1.7 billion. General Fund revenues come predominately from taxes, with personal income taxes expected to provide 55% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) were projected to supply approximately 94% of the General Fund's resources in the 2008-09 fiscal year.

Not long after the 2008-09 budget was enacted, it became clear that the sinking economy and the turmoil in the financial markets were causing General Fund revenue to decline. In early October 2008, just weeks after the budget was enacted, the State Controller announced that revenues were deteriorating faster than expected and the General Fund receipts in the first quarter of the fiscal year were already \$1.1 billion lower than expected. By late December 2008 it was estimated that General Fund revenues would be \$14.8 billion lower than projected at the time the budget was enacted. At the same time, the worldwide financial crisis and its impact on credit markets, including the municipal bond market, resulted in a dramatic decline in the normal volume of bond and note transactions. As a result, the State did not obtain all of the financing that it needed. The declining General Fund revenues and limited credit market access was starting to create a cash shortage. In response to the expected cash shortage, the State Controller implemented a payment deferral plan in February 2009 to preserve cash for education, debt service, and other payments required by the State Constitution, federal law, and court rulings.

In light of the deteriorating economic conditions and the situation's urgency, the Governor called a special session of the Legislature and proposed a variety of spending reductions and revenue increases to bring spending in the 2008-09 fiscal year closer in line with available revenues. On February 20, 2009, an unprecedented 17-month budget package covering the remainder of the 2008-09 fiscal year and the 2009-10 fiscal year was enacted. This budget package contains \$11.4 billion in solutions for the 2008-09 fiscal year that include: \$6.7 billion in expenditure reductions, primarily in K-12 education; \$2.8 billion in federal funds from the recent economic stimulus law; \$1.5 billion in revenue from increased rates for the sales and use tax and the vehicle license fee; and \$268 million from internal borrowing. Even with these solutions, the budget package shows that the General Fund will end the 2008-09 fiscal year with a \$2.3 billion deficit.

California's 2009-10 Budget

The 17-month budget package enacted on February 20, 2009, provides the fiscal blueprint intended to solve the estimated \$41.6 billion budget shortfall that was predicted in the 2009-10 Governor's proposed budget released on January 9, 2009. This enacted budget projects total General Fund revenue of \$97.7 billion and expenditures of \$92.2 billion. The \$5.5 billion difference between revenue and expenditures is expected to cover the anticipated year-end deficit of \$2.3 billion in the 2008-09 fiscal year and to build up reserve accounts of \$3.2 billion by the end of the 2009-10 fiscal year.

The enacted budget package includes more than \$30.3 billion in solutions for the 2009-10 fiscal year. The solutions include \$9.0 billion in expenditure reductions. The largest reductions are related to K-12 education, which will experience both reductions to core program funding and the deferral of payments to future years. Expenditure reductions also include furloughing state workers, eliminating inflationary adjustments for many programs, and making other reductions in services. The solutions also include \$11.0 billion in revenue from temporary tax increases. Most of the higher taxes are the result of increased rates for the sales and use tax, vehicle license fee, and personal income tax. The solutions also include the receipt of \$5.2 billion—a conservative estimate—in federal funds from the recent economic stimulus law. Finally, the solutions include \$5.1 billion in borrowing against future Lottery profits through securitization bonds and internal sources.

As part of the 2009-10 fiscal year budget package, several statewide propositions will be placed on the May 2009 ballot for voter approval before certain budget provisions can be executed. These propositions include policy changes and reforms intended to provide immediate and long-term benefits to the economy. The 2009-10 budget depends on access to about \$6 billion related to three propositions on the May 2009 ballot—\$5.0 billion from borrowing from future Lottery profits (Proposition 1C), up to \$608 million from redirecting dedicated childhood development funds (Proposition 1D), and about \$230 million from redirecting dedicated mental health funds (Proposition 1E). If the voters reject these measures, the 2009-10 budget will not be in balance under current revenue projections. The Governor and the Legislature would need to agree to billions of dollars of additional spending cuts, tax increases, or other budgetary solutions to bring the budget back into balance.

According the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, even with the adoption of the 2009-10 budget package and the passage of all the propositions on the May 2009 ballot, the State is expected to face budget shortfalls in the future. The LAO expects the State's economic recovery from the recession to be relatively slow and it concludes that many of the solutions adopted as part of the 2009-10 budget are short-term in nature. Consequently, based on the LAO's current projections, the State will need to adopt billions of dollars in additional spending reductions, tax increases, or other solutions in the coming years.

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.



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Basic Financial Statements



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Government-wide Financial Statements

Statement of Net Assets

June 30, 2008 **Primary Government** (amounts in thousands) Governmental **Business-type** Component **Activities Activities Total** Units **ASSETS** Current assets: Cash and pooled investments\$ 18,721,824 4,112,921 22,834,745 2,906,555 Amount on deposit with U.S. Treasury 2.666.360 2,666,360 2,275,363 735,986 10,612,860 Investments 3,011,349 Restricted assets: 1,920,995 22,196 Cash and pooled investments 1,920,995 38,983 Investments Due from other governments 57,496 57,496 Net investment in direct financing leases 363,790 363,790 Receivables (net) 12.119.452 521.050 12,640,502 3.738.970 Internal balances 119,243 (119,243)Due from primary government 241,952 10,138,518 Due from other governments 199,586 10,338,104 552,171 Due from component units 62,831 62,831 Prepaid items 104,337 11,476 115,813 2,232 Inventories 89,195 29,529 118,724 158,165 Recoverable power costs (net) 511,000 511,000 Other current assets 205,793 261,617 228,129 467,410 Total current assets 43,836,556 11,272,563 55,109,119 18,502,213 Noncurrent assets: Restricted assets: Cash and pooled investments 1,068,560 1,068,560 126,140 Investments 560,124 560,124 39,696 Loans receivable 454,214 454,214 37,761,542 Investments 1,449,565 1,449,565 Net investment in direct financing leases 6,307,555 6,307,555 Receivables (net) 1,697,616 17,194 1,714,810 952,625 Loans receivable 2,767,302 3,826,070 6.593.372 8,435,986 Recoverable power costs (net) 5,934,000 5,934,000 Deferred charges 71,429 1,303,971 1,375,400 42,469 Capital assets: 16,059,470 52,848 831,366 Land 16,112,318 State highway infrastructure 58,547,500 58,547,500 Collections – nondepreciable 21,631 29 21,660 288,859 Buildings and other depreciable property 22,253,110 8,713,588 30,966,698 30,281,005 Less: accumulated depreciation (13,409,120)(9,260,938)(3,801,680)(13,062,618)3,143,052 Construction in progress 7,738,896 1,876,245 9,615,141 Other noncurrent assets 3,000 13,476 408,229 16,476 Total noncurrent assets 99,899,016 27,775,759 127,674,775 68,901,849 Total assets 143,735,572 39,048,322 182,783,894 87,404,062

			Pri	mary Governmen	t			
	G	overnmental		Business-type			(Component
		Activities		Activities		Total		Units
LIABILITIES								
Current liabilities:								
Accounts payable	\$	16,602,662	\$	700,672	\$	17,303,334	\$	1,993,402
Due to primary government		_		_				62,831
Due to component units		236,389		5,563		241,952		_
Due to other governments		7,553,049		135,954		7,689,003		6
Dividends payable		_		_				3,100
Deferred revenue		_		60,565		60,565		1,032,779
Tax overpayments		4,998,235		_		4,998,235		_
Deposits		293,727		4,731		298,458		545,989
Contracts and notes payable		4,301		_		4,301		11,589
Unclaimed property liability		800,570		_		800,570		_
Advance collections		765,976		25,296		791,272		115,142
Interest payable		844,804		205,637		1,050,441		150,698
Securities lending obligations		_		_				3,842,568
Benefits payable		_		509,667		509,667		1,942,713
Current portion of long-term obligations		4,392,297		1,721,700		6,113,997		1,686,317
Other current liabilities		711,772		124,255		836,027		1,906,072
Total current liabilities		37,203,782		3,494,040		40,697,822		13,293,206
Noncurrent liabilities:								
Benefits payable		_		6,761		6,761		16,432,739
Lottery prizes and annuities		_		1,235,904		1,235,904		· · · —
Compensated absences payable		1,911,923		26,574		1,938,497		219,976
Certificates of participation, commercial paper,		,- ,-		-,-		1,000,101		-,
and other borrowings		1,577,832		67,204		1,645,036		66,444
Capital lease obligations		4,131,270		_		4,131,270		2,326,650
General obligation bonds payable		53,681,605		1,771,903		55,453,508		_,,,,
Revenue bonds payable		7,676,096		21,948,885		29,624,981		15,722,332
Other noncurrent liabilities		12,496,318		584,623		13,080,941		3,056,331
Total noncurrent liabilities	-	81,475,044	_	25,641,854		107,116,898		37,824,472
Total liabilities		118,678,826		29,135,894		147,814,720		51,117,678
NET ASSETS			_	-,,		,- , -		
Investment in capital assets, net of related debt		84,255,048		49,510		84,304,558		10,979,069
Restricted:		, ,		•		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		
Nonexpendable – endowments		_		_				3,570,528
Expendable:								
Endowments and gifts		_		_				7,442,272
Business and transportation		1,159,766		144,081		1,303,847		1,444,265
Resources		1,360,505		1,618,308		2,978,813		
Health and human services		3,005,273		109,789		3,115,062		_
Education		1,184,946		395,812		1,580,758		1,648,330
General government		3,353,405		756,683		4,110,088		998,964
Unemployment programs		84,753		3,828,948		3,913,701		_
Workers' compensation liability		J 1,7 50						4,488,663
Total expendable		10,148,648	_	6,853,621		17,002,269		16,022,494
Unrestricted		(69,346,950)		3,009,297		(66,337,653)		5,714,293
Total net assets		25,056,746	_	9,912,428		34,969,174		36,286,384
Total liabilities and net assets	\$	143,735,572	\$		\$	182,783,894	\$	87,404,062
. 3					-		<u> </u>	,,

Statement of Activities

Year Ended June 30, 2008 (amounts in thousands)

(amounts in thousands)			Program Revenues					
FUNDTIONS (BROOD AND		_	_	Charges		Operating Grants and		Capital
FUNCTIONS/PROGRAMS		Expenses	f	or Services	<u>C</u>	ontributions	Cc	ntributions
Primary government								
Governmental activities:								
General government	\$	12,229,890	\$	4,399,159	\$	1,394,832	\$	_
Education		65,130,420		3,343,205		6,462,741		_
Health and human services		74,309,784		5,191,548		35,383,450		_
Resources		6,333,252		2,648,952		331,868		_
State and consumer services		1,129,063		692,348		52,941		_
Business and transportation		13,068,043		3,987,958		1,989,722		1,207,101
Correctional programs		10,504,182		27,702		233,859		_
Tax relief		957,190		4,967		_		_
Interest on long-term debt		4,184,631		_		_		_
Total governmental activities		187,846,455		20,295,839		45,849,413		1,207,101
Business-type activities:								
Electric Power		5,362,000		5,362,000		_		_
Water Resources		1,009,214		1,009,214		_		_
Public Building Construction		371,904		384,816		_		_
State Lottery		3,173,060		3,242,828		_		_
Unemployment Programs		10,622,582		8,829,018		_		_
High Technology Education		16,916		20,600		_		_
State University Dormitory Building		10,510		20,000				
Maintenance and Equipment		699,018		640,208				
• •		•		· ·		_		100.064
State Water Pollution Control Revolving		13,056		71,404		_		189,064
Housing Loan		132,101		130,139		_		_
Other enterprise programs	-	122,921		137,476				
Total business-type activities	_	21,522,772	_	19,827,703	_		_	189,064
Total primary government	\$_	209,369,227	<u>\$</u>	40,123,542	\$	45,849,413	\$	1,396,165
Component units:								
University of California	\$	21,140,587	\$	10,385,989	\$	7,867,138	\$	245,305
State Compensation Insurance Fund		2,983,819		2,274,908		_		_
California Housing Finance Agency		571,294		506,194		118,001		_
Public Employees' Benefit Fund		936,963		1,826,740		_		_
Nonmajor component units		2,008,714		1,245,046		549,307		4,797
Total component units	\$	27,641,377	\$	16,238,877	\$	8,534,446	\$	250,102
	F	neral revenues: Personal income sales and use tax Corporation taxes	es					
		nsurance taxes . Other taxes						
		nvestment and in						
		scheat						
		Other						
	Tra	nsfers						
		Total general r	even	ues and transfe	ers		•••••	
		Change in ne	t ass	ets				
	Ne	t assets, July 1,	2007	,				
		t assets, June 3	0, 20	08				
	* Res	stated						

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Net (Expenses)	Revenues and	Changes i	in Net Assets
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F	Primary Governmen	t	
Governmental Activities	Business-type Activities	Total	Component Units
\$ (6,435,899)		\$ (6,435,899)	
(55,324,474)		(55,324,474)	
(33,734,786)		(33,734,786)	
(3,352,432)		(3,352,432)	
(383,774)		(383,774)	
(5,883,262)		(5,883,262)	
(10,242,621)		(10,242,621)	
(952,223)		(952,223)	
(4,184,631)		(4,184,631)	
(120,494,102)		(120,494,102)	
	\$ —	_	
	12,912	12.012	
	69,768	12,912 69,768	
	(1,793,564)	(1,793,564)	
	3,684	3,684	
	0,004	3,004	
	(58,810)	(58,810)	
	247,412	247,412	
	(1,962)	(1,962)	
	14,555	14,555	
(120,494,102)	(1,506,005) (1,506,005)	(1,506,005)	
(120,494,102)	(1,300,003)	(122,000,107)	
			\$ (2,642,155
			(708,91
			52,90
			889,777
			(209,564 (2,617,95 2
			-
55,355,266	_	55,355,266	_
34,856,824	_	34,856,824	_
11,207,468	_	11,207,468	_
2,190,870	_	2,190,870	_
5,594,970	_	5,594,970	_
639,059	_	639,059	1,526,70
282,287	_	282,287	_
_	_		2,610,292
54,994	(54,994)		
110,181,738	(54,994)	110,126,744	4,136,993
(10,312,364)	(1,560,999)	(11,873,363)	1,519,04
35,369,110 *		* 46,842,537	34,767,343
\$ 25,056,746	\$ 9,912,428	\$ 34,969,174	\$ 36,286,384



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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2008 (amounts in thousands)

						Nonmajor	
	General	Federal	Tra	ansportation	G	overnmental	Total
ASSETS							
Cash and pooled investments	\$ 1,832,914	\$ 422,134	\$	3,163,666	\$	12,384,457	\$ 17,803,171
Investments	_	_		_		2,275,363	2,275,363
Receivables (net)	9,917,756	1,535		519,599		1,255,410	11,694,300
Due from other funds	1,364,683	6,347		1,947,593		1,526,757	4,845,380
Due from component units	62,831	_		_		_	62,831
Due from other governments	805,230	9,100,071		16,058		202,678	10,124,037
Interfund receivables	76,429	_		1,645,803		602,684	2,324,916
Loans receivable	103,082	46,011		_		2,558,184	2,707,277
Other assets	38,496			123,827		43,470	205,793
Total assets	\$ 14,201,421	\$ 9,576,098	\$	7,416,546	\$	20,849,003	\$ 52,043,068
LIABILITIES							
Accounts payable	\$ 1,545,539	\$ 1,101,076	\$	513,274	\$	4,095,945	\$ 7,255,834
Due to other funds	4,983,375	6,202,681		308,494		1,764,661	13,259,211
Due to component units	163,561	_		2,565		64,689	230,815
Due to other governments	3,303,179	2,169,403		813,403		1,874,888	8,160,873
Interfund payables	2,231,795	_		_		28,876	2,260,671
Tax overpayments	4,989,995	_		_		8,240	4,998,235
Deposits	3,967	_		11,136		272,236	287,339
Advance collections	37,984	37,498		13,633		281,076	370,191
Interest payable	6,719	8,178		_		229,116	244,013
Unclaimed property liability	800,570	_		_		_	800,570
General obligation bonds payable	_	_		_		421,405	421,405
Other liabilities	303,606	14,510		308,609		438,611	1,065,336
Total liabilities	 18,370,290	 9,533,346		1,971,114		9,479,743	39,354,493
FUND BALANCES							
Reserved for:							
Encumbrances	933,269	_		3,994,383		2,715,777	7,643,429
Interfund receivables	76,429	_		1,645,803		602,684	2,324,916
Loans receivable	103,082	46,011		_		2,558,184	2,707,277
Continuing appropriations	1,000,369	_		4,668,623		2,381,810	8,050,802
Debt service	_	_		_		898,808	898,808
Unreserved, reported in:							
General Fund	(6,282,018)	_		_			(6,282,018)
Special revenue funds	_	(3,259)		(4,863,377)		3,049,346	(1,817,290)
Capital projects funds						(837,349)	(837,349)
Total fund balances (deficits)	(4,168,869)	42,752		5,445,432		11,369,260	12,688,575
Total liabilities and fund							
balances	\$ 14,201,421	\$ 9,576,098	\$	7,416,546	\$	20,849,003	

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

(amounts in thousands)

Total fund balances – governmental funds	\$	12,688,575
Amounts reported for governmental activities in the Statement of Net Assets are different from those in the Governmental Funds Balance Sheet because:		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 		95,145,200
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported.		1,715,295
 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. 		418,703
Bond discounts, premiums, and deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		(328,225)
 General obligation bonds totaling \$55,689,667 and revenue bonds totaling \$8,326,429 are not due and payable in the current period and, therefore, are not reported in the funds. 		(64,016,096)
• 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 (1,961,773)		
Certificates of participation and commercial paper adjustments (1,736,089)		
Capital lease adjustments (4,367,363)		
Other long-term obligations (12,501,481)		
	•	(20,566,706)
Net assets of governmental activities	\$	25,056,746

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2008 (amounts in thousands)							Nonmajor		
(amounts in thousands)	General	_	Federal	Tra	ansportation	G	overnmental		Total
REVENUES									
Personal income taxes	\$ 54,214,285	\$	_	\$	_	\$	982,777	\$	55,197,062
Sales and use taxes	26,598,820		_		1,157,373		7,008,458		34,764,651
Corporation taxes	11,201,468		_		_		_		11,201,468
Insurance taxes	2,190,870		_		_		_		2,190,870
Other taxes	494,427		_		3,253,041		1,928,426		5,675,894
Intergovernmental	_		47,037,796		_		1,931,210		48,969,006
Licenses and permits	792		_		3,038,550		2,287,512		5,326,854
Charges for services	190,992		_		502,309		332,268		1,025,569
Fees	796,517		_		18,964		5,235,921		6,051,402
Penalties	52,724		453		55,370		640,684		749,231
Investment and interest	581,535		_		90,099		919,391		1,591,025
Escheat	282,287		_		_		_		282,287
Other	1,169,661		_		106,661		2,988,688		4,265,010
Total revenues	97,774,378		47,038,249		8,222,367		24,255,335		177,290,329
EXPENDITURES									
Current:									
General government	2,238,325		1,021,975		147,356		8,381,014		11,788,670
Education	51,091,244		6,399,901		101,412		6,775,055		64,367,612
Health and human services	29,147,545		34,938,163		137,851		9,879,149		74,102,708
Resources	1,468,516		331,483		146,482		4,177,128		6,123,609
State and consumer services	539,094		52,966		92,358		554,979		1,239,397
Business and transportation	11,454		2,912,887		11,155,136		668,029		14,747,506
Correctional programs	9,695,223		233,796		_		43,488		9,972,507
Tax relief	957,190		_		_		_		957,190
Capital outlay	268,686		_		_		1,455,388		1,724,074
Debt service:									
Bond and commercial paper retirement	1,455,885		50,985		576,615		6,887,048		8,970,533
Interest and fiscal charges	2,101,880		20,960		21,537		1,250,056		3,394,433
Total expenditures	98,975,042		45,963,116		12,378,747		40,071,334		197,388,239
Excess (deficiency) of revenues					,,		-,- ,		
over (under) expenditures	(1,200,664)		1,075,133		(4,156,380)		(15,815,999)		(20,097,910)
OTHER FINANCING SOURCES (USES)							<u>, </u>		
General obligation bonds and commercial									
paper issued	_		_		2,092,485		12,101,275		14,193,760
Refunding debt issued	_		_		41,705		1,756,980		1,798,685
Payment to refund long-term debt	(45,321)		_		(41,705)		(1,756,980)		(1,844,006)
Premium on bonds issued	147,463		_		_		147,976		295,439
Capital leases	268,686		_		_		_		268,686
Transfers in	3,995,696		_		1,416,585		6,001,851		11,414,132
Transfers out	(5,427,191)		(1,070,105)		(694,532)		(4,144,936)		(11,336,764)
Total other financing sources (uses)	(1,060,667)		(1,070,105)	_	2,814,538		14,106,166		14,789,932
Net change in fund balances	 (2,261,331)		5,028		(1,341,842)	_	(1,709,833)		(5,307,978)
Fund balances, July 1, 2007	(1,907,538)		37,724		6,787,274	*	13,079,093	ŀ	17,996,553
Fund balances (deficits), June 30, 2008	(4,168,869)	\$	42,752	\$	5,445,432	\$	11,369,260	\$	12,688,575
* Restated	 (.,.:0,000)	<u> </u>	.2,.02	<u> </u>		_	,,	-	,,

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	\$ (5,307,978)
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:	
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period. 	3,512,032
• Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds.	188,768
 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 (5,979,756)	
Revenue bond adjustments 197,952	
Certificates of participation and commercial paper adjustments (378,038)	
	(6,159,842)
	(0,100,012)
 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 (21,606)	
Lease adjustments (31,802)	
Other long-term obligations (2,516,902)	
	(2,570,310)
	(, , ,
 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. 	24,966
Change in net assets of governmental activities	\$ (10,312,364)

Statement of Net Assets

Proprietary Funds

June 30, 2008 (amounts in thousands)

		Water
	Electric Power	Resources
ASSETS		
Current assets:		
Cash and pooled investments	\$ —	\$ 485,283
Amount on deposit with U.S. Treasury	_	_
Investments	_	_
Restricted assets:		
Cash and pooled investments	1,846,000	_
Investments	_	_
Due from other governments	_	_
Net investment in direct financing leases	_	_
Receivables (net)	_	109,775
Due from other funds	27,000	5,016
Due from other governments	_	26,968
Prepaid items	_	· —
Inventories	_	19,035
Recoverable power costs (net)	511,000	, <u> </u>
Other current assets	261,000	_
Total current assets	2,645,000	646,077
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	1,015,000	37,521
Investments	450,000	74,135
Loans receivable	.00,000	,
Investments	_	_
Net investment in direct financing leases	_	_
Receivables	_	_
Interfund receivables	_	91,517
Loans receivable	_	24,105
Recoverable power costs (net)	5,934,000	24,100
Deferred charges	3,304,000	1,194,268
Capital assets:		1,134,200
Land	_	_
Collections – nondepreciable	_	_
•	_	4,587,682
Buildings and other depreciable property	_	
Less: accumulated depreciation	_	(1,878,224)
Construction in progress	_	365,297
Other noncurrent assets		
Total noncurrent assets	7,399,000	4,496,301
Total assets	\$ 10,044,000	\$ 5,142,378

ctivities	A			rprise Funds		tivities – Ente	pe Ac	business-ty	 		
nternal	li			lonmajor		employment	Une	State	Public Building		
vice Funds	Serv	Total	Enterprise Total			Programs		Lottery	struction	Cor	
918,65	\$	4,112,921	\$	1,753,026	\$	1,604,136	\$	270,476	\$ _	6	
-		2,666,360		_		2,666,360		_	_		
-		735,986		455,006		_		280,980	_		
-		1,920,995		74,995		_		_	_		
-		_		_		_		_	_		
-		57,496		57,496		_		_	_		
-		363,790		21,309		_		_	342,481		
53,40		632,683		41,715		213,598		159,097	108,498		
360,26		88,926		16,496		14,650		3,131	22,633		
14,48		199,586		138,133		34,485		_	_		
88,92		11,476		939		_		10,537	_		
89,19		29,529		3,652		_		6,842	_		
-		511,000		_		_		_	_		
-		261,617		617					 		
1,524,91		11,592,365		2,563,384		4,533,229		731,063	 473,612		
_		1,068,560		16,039		_		_	_		
_		560,124		11,843		_		_	24,146		
_		454,214		454,214		_		_			
_		1,449,565		56,807		_		1,392,758	_		
_		6,307,555		337,944		_		· · · —	5,969,611		
-		17,194		_		17,194		_	_		
-		93,643		2,126		_		_	_		
_		3,826,070		3,801,965		_		_	_		
_		5,934,000		_		_		_	_		
-		1,303,971		41,521		_		5,526	62,656		
23		52,848		46,379		_		6,469	_		
-		29		29		_		_	_		
605,89		8,713,588		4,009,713		11,640		104,553	_		
(409,88		(3,801,680)		(1,858,264)		(4,646)		(60,546)	_		
18,22		1,876,245		449,503		_		_	1,061,445		
		13,476		13,476					 		
214,46		27,869,402		7,383,295		24,188		1,448,760	 7,117,858		
1,739,38	\$	39,461,767	\$	9,946,679	\$	4,557,417	\$	2,179,823	\$ 7,591,470	;	

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Statement of Net Assets (continued)

Proprietary Funds

June 30, 2008 (amounts in thousands)

		Water
	Electric Power	Resources
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 469,318	\$ 91,143
Due to other funds	_	14,060
Due to component units	_	_
Due to other governments	_	118,972
Deferred revenue	_	_
Deposits	_	_
Contracts and notes payable	_	_
Advance collections	_	_
Interest payable	60,000	28,581
Benefits payable	_	_
Current portion of long-term obligations	510,000	152,925
Other current liabilities	_	_
Total current liabilities	1,039,318	405,681
Noncurrent liabilities:		
Interfund payables	_	_
Benefits payable	_	_
Lottery prizes and annuities	_	_
Compensated absences payable	_	_
Certificates of participation, commercial paper,		
and other borrowings	_	19,352
Capital lease obligations	_	_
General obligation bonds payable	_	531,700
Revenue bonds payable	8,999,000	2,558,734
Other noncurrent liabilities	5,682	421,480
Total noncurrent liabilities	9,004,682	3,531,266
Total liabilities	10,044,000	3,936,947
NET ASSETS		
Investment in capital assets, net of related debt	_	127,858
Restricted – Expendable:		
Construction	_	1,077,573
Debt service	_	_
Security for revenue bonds	_	_
Lottery	_	_
Unemployment program	_	_
Other purposes	_	_
Total expendable		1,077,573
Unrestricted		
Total net assets		1,205,431
Total liabilities and net assets	\$ 10,044,000	\$ 5,142,378

	Business-			rpe Activities – Enterprise Funds						G	overnmental Activities
Pul	olic Building		State		Unemployment		Nonmajor				Internal
	onstruction		Lottery	Programs		Enterprise		Total		Se	rvice Funds
			<u> </u>				·				
\$	26,246	\$	31,384	\$	72	\$	57,317	\$	675,480	\$	235,897
	116,896		238,016		51,076		16,463		436,511		363,225
	_		_		_		5,563		5,563		5,574
	2,035		_		14,792		155		135,954		20,075
	_		_		_		60,565		60,565		_
	_		_		_		4,731		4,731		6,388
	_		_		_		_				14,880
	18,962		3,046		_		3,288		25,296		395,785
	66,529		_		_		50,527		205,637		_
	_		_		509,667		_		509,667		_
	365,284		494,641		_		198,850		1,721,700		17,525
	_		_		116,534		7,721		124,255		4,107
	595,952		767,087		692,141		405,180		3,905,359		1,063,456
	_		_		_		2,126		2,126		95,737
	_		_		_		6,761		6,761		, <u> </u>
	_		1,235,904		_		· —		1,235,904		_
	_		5,347		12,897		8,330		26,574		48,286
	_		_		_		47,852		67,204		_
	_		_		_		_		_		7,474
	_		_		_		1,240,203		1,771,903		_
	6,695,964		_		_		3,695,187		21,948,885		_
	_		6,402		16,438		134,621		584,623		105,732
	6,695,964		1,247,653		29,335		5,135,080		25,643,980		257,229
	7,291,916		2,014,740		721,476		5,540,260		29,549,339		1,320,685
	_		50,476		6,993		(135,817)		49,510		168,855
	268,831		_		_		328,321		1,674,725		_
	30,723		_		_		61,760		92,483		_
	_		_		_		511,710		511,710		_
	_		165,083		_		_		165,083		_
	_		_		3,828,948		_		3,828,948		_
							580,672		580,672		
	299,554		165,083		3,828,948		1,482,463		6,853,621		_
			(50,476)				3,059,773		3,009,297		249,848
	299,554		165,083		3,835,941		4,406,419		9,912,428		418,703
\$	7,591,470	\$	2,179,823	\$	4,557,417	\$	9,946,679	\$	39,461,767	\$	1,739,388
											(concluded)

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

Proprietary Funds

Year Ended June 30, 2008 (amounts in thousands)

		Water
	Electric Power	Resources
OPERATING REVENUES		
Unemployment and disability insurance	\$ —	\$ —
Lottery ticket sales	_	_
Power sales	4,323,000	215,430
Student tuition and fees	_	_
Services and sales	_	773,845
Investment and interest	_	_
Rent	_	_
Other		
Total operating revenues	4,323,000	989,275
OPERATING EXPENSES		
Lottery prizes	_	_
Power purchases (net of recoverable power costs)	4,289,000	323,236
Personal services	_	216,752
Supplies	_	_
Services and charges	34,000	233,374
Depreciation	_	79,136
Distributions to beneficiaries	_	_
Interest expense	_	_
Amortization of deferred charges	_	_
Other	_	_
Total operating expenses	4,323,000	852,498
Operating income (loss)	_	136,777
NONOPERATING REVENUES (EXPENSES)		
Investment and interest income	1,039,000	_
Interest expense and fiscal charges	(1,039,000)	(156,716)
Lottery payments for education	_	_
Other	_	19,939
Total nonoperating revenues (expenses)	_	(136,777)
Income (loss) before contributions and transfers	_	
Capital contributions	_	_
Transfers in	_	_
Transfers out	_	_
Change in net assets		
Total net assets, July 1, 2007		1,205,431
Total net assets, June 30, 2008		\$ 1,205,431
* Destated		

overnmental Activities			Funds	rpris	pe A	Business-ty	Business-				
Internal		Total			employment	Un	State		lic Building	Pub	
ervice Funds	otal			_	Programs		Lottery	_	nstruction	Co	
_	8,483,142 \$	\$	_	\$	8,483,142	\$	_	\$	_	\$	
_	3,049,621		_		_		3,049,621		_		
_	4,538,430		_		_		_		_		
_	561,762		561,762		_		_		_		
2,460,764	998,802		102,923		122,034		_		_		
_	213,317		184,836		_		_		28,481		
_	396,344		40,011		_		_		356,333		
_	16,930		16,928						2		
2,460,764	8,258,348		906,460	_	8,605,176		3,049,621		384,816		
_	1,619,473		_		_		1,619,473		_		
_	4,612,236		_		_		_		_		
730,888	601,708		185,712		150,813		48,431		_		
11,270	10,491		_		_		10,491		_		
1,611,762	1,095,044		414,339		67,512		312,253		33,566		
40,973	188,575		99,696		673		9,070		_		
_	0,403,584		_		10,403,584		_		_		
588	571,205		239,850		_		_		331,355		
_	8,163		1,180		_		_		6,983		
_	33,681		33,681		<u> </u>		<u> </u>		<u> </u>		
2,395,481	9,144,160		974,458		10,622,582		1,999,718		371,904		
65,283	(885,812)		(67,998)		(2,017,406)	_	1,049,903		12,912		
3,334	1,526,308		71,109		223,842		192,357		_		
(480)	1,308,152)		(8,422)		_		(104,014)		_		
_	1,069,328)		_		_		(1,069,328)		_		
(20,797)	41,915		21,126		_		850		_		
(17,943)	(809,257)		83,813		223,842		(980,135)		_		
47,340	1,695,069)		15,815		(1,793,564)		69,768		12,912		
_	189,064		189,064		_		_		_		
397	1,441		1,441		_		_		_		
(22,771)	(56,435)		(48,921)						(7,514)		
24,966	1,560,999)		157,399		(1,793,564)		69,768		5,398		
393,737	1,473,427		4,249,020	_	5,629,505		95,315		294,156		
418,703	9,912,428 \$	\$	4,406,419	\$	3,835,941	\$	165,083	\$	299,554	\$	

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Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2008 (amounts in thousands)

(amounts in thousands)		Water
	Electric Dever	
CACH ELONG EDOM ODERATINO ACTIVITIES	Electric Power	Resources
CASH FLOWS FROM OPERATING ACTIVITIES Receipts from customers/employers	\$ 4,423,000	¢ 1.019.040
		\$ 1,018,049
Receipts from interfund services provided		(F00 707)
Payments to suppliers	(4,539,000)	(502,787)
Payments to employees	_	(216,752)
Payments for interfund services used	_	_
Payments for Lottery prizes	_	_
Claims paid to other than employees		(2.4.222)
Other receipts (payments)	32,000	(24,020)
Net cash provided by (used in) operating activities	(84,000)	274,490
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	_	_
Proceeds from bonds	2,000	_
Receipts of bond charges	867,000	_
Retirement of general obligation bonds	_	_
Retirement of revenue bonds	(470,000)	_
Retirement of notes payable and commercial paper	_	_
Interest paid on operating debt	(447,000)	_
Transfers in	_	_
Transfers out	_	_
Lottery payments for education		
Net cash provided by (used in) noncapital financing activities	(48,000)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	_	_
Acquisition of intangible assets	_	_
Acquisition of capital assets	_	(115,158)
Proceeds from sale of capital assets	_	_
Proceeds from notes payable and commercial paper	_	19,900
Principal paid on notes payable and commercial paper	_	(133,910)
Retirement of general obligation bonds	_	(50,355)
Proceeds from revenue bonds	_	668,604
Retirement of revenue bonds	_	(601,320)
Interest paid	_	(141,252)
Grants received	_	
Net cash provided by (used in) capital and related financing activities	_	(353,491)
CASH FLOWS FROM INVESTING ACTIVITIES		(000,101)
Purchase of investments	_	(151,303)
Proceeds from maturity and sale of investments	150,000	179,961
Change in interfund receivables and loans receivable		1,823
Earnings (loss) on investments	185,000	59,104
Net cash provided by (used in) investing activities	335,000	89,585
Net increase (decrease) in cash and pooled investments	203,000	10,584
Cash and pooled investments at July 1, 2007	2,658,000	512,220
Cash and pooled investments at June 30, 2008	\$ 2,861,000	\$ 522,804

Activities							usiness-type Activities –				
Internal				Nonmajor		employment	U	State			
Service Fund		Total	_	Enterprise	_	Programs	_	Lottery	_	struction	Con
2,690,77	76	18,552,576	\$	745,076	\$	8,559,351	\$	3,130,700	\$	676,400	\$
20,64	35	5,935		5,935		_		_		_	
(1,562,38	53)	(5,700,153)		(450,463)		(67,506)		(107,968)		(32,429)	
(670,88	81)	(568,081)		(176,608)		(136,341)		(38,380)		_	
(112,24	51)	(11,151)		(1,311)		_		(9,840)		_	
-	57)	(2,010,557)		_		_		(2,010,557)		_	
(6,73	'30)	(10,549,730)		(2)		(10,336,686)		(213,042)		_	
(166,17		(566,597)		(406,406)		80,186		32,633		(280,990)	
192,99	'58)	(847,758)		(283,779)		(1,900,996)		783,546		362,981	
(40	(20)	(20)		(20)		_		_		_	
_	. ,	193,200		191,200		_		_		_	
-		867,000		, <u> </u>		_		_		_	
_		(87,066)		(87,066)		_		_			
_		(550,964)		(80,964)		_		_		_	
_	-	(5,500)		(5,500)		_		_			
(2		(456,794)		(9,794)		_		_			
39		1,441		1,441		_		_			
(22,77		(56,435)		(48,921)		_		_		(7,514)	
-		(1,149,396)		_		_		(1,149,396)		_	
(22,80		(1,244,534)		(39,624)		_		(1,149,396)		(7,514)	
-	14	1,114		1,114		_		_		_	
(2,95	(71)	(71)		(71)		_		_		_	
(32,65		(1,062,736)		(269,180)		(218)		(24,056)		(654,124)	
43		17,811		15,679		2,027		105		_	
-	222	159,222		139,322		_		_			
(3,55	(00	(266,300)		(132,390)		_		_		_	
-	55)	(50,355)		_		_		_		_	
-	50	1,603,450		442,120		_		_		492,726	
-	96)	(1,071,396)		(127,494)		_		_		(342,582)	
(1,04	81)	(257,181)		(115,929)		_		_			
	51	189,951		189,951							
(39,77	91)	(736,491)		143,122	_	1,809	_	(23,951)		(503,980)	
-	242)	(570,242)		(200,048)		_		(218,891)		_	
-	94	1,629,194		3,328		788,675		506,594		636	
-	323	1,823		_		_		_		_	
3,52	23	564,623		74,939		223,842	_	21,738			
3,52	98	1,625,398		(121,781)		1,012,517		309,441		636	
133,94	85)	(1,203,385)		(302,062)		(886,670)		(80,360)		(147,877)	
784,70		8,305,861	_	2,146,122	_	2,490,806	_	350,836	_	147,877	
		7,102,476	\$	1,844,060	\$	1,604,136	\$	270,476	\$		6

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2008 (amounts in thousands)

RECONCILATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES Operating income (loss) Adjustments to reconcile operating income (loss) to net cash provided Algustments to reconcile operating income (loss) to net cash provided Full cash of the conciliation operating debt. According or capital appreciation bonds Accordin of deferred charges Amortization of deferred charge					Water
PRECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		Eloc	trio Dowor	ь	
PROVIDED BY (USED IN) OPERATING ACTIVITIES	DECONCILIATION OF ODERATING INCOME (LOSS) TO NET CASH	Elec	tric Power		esources
Operating Income (loss) \$ 136,777 Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: Interest expense on operating debt					
Adjustments to reconcile operating ancivities: Interest expense on operating debt		Ф		Φ.	136 777
Interest expense on operating debt		φ		φ	130,777
Depreciation 79,136 Accretion of capital appreciation bonds — Provisions and allowances — Accrual of deferred charges — Amortization of discounts — Amortization of deferred charges — Other — Change in assets and liabilities: — Receivables — Due from other funds — Due from other governments — Investment in direct financing leases — Net investment in direct financing leases — Net investment in direct financing leases — Net courted be power costs (net) — Other current assets — Loans receivable — Interfund receivable — Interfund receivable — Interfund receivable — Due to other funds — Due to other funds — Due to other funds — Deposits — Contracts and notes payable — Advance collections					
Accretion of capital appreciation bondss ————————————————————————————————————	Interest expense on operating debt		_		_
Provisions and allowances — 20.591 Acorual of deferred charges — 20.591 Amortization of discounts — — Other — 0 24.020 Change in assets and liabilities: — — (24,020) Change in assets and riabilities: — — 41,234 Due from other funds — — — Due from other governments — — — Inventories — — — Inventories — — — Inventories — — — Inventories — — — Net investment in direct financing leases — — — Net investment in direct financing leases — — — Net investment in direct financing leases — — — Net investment in direct financing leases — — — Interest parked — — — — Interest parked <td>Depreciation</td> <td></td> <td>_</td> <td></td> <td>79,136</td>	Depreciation		_		79,136
Accrual of deferred charges — 20,591 Amortization of discounts — — — — — — — — — — — — — — — — — — —	Accretion of capital appreciation bonds		_		_
Amortization of discounts — <td>Provisions and allowances</td> <td></td> <td>_</td> <td></td> <td>_</td>	Provisions and allowances		_		_
Amortization of deferred charges (24,020) Other (24,020) Change in assets and liabilities: (24,024) Receivables 9 41,234 Due from other funds 9 (11,587) Due from other governments 9 (6,228) Prepaid items 9 (6,228) Inventories (63,000) 9 Net investment in direct financing leases (63,000) 9 Recoverable power costs (net) (63,000) 9 Other current assets 9 9 9 Loans receivable 9 9 9 9 Interfund receivable 9 9 9 14,060 9 12,17 9 14,060 9 12,17 9 14,060 9 12,17 9 14,060 9 14,060 9 14,060 9 12,17 9 14,060 9 14,060 9 14,060 9 14,060 9 14,060 9 14,060 9 14,060 <	Accrual of deferred charges		_		20,591
Other (24,020) Change in assets and liabilities: 41,234 Receivables ————————————————————————————————————	Amortization of discounts		_		_
Change in assets and liabilities: 41,234 Due from other funds — 41,234 Due from other governments — (11,587) Prepaid items — — Inventories — — Net investment in direct financing leases — — Net ceverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — Due to other funds — — Due to other governments — — Due to other governments — — Deposits — — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — —	Amortization of deferred charges		_		_
Receivables 41,234 Due from other funds — (11,587) Due from other governments — (11,587) Prepaid items — — Inventories — — Net investment in direct financing leases — — Recoverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Interfund receivable — — Due to other funds — — Due to other funds — — Due to other governments — — Due to other governments — — Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable <td>Other</td> <td></td> <td>_</td> <td></td> <td>(24,020)</td>	Other		_		(24,020)
Due from other funds — (11,587) Due from other governments — (11,587) Prepaid items — (6,428) Net investment in direct financing leases — — Recoverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — Due to other funds — — Due to other governments — — Due to other governments — — Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — —	Change in assets and liabilities:				
Due from other governments — (11,587) Prepaid Items — — Inventories — (6,428) Net investment in direct financing leases — — Recoverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — Due to other governments — — Due to other governments — — Due to other governments — — Deposits — — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Compensated absences payable — <td< td=""><td>Receivables</td><td></td><td>_</td><td></td><td>41,234</td></td<>	Receivables		_		41,234
Prepaid items — — Inventories — (6,428) Net investment in direct financing leases — — Recoverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — Due to component units — — Due to other governments — — Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Compensated absences payable — —	Due from other funds		_		_
Inventories	Due from other governments		_		(11,587)
Net investment in direct financing leases —	Prepaid items		_		_
Recoverable power costs (net) (63,000) — Other current assets — — Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — 14,060 Due to component units — — — Due to other governments — — — Deposits — — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713	Inventories		_		(6,428)
Other current assets —	Net investment in direct financing leases		_		_
Loans receivable — — Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — — 14,060 Due to component units — — — Due to other governments — — — Due to other governments — — — Deposits — — — Contracts and notes payable — — — Advance collections — — — Interest payable — — — Other current liabilities — — — Deferred revenue — — — Benefits payable — — — Lottery prizes and annuities — — — Compensated absences payable — — — Capital lease obligations — — — Other noncurrent liabilities — — —	Recoverable power costs (net)		(63,000)		_
Interfund receivable — — Accounts payable (21,000) 5,217 Due to other funds — 14,060 Due to component units — — Due to other governments — — Due to other governments — — Deposits — — Contracts and notes payable — — Contracts and notes payable — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) \$ 274,490 Noncash capital and related financing and investing activities — —	Other current assets		_		_
Accounts payable (21,000) 5,217 Due to other funds — 14,060 Due to component units — — Due to other governments — 19,510 Deposits — — Contracts and notes payable — — Contracts and notes payable — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) 274,490 Noncash capital and related financing and investing activities — — Interest accreted on annuitized prizes \$ — — Unclaimed Lottery pri	Loans receivable		_		_
Due to other funds — 14,060 Due to component units — — Due to other governments — 19,510 Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) \$ 274,490 Noncash capital and related financing and investing activities \$ — — Interest accreted on annuitized prizes \$ — \$ — Unclaimed Lottery prizes directly transferred to Education Fund — —	Interfund receivable		_		_
Due to component unitis — — Due to other governments — 19,510 Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Compact and absences payable — — Compensated absences payable — — Compensated absences payable — — Copital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) 137,713 Noncash capital and related financing and investing activities \$ - \$ - Interest accreted on annuitized prizes \$ -	Accounts payable		(21,000)		5,217
Due to other governments 19,510 Deposits — Contracts and notes payable — Advance collections — Interest payable — Other current liabilities — Deferred revenue — Benefits payable — Lottery prizes and annuities — Compensated absences payable — Capital lease obligations — Other noncurrent liabilities — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) 274,490 Noncash capital and related financing and investing activities \$ — \$ — Interest accreted on annuitized prizes \$ — \$ — Unclaimed Lottery prizes directly transferred to Education Fund — —	Due to other funds		_		14,060
Deposits — — Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) \$ 274,490 Noncash capital and related financing and investing activities \$ - \$ - Interest accreted on annuitized prizes \$ - \$ - Unclaimed Lottery prizes directly transferred to Education Fund — —	Due to component units		_		_
Contracts and notes payable — — Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) \$ 274,490 Noncash capital and related financing and investing activities \$ — \$ — Interest accreted on annuitized prizes \$ — \$ — Unclaimed Lottery prizes directly transferred to Education Fund — —	Due to other governments		_		19,510
Advance collections — — Interest payable — — Other current liabilities — — Deferred revenue — — Benefits payable — — Lottery prizes and annuities — — Compensated absences payable — — Capital lease obligations — — Other noncurrent liabilities — — Total adjustments (84,000) 137,713 Net cash provided by (used in) operating activities \$ (84,000) \$ 274,490 Noncash capital and related financing and investing activities \$ — \$ — Interest accreted on annuitized prizes \$ — \$ — Unclaimed Lottery prizes directly transferred to Education Fund — —	Deposits		_		_
Interest payable	Contracts and notes payable		_		_
Other current liabilities — — — — — — — — — — — — — — — — — — —	Advance collections		_		_
Deferred revenue	Interest payable		_		_
Benefits payable	Other current liabilities		_		_
Lottery prizes and annuities	Deferred revenue		_		_
Compensated absences payable — — — — — — — — — — — — — — — — — — —	Benefits payable		_		_
Capital lease obligations — — — — Other noncurrent liabilities — — — — Total adjustments — — — — [84,000] 137,713 Net cash provided by (used in) operating activities — — — [84,000] \$ 274,490 Noncash capital and related financing and investing activities — — — — Unclaimed Lottery prizes directly transferred to Education Fund — — — — — — — — — — — — — — — — — — —	Lottery prizes and annuities		_		_
Other noncurrent liabilities	Compensated absences payable		_		_
Total adjustments	Capital lease obligations		_		_
Net cash provided by (used in) operating activities	Other noncurrent liabilities		_		
Noncash capital and related financing and investing activities Interest accreted on annuitized prizes	Total adjustments		(84,000)		137,713
Interest accreted on annuitized prizes	Net cash provided by (used in) operating activities	\$	(84,000)	\$	274,490
Interest accreted on annuitized prizes	Noncash capital and related financing and investing activities				
Unclaimed Lottery prizes directly transferred to Education Fund — — — —		\$	_	\$	_
			_		_
Unrealized loss on investment	Unrealized loss on investment		150,000		_

	Business-type Activities – Enterprise Funds										
Pub	lic Building		State		employment		Nonmajor				Activities Internal
	nstruction	_	Lottery		Programs	_	Enterprise		Total	Se	ervice Funds
\$	12,912	\$	1,049,903	\$	(2,017,406)	\$	(67,998)	\$	(885,812)	\$	65,283
	_		_		_		115,929		115,929		588
	_		9,070		673		99,696		188,575		40,973
	1,675		_		_		1,127		2,802		_
	_		(2,661)		_		(2,115)		(4,776)		_
	(4,063)		_		_		_		16,528		_
	(6,289)		_		_		91		(6,198)		_
	6,983		7,502		_		5,159		19,644		_
	(1,232)		1,394		_		17,926		(5,932)		_
	31,613		68,842		(51,450)		(10,839)		79,400		72,609
	(3,899)		4		16,017		13,150		25,272		(71,345)
	_		_		(3,765)		(1,814)		(17,166)		2,362
	_		_		_		(361)		(361)		(19,710)
	_		(528)		_		30		(6,926)		(10,135)
	327,407		_		_		16,704		344,111		_
	_		_		_		_		(63,000)		_
	_		(1,906)		_		(10,780)		(12,686)		177
	_		_		_		(444,437)		(444,437)		_
	_		_		_		83		83		_
	(186)		7,101		6		(3,588)		(12,450)		65,575
	(1,883)		1		6,255		(20,034)		(1,601)		(212,792)
	_		_								51,958
	1,138		_		174		(1,100)		19,722		(6)
	_		_		_		863		863		46
	(75)		477		_		(010)		(416)		(214)
	(75)		477		_		(818)		(416)		151,300
	(1,120)		5,037		31,093		2,330 3,366		1,210		— 767
			5,037		31,093		2,090		39,496		707
					102,927		(1,785)		2,090 101,142		
	_		(360,829)		102,527		(1,700)		(360,829)		_
	_		185		(1,958)		2,092		319		4,002
	_		_		(1,000)		2,002				6,753
	_		(46)		16,438		1,254		17,646		44,802
	350,069		(266,357)		116,410	_	(215,781)		38,054	_	127,710
\$	362,981	\$	783,546	\$	(1,900,996)	\$	(283,779)	\$	(847,758)	\$	192,993
====			<u> </u>								(concluded)
\$	_	\$	104,014	\$	_	\$	_	\$	104,014	\$	_
	_		25,617		_		_		25,617		_
	_		69,768		_		_		219,768		_

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2008

(amounts in thousands)		Pension		
		and Other	Investment	
	Private		Trust	
	Purpose	Employee Benefit	Local Agency	
	Trust	Trust	Investment	Agency
ASSETS			IIIVESTINEIR	Agendy
Cash and pooled investments	\$ 398,273	\$ 2,150,090	\$ 25,356,255	\$ 3,847,162
Investments, at fair value:	Ψ 000,270	Ψ 2,100,000	Ψ 20,000,200	φ 0,017,102
Short-term	_	5,069,194	_	_
Equity securities	58,995	216,048,653	_	_
Debt securities		92,115,314	_	_
Real estate	_	42,306,465	_	_
Other	3,051,256	52,351,622	_	_
Securities lending collateral		62,254,367	_	_
Total investments	3,110,251	470,145,615		
Receivables (net)	7,062	8,138,167	_	980,883
Due from other funds	22	445,269	_	8,691,264
Due from other governments		7	_	88,701
Prepaid Items	_	_	_	14,506
Loans receivable	_	_	_	68,964
Other assets	299,658	391,566	_	255
Total assets	3,815,266	481,270,714	25,356,255	\$ 13,691,735
LIABILITIES				
Accounts payable	3,118	4,444,115	79	\$ 5,380,232
Due to other funds	370,510	1,322	346	_
Due to other governments	_	191	194,917	6,056,796
Tax overpayments	_	_	_	11,037
Benefits payable	_	1,677,734	_	292,394
Deposits	299,658	_	_	967,189
Advance collections	· —	_	_	65,998
Securities lending obligations	_	62,254,367	_	· <u> </u>
Interfund payables	_	_	_	60,025
Other liabilities	611	4,133,183	_	858,064
Total liabilities	673,897	72,510,912	195,342	\$ 13,691,735
NET ASSETS	·		<u> </u>	
Held in trust for pension benefits, pool participants,				
	e 2444.000	¢ 400 750 000	¢ 25.460.040	
and other purposes	\$ 3,141,369	\$ 408,759,802	\$ 25,160,913	

32,477,787

Pension

286,772

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Receipts from depositors

Refunds of contributions

Year Ended June 30, 2008 (amounts in thousands)

and Other Investment **Private Employee Trust Purpose Benefit** Local Agency **Trust** Investment **Trust ADDITIONS** Contributions: 12.269.903 Employer\$ Plan member 6,775,528 19,045,431 Total contributions Investment income: Net appreciation (depreciation) in fair value of investments (221,204)(29,456,876)Interest, dividends, and other investment income 121,923 12,745,177 935,886 Less: investment expense (9,792)(5,963,993)935,886 Net investment income (109,073)(22,675,692)

Other		235,768	
Total additions	1,256,371	(3,394,493)	33,413,673
DEDUCTIONS			
Distributions paid and payable to participants	_	18,965,204	934,201

1,365,444

 Administrative expense
 24
 531,889
 1,685

 Payments to and for depositors
 849,774
 408,283
 27,053,132

 Total deductions
 849,798
 20,192,148
 27,989,018

 Change in net assets
 406,573
 (23,586,641)
 5,424,655

 Net assets, July 1, 2007
 2,734,796
 432,346,443
 * 19,736,258

 Net assets, June 30, 2008
 \$ 3,141,369
 \$ 408,759,802
 \$ 25,160,913

^{*} Restated



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Discretely Presented Component Units Financial Statements

Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2008 (amounts in thousands)			California			
	University	State	Housing	Public	Nonmajor	
	of	Compensation	Finance	Employees'	Component	
	California	Insurance	Agency	Benefits	Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	\$ 258,676	\$ 320,463	\$ 1,223,832	\$ 442,244	\$ 661,340	\$ 2,906,555
Investments	6,777,015	3,111,416	488,613	15,490	220,326	10,612,860
Restricted assets:						
Cash and pooled investments	_	_	_	_	22,196	22,196
Investments	_	_	_	_	38,983	38,983
Receivables (net)	1,995,922	931,529	397,234	61,324	352,961	3,738,970
Due from primary government	236,273	_	_	4,622	1,057	241,952
Due from other governments	402,846	_	_	70,791	78,534	552,171
Prepaid items	_	_	641	_	1,591	2,232
Inventories	157,920	_	_	_	245	158,165
Other current assets	135,698	19,565	121		72,745	228,129
Total current assets	9,964,350	4,382,973	2,110,441	594,471	1,449,978	18,502,213
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	_	_	_	_	126,140	126,140
Investments	_	_	_	_	39,696	39,696
Investments	16,497,768	17,302,321	215,715	2,688,464	1,057,274	37,761,542
Receivables (net)	701,305	_	_	_	251,320	952,625
Loans receivable	_	_	8,110,363	_	325,623	8,435,986
Deferred charges	_	_	41,058	_	1,411	42,469
Capital assets:						
Land	664,306	57,768	_	_	109,292	831,366
Collections – nondepreciable	284,875	_	_	_	3,984	288,859
Buildings and other depreciable						
property	28,143,711	523,126	1,471	_	1,612,697	30,281,005
Less: accumulated depreciation	(12,500,229)	(246,256)	(632)	_	(662,003)	(13,409,120)
Construction in progress	3,000,551	80,138	_	_	62,363	3,143,052
Other noncurrent assets	272,927		40,065		95,237	408,229
Total noncurrent assets	37,065,214	17,717,097	8,408,040	2,688,464	3,023,034	68,901,849
Total assets	\$ 47,029,564	\$ 22,100,070	\$ 10,518,481	\$ 3,282,935	\$ 4,473,012	\$ 87,404,062

	University of	State Compensation	California Housing Finance	Public Employees'	Nonmajor Component	
	California	Insurance	Agency	Benefits	Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 1,407,375	\$ 98,190	\$ 46,239	\$ 341,483	\$ 100,115	\$ 1,993,402
Due to primary government	_	_	_	62,831	_	62,831
Due to other governments	_	_	6	_	_	6
Dividends payable	_	3,100	_	_	_	3,100
Deferred revenue	968,686	_	_	_	64,093	1,032,779
Deposits	362,702	_	182,006	_	1,281	545,989
Contracts and notes payable	_	_	_	_	11,589	11,589
Advance collections	_	114,524	_	_	618	115,142
Interest payable	_	_	148,813	_	1,885	150,698
Securities lending obligations	3,513,191	329,377	_	_	_	3,842,568
Benefits payable	_	1,942,713	_	_	_	1,942,713
Current portion of long-term						
obligations	1,355,328	71,176	114,212	19,698	125,903	1,686,317
Other current liabilities	1,505,364	132,945	5,816	76,998	184,949	1,906,072
Total current liabilities	9,112,646	2,692,025	497,092	501,010	490,433	13,293,206
Noncurrent liabilities:						
Benefits payable	_	14,134,000	_	2,298,739	_	16,432,739
Compensated absences payable	208,763	_	_	_	11,213	219,976
Certificates of participation,						
commercial paper, and						
other borrowings	2,270	_	_	_	64,174	66,444
Capital lease obligations	2,098,791	_	_	_	227,859	2,326,650
Revenue bonds payable	6,736,011	_	8,505,841	_	480,480	15,722,332
Other noncurrent liabilities	2,239,467	370,606	70,444	1,896	373,918	3,056,331
Total noncurrent liabilities	11,285,302	14,504,606	8,576,285	2,300,635	1,157,644	37,824,472
Total liabilities	20,397,948	17,196,631	9,073,377	2,801,645	1,648,077	51,117,678
NET ASSETS						
Investment in capital assets, net of						
related debt	10,034,663	414,776	839	_	528,791	10,979,069
Restricted:		,			,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Nonexpendable	2,868,331	_	_	_	702,197	3,570,528
Expendable:	,,				, ,	0,010,000
Endowments and gifts	7,433,816	_	_	_	8,456	7,442,272
Education	887,164	_	_	_	596,405	1,483,569
Indenture	_	_	505,370	_	_	505,370
Employee benefits	_	_	_	616,025	_	616,025
Workers' compensation liability	_	4,488,663	_	_	_	4,488,663
Statute	_	., .00,000	938,895	_	258,448	1,197,343
Other purposes	_	_		_	289,252	289,252
Total expendable		4,488,663	1,444,265	616,025	1,152,561	16,022,494
Unrestricted		., .55,555	.,,200	(134,735)	441,386	5,714,293
Total net assets	26,631,616	4,903,439	1,445,104	481,290	2,824,935	36,286,384
Total liabilities and net assets		\$ 22,100,070	\$ 10,518,481	\$ 3,282,935	\$ 4,473,012	\$ 87,404,062
ו טומו וומטווונוכט מווע ווכנ מסטפנט	Ψ 41,023,304	<u>Ψ 22,100,070</u>	Ψ 10,510,461	ψ 5,262,335	Ψ 7,713,012	Ψ 01,404,002

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2008 (amounts in thousands)

		State	California			
	•	Compensation	J	Public	Nonmajor	
	of	Insurance	Finance	Employees'	Component	
	California	Fund	Agency	Benefits	Units	Total
OPERATING EXPENSES						
Personal services	\$ 12,401,378	\$ 690,208	\$ 26,576	\$ —	\$ 541,685	\$ 13,659,847
Scholarships and fellowships	427,588	_	_	_	40,353	467,941
Supplies	2,101,594	_	_	_	9,193	2,110,787
Services and charges	391,966	75,863	65,688	936,963	1,270,168	2,740,648
Department of Energy laboratories	1,039,330	_	_	_	_	1,039,330
Depreciation	1,093,620	40,436	182	_	63,901	1,198,139
Distributions to beneficiaries	_	1,756,083	_	_	_	1,756,083
Interest expense and fiscal charges	400,369	_	392,647	_	32,433	825,449
Amortization of deferred charges	_	260,786	10,617	_	86	271,489
Grants provided	527,572	_	75,584	_	_	603,156
Other	2,757,170	160,443			50,895	2,968,508
Total operating expenses	21,140,587	2,983,819	571,294	936,963	2,008,714	27,641,377
PROGRAM REVENUES						
Charges for services	10,385,989	2,274,908	506,194	1,826,740	1,245,046	16,238,877
Operating grants and contributions	7,867,138	_	118,001	_	549,307	8,534,446
Capital grants and contributions	245,305				4,797	250,102
Total program revenues	18,498,432	2,274,908	624,195	1,826,740	1,799,150	25,023,425
Net (expense) revenue	(2,642,155)	(708,911)	52,901	889,777	(209,564)	(2,617,952)
GENERAL REVENUES						
Investment and interest income (loss)	275,632	1,311,092	(3,746)	(30,188)	(26,089)	1,526,701
Other	2,222,464	119,703	3,036	_	265,089	2,610,292
Total general revenues	2,498,096	1,430,795	(710)	(30,188)	239,000	4,136,993
Change in net assets	(144,059)	721,884	52,191	859,589	29,436	1,519,041
Net assets (deficit), July 1, 2007	26,775,675	4,181,555	1,392,913	(378,299)	2,795,499	* 34,767,343
Net assets (deficit), June 30, 2008	\$ 26,631,616	\$ 4,903,439	\$ 1,445,104	\$ 481,290	\$ 2,824,935	\$ 36,286,384
* Destated						

^{*} Restated

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2008:

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;

GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues; and

GASB Statement No. 50, Pension Disclosures; an amendment of GASB Statements No. 25 and No. 27.

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 \$527 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 94250-5872.

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, Resources, Environmental and Capital Outlay 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 \$71 million between the authorities and other programs reported in the same fund have been eliminated from the 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 moneys and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public employee Replacement Benefits Fund, and the public employee 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 94229-2703.

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 three pension and other employee benefit trust funds: the State Teachers' Retirement Fund; the Teachers' Health Benefits Fund; and the Pension2 Program, formally known as 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 95851-0275.

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, 10th Floor, Oakland, California 94607-5200.

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, 2007, may be obtained from the State Compensation Insurance Fund, P.O. Box 420807, San Francisco, California 94142-0807.

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 94229-2703.

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 94250-5872.

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 nonprofit 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, 2007);

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, 2007);

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 provided financing for projects to increase power supplies, reduce demand for energy, and improve the efficiency and environmental performance of power plants. The last remaining program expired in 2007 and all other activities were transferred to other state agencies, so this is the last year for which this component unit will be reported.

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, 2008, CADA had total assets of \$29.9 million, total liabilities of \$18.0 million, and total net assets of \$11.9 million. Total revenues for the fiscal year were \$10.5 million and expenses were \$8.3 million, resulting in a change in net assets of \$2.2 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 95814-5958.

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 94250-5872.

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

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:

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

The State reports the following major enterprise funds.

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

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

The 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, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

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

The State has the following four fiduciary fund types.

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments.

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.

The California State University (CSU), an agency that accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund, has entered into 30-year capital lease agreements with certain of its auxiliary organizations that are accounted for as a nonmajor discretely presented component unit. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

G. Deferred Charges

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

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 recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable 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 12,183 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 net other postemployment benefit obligation, 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, discounts, and loss on refundings 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, discount, or loss. Bond premiums and discounts for governmental activities are reported as other financing sources (uses) in the fund financial statements. However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium, discount and loss on refunding.

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 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, 2008, the government-wide

financial statements show restricted net assets for the primary government of \$17.0 billion, of which \$8.3 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** decreased by \$8 million. This decrease is reported in two **nonmajor governmental funds** and comprises a \$6 million net decrease in the separate financial statements of the trial courts as a result of error corrections for overstated revenue and unreconciled amounts the courts found when migrating to a centralized accounting system and a \$2 million decrease from an error the Department of Public Health made when reversing a transfer accrual. In addition, the Transportation Safety Fund and several other funds previously included in other nonmajor special revenue funds were combined with the Transportation Construction Fund to create the newly-named Transportation Fund. As a result, the beginning fund balance of the Transportation Fund increased by \$908 million and the beginning fund balance of the **nonmajor governmental funds** decreased by \$908 million.

The beginning net assets of the **nonmajor enterprise funds** increased by \$260 million from the inclusion of the net investment in direct financing leases between the California State University and its auxiliary organizations, a nonmajor component unit.

The beginning net assets of the **pension and other employee benefit trust funds** decreased by \$69 million as a result of overstated member contributions in the Volunteer Firefighters' Length of Service Award Fund.

The beginning net assets of the **discretely presented component units – enterprise activity** increased by \$12 million as a result of error corrections in the separately audited financial statements of the California State University auxiliary organizations. The corrections included adjustments for depository and other liabilities, notes payable, receivables, and endowment investments.

2. Government-wide Financial Statements

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

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, 2008, increased spending authority for the General Fund and the Transportation 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 is 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, 2008, the discretely presented component units accounted for approximately 3.7% 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, 2008, totaling approximately \$10.3 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2008, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling \$31 million related to principal and interest payments to bondholders. Additionally, \$13 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. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations are posted to the State Treasurer's Office website at www.treasurer.ca.gov. As of June 30, 2008, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 163 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, 2008, 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. Most of the \$412 million in interest revenue received by the General Fund from the pooled investment program in the 2007-08 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, 2008, structured notes and asset-backed securities comprised approximately 14.7% of the pooled investments. A significant portion of the structured notes consisted of federal agency floating-rate debentures. For the federal agency and corporate floating-rate securities 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 portion representing the asset-backed securities consists of mortgage backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A lesser portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. The bulk of the asset-backed portfolio holdings were asset-backed commercial paper (ABCP) which represented 3.6% of pooled investments.

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 ¹	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	A-2/P-2/F-2 ²
			Commercial Paper	
Corporate Bonds/Notes	5 years	N/A	N/A	A-/A3/A- ³
Repurchase Agreements	1 year	N/A	N/A	N/A
Reverse Repurchase Agreements	1 year	10% ¹	N/A	N/A

¹ 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, except for commercial paper.

² 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.

³ The Government Code requires that a security fall within the top three ratings of a nationally recognized rating service.

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

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, 2008 (amounts in thousands)

-	Interest Rates ¹	Maturity	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments				
U.S. Treasury bills and notes	1.79 - 2.51	3 days - 1.38 years	\$ 4,167,418	0.76
U.S. agency bonds and discount notes	2.00 - 5.37	18 days - 2.00 years	19,629,101	0.63
Small Business Administration loans	2.55 - 3.38	0.25 year	547,472	0.25 2
Mortgage-backed securities 3	3.92 - 14.25	17 days - 7.13 years	1,118,704	3.29
Certificates of deposit	2.25 - 3.07	1 day - 149 days	14,042,931	0.14
Commercial paper	2.08 - 3.00	1 day - 149 days	9,327,169	0.07
Corporate bonds and notes	2.62 - 5.50	7 days - 1.70 years	1,136,398	0.33
Total pooled investments			 49,969,193 4	
Other primary government investments				
U.S. Treasuries and agencies			2,062,358	4.68
Commercial paper			900,820	N/A ⁵
Guaranteed investment contracts			400,404	14.31
Corporate debt securities			601,643	1.77
Other			 1,102,854	0.75
Total other primary government investments 6			 5,068,079	
Funds outside primary government included in poole Less: investment trust funds Less: other trust and agency funds			25,356,255 3,438,677	
Less: discretely presented component units			 2,616,669	
Total primary government investments			\$ 23,625,671	

¹ These numbers represent high and low interest rates for each investment type.

² In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes stated maturity is the quarterly reset date.

³ These securities are issued by U.S. government agencies such as the Government National Mortgage Association.

Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include \$9.4 billion of time deposits and \$10.7 billion of internal loans to State funds which are reported as cash in the respective funds.

⁵ These commercial paper holdings of the California State University and the Golden State Tobacco Securitization Corporation mature in less than one year.

⁶ Total other primary government investments include approximately \$47 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, 2008 (amounts in thousands)

Pooled investments	•	Fair Value t Year End	% of Total Pooled Investments
Mortgage-backed			
Federal National Mortgage Association Collateralized Mortgage Obligations	\$	1,118,457	2.238 %
Government National Mortgage Association Pools		184	0.000
Federal Home Loan Mortgage Corporation Participation Certificate Pools		63	0.000

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, 2008

(amounts in thousands)

Credit Rating as of				
Short-term	Long-term	Fair Value		
Pooled investments ¹				
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$	38,790,866	2
A-1/P-1/F-1	AA/Aa/AA		4,972,209	
A-2/P-2/F-2	A/A/A		343,902	
B/N.P./B	BB/Ba/BB		28,622	
Not rated			1,118,520	
Not applicable			4,715,074	
Total pooled investments			49,969,193	_ =
Other primary government	investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$	1,138,071	
A-1/P-1/F-1	AA/Aa/AA		530,376	
A-2/P-2/F-2	A/A/A		1,061,464	
A-3/P-3/F-3	BBB/Baa/BBB		4,803	
Not rated			557,954	
Not applicable			1,775,411	
Total other primary govern	ment investments	\$	5,068,079	

- ¹ 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.
- ² This amount includes \$8.1 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 \$9.4 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 \$10.7 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, 2008

(amounts in thousands)

POOLED INVESTMENTS

			% of Total
		Reported	Pooled
Issuer	Investment Type	Amount	Investments
Federal Home Loan Bank	U.S. agency securities	\$ 10,432,122	20.88 %
Federal Home Loan Mortgage Corp.	U.S. agency securities	8,100,656	16.21
General Electric Capital/GE Company	Corporate Bonds/Commercial Paper	2,501,395	5.01

OTHER PRIMARY GOVERNMENT INVESTMENTS

Issuer	Investment Type	Reported Amount	% of Total Agency Investments
Golden State Tobacco Securitization Corpo	oration		
Briarwood	Commercial paper	\$ 63,540	13.44 %
Coral	Commercial paper	86,703	18.35
Crimson	Commercial paper	72,883	15.42
Curzon	Commercial paper	64,617	13.67
Hannover	Commercial paper	75,318	15.94
Morrigan	Commercial paper	75,386	15.95
Sapphire	Commercial paper	28,023	5.93
Department of Water Resources			
Federal National Mortgage Association	U.S. agency securities	\$ 73,934	61.01 %

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, 2008, \$16 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 negative \$100 million as of June 30, 2008. 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, 2008, CalPERS had an approximately negative \$100 million net exposure to loss from forward foreign currency exchange transactions related to the approximately \$53.5 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, 364 days, 499 days, and 57 days. In accordance with CalPERS' investment guidelines, the cash collateral was invested in short-term investment funds that, at June 30, 2008, had durations of 1 day, 21 days, 22 days, and 2 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, 2008, had a 20-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, 2008, 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, 2008

(amounts in thousands)

	Fair Value
Investment Type	
Equity securities	\$ 216,107,648
Debt securities*	97,184,508
Investment contracts	944,970
Mutual funds	7,677,438
Real estate	42,306,465
Inflation linked	4,659,829
Insurance contracts	281,756
Private equity	40,588,117
Securities lending collateral	62,254,367
Other	1,250,768
Total investments	\$ 473,255,866
* 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 20% (0.80 to 1.20) of the average effective duration of the relevant Lehman Brothers benchmark. The permissible range of deviation for the average 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 the average maturity of the portfolio shall be managed such that it will not exceed 180 days.

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

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk June 30, 2008 (amounts in thousands)

California Public Employees' Retirement Fund ² U.S. Treasuries and agencies Mortgages Corporate Asset-backed Private placement International SWAPS Commingled	27,276,700 17,879,260 1,091,790 5,494 5,656,320 128,672 3,220	<u>Dura</u>	10.27 5.43 8.71 6.61 4.64 7.41	
U.S. Treasuries and agencies Mortgages Corporate Asset-backed Private placement International SWAPS Commingled	27,276,700 17,879,260 1,091,790 5,494 5,656,320 128,672 3,220		5.43 8.71 6.61 4.64 7.41	
Corporate Asset-backed Private placement International SWAPS Commingled	17,879,260 1,091,790 5,494 5,656,320 128,672 3,220		8.71 6.61 4.64 7.41	
Asset-backed	1,091,790 5,494 5,656,320 128,672 3,220		6.61 4.64 7.41	
Private placement International SWAPS Commingled	5,494 5,656,320 128,672 3,220		4.64 7.41	
International	5,656,320 128,672 3,220		7.41	
SWAPS	128,672 3,220			
Commingled	3,220		1 00	
•	•		1.33	
2	0.000.400		2.17	
No effective duration ³	2,039,109		N/A	
Total	\$ 61,588,587			
Deferred Compensation Plan Fund				
Investment contracts	\$ 944,970		4.25	
Scholarshare Program Trust Fund				
Investment contracts	\$ 281,756		2.38	
California State Teachers' Retirement System				
Long-term fixed-income investments				
U.S. Government and agency obligations	\$ 6,671,318		4.53	
Corporate	6,313,843		5.92	
High yield	2,415,903		3.66	
Debt core plus	4,178,269		5.21	
Asset-backed securities	89,670		4.16	
Commercial mortgage-backed securities	1,692,192		4.57	
Mortgage-backed securities	9,472,130		4.03	
Total	\$ 30,833,325			
	0-30 days		-90 ays	91-120 days
Short-term fixed-income investments				
Money market securities	\$ 1,015,846	\$ 4	8,030	\$ _
Corporate bonds	_		_	_
Corporate floating-rate notes	112,584	24	5,687	17,000
U.S. Government and agency obligations				
Noncallables	19,995	8	4,927	14,539
Discount notes	99,907	7	4,671	_
Callable	37,000	12	6,997	13,997
Municipals	_	1	2,747	_
U.S. Treasury	95,778	7	4,824	_
Asset-backed securities	138,357	2	0,845	19,000
Total	\$ 1,519,467	\$ 68	8,728	\$ 64,536

¹ Effective duration is described in the paragraph preceding this table.

² Includes investments of fiduciary funds and certain discretely presented component units that CalPERS administers.

³ Securities held in externally managed investment pools or in default.

121-180 days		_			366+ days		air Value at Year End
\$	_	\$	_	\$	_	\$	1,063,876
Ψ.	_	Ψ	2,340	Ψ	_	Ψ	2,340
	_		_		_		375,271
							,
	50,424		25,075		44,951		239,911
	24,695		_		_		199,273
	34,029		11,998		_		224,021
	_		_		_		12,747
	_		48,874		14,951		234,427
			14,499				192,701
\$	109,148	\$	102,786	\$	59,902	\$	2,544,567

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, at the time of purchase, at least 95% of the corporate securities comprising the credit portion of the internally managed fixed income portfolio be rated Baa3/BBB-/BBB- or better by two out of the three nationally recognized statistical rating organizations (NRSROs), such as Moody's Investors Service, Inc, Standard and Poor's Rating Service, or Fitch Ratings. The rating used to determine the quality of the individual securities will be the highest of the ratings supplied by two NRSROs. Furthermore, the total position of the outstanding debt of any one private mortgage-backed and asset-backed securities issuer shall be limited to 10% of the market value of the portfolio. Obligations of other issuers are held to a 5% per issuer limit (at the time of purchase) of the market value of any individual portfolio. The investment guidelines also include an allocation to high yield and core plus assets which 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, 2008 (amounts in thousands)

Credit Rating as of				
Short-term	Long-term	Fair Value		
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$	59,220,214	
A-1/P-1/F-1	AA/Aa/AA		12,019,201	
A-2/P-2/F-2	A/A/A		12,672,840	
A-3/P-3/F-3	BBB/Baa/BBB		11,975,570	
B/NP/B	BB/Ba/BB		1,569,379	
B/NP/B	B/B/B		1,883,699	
C/NP/C	CCC/Caa/CCC		497,194	
C/NP/C	CC/Ca/CC		3,787	
C/NP/C	C/C/C		576	
D/NP/D	D/D/D		9,358	
Not rated			10,900,457	
Not applicable			18,758,104	
Total fixed-income securities		\$	129,510,379	

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held \$945 million in investment contracts of Dwight Asset Management Company; this amount represented 13.6% of the fund's total investments as of June 30, 2008. The Scholarshare Program Trust Fund held \$282 million in investment contracts of TIAA-CREF Life Insurance Company; this amount represented 9.1% of the fund's total investments as of June 20, 2008.

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, 2008, were not exposed to custodial risk.

5. Foreign Currency Risk

At June 30, 2008, CalPERS and CalSTRS held \$58.0 billion and \$33.7 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 40% of total global equity assets invested in international equities and 8.5% 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, 2008
(amounts in thousands of U.S. dollars at fair value)

				Fixed		Currency	
Currency	Cash	<u>Equity</u>	Alternative	Income	Real Estate	Overlay	Total
Argentine Peso \$	463	\$ 4,587	\$ —	\$ 109	\$ -	\$ —	\$ 5,159
Australian Dollar	27,057	4,266,697	58,373	124,905	13,316	38,854	4,529,202
Bermuda Dollar	_	1,573	_	_	_	_	1,573
Brazilian Real	6,961	1,444,084	_	30,929	_	(1,950)	1,480,024
British Pound Sterling	88,774	12,974,442	379,812	278,841	205,309	62,653	13,989,831
Canadian Dollar	18,507	4,781,284	137,484	32,266	_	46,217	5,015,758
Chilean Peso	491	56,091	_	_	_	_	56,582
Chinese Yuan	54	8,171	_	_	_	_	8,225
Columbian Peso	45	_	_	1,384	_	_	1,429
Czech Koruna	244	78,548	_	_	_	_	78,792
Danish Krone	14,594	609,120	625	61,215	_	(2,738)	682,816
Egyptian Pound	5,159	186,364	_	_	_	_	191,523
Euro	248,927	27,239,731	2,005,046	2,162,445	25,749	(11,464)	31,670,434
Hong Kong Dollar	21,537	3,302,581	_	_	24,928	16,736	3,365,782
Hungarian Forint	231	90,457	_	2,088	_	18,288	111,064
Iceland Krona	_	_	_	4,275	_	_	4,275
Indian Rupee	2,252	697,299	_	_	_	_	699,551
Indonesian Rupiah	498	306,905	_	_	_	358	307,761
Israeli Shekel	4,013	305,177	_	1	_	1,317	310,508
Japanese Yen	572,207	12,375,450	1,126,576	1,488,078	57,636	97,005	15,716,952
Malaysian Ringgit	6,176	300,426	_	_	_	(2,453)	304,149
Mexican Peso	3,996	542,373	_	62,399	_	(233)	608,535
Moroccan Dirham	87	797	_	_	_	_	884
New Russian Ruble	_	8,086	_	_	_	27,068	35,154
New Zealand Dollar	1,820	70,273	_	9,262	2,277	(224)	83,408
Norwegian Krone	29,833	839,065	_	_	_	31,954	900,852
Pakistan Rupee	29	7,602	_	_	_	_	7,631
Peruvian Nouveau Sol	12	454	_	_	_	7,122	7,588
Philippine Peso	378	48,317	_	_	_	(25)	48,670
Polish Zloty	1,311	120,472	_	30,645	_	_	152,428
Singapore Dollar	7,366	949,034	_	15,278	39,092	_	1,010,770
South African Rand	3,877	1,047,523	_	7,172	_	5,107	1,063,679
South Korean Won	3,420	1,840,313	_	9,488	_	_	1,853,221
Sri Lanka Rupee	16	413	_	_	_	_	429
Swedish Krona	32,514	1,271,945	_	160,212	_	(84)	1,464,587
Swiss Franc	17,181	4,180,492	306	_	1,514	356	4,199,849
Taiwan Dollar	38,892	1,365,473	_	_	_	_	1,404,365
Thailand Baht	2,867	271,583	_	3,985	_	(5,349)	273,086
Turkish New Lira	802	430,211	_	_	_	1,866	432,879
UAE Dirham	_	_	_	_	_	14,129	14,129
Total exposure to							
foreign currency risk \$	1,162,591	\$ 82,023,413	\$ 3,708,222	\$ 4,484,977	\$ 369,821	\$ 344,510	\$ 92,093,534

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 it is obligated to pay a fee and a rebate to the borrower. The university receives the net investment income. As of June 30, 2008, the university had no exposure to borrowers because the amounts that 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, 2008, the securities in these pools had a weighted average maturity of 27 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, 2007, the aggregate fair value of the loaned securities and the cash collateral received in respect to these loans was \$334 million and \$329 million, 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, 2008

(amounts in thousands)

	Fair Value
Investment Type	
Equity securities	\$ 3,945,363
Debt securities*	32,678,462
Investment contracts	517,365
Mutual funds	5,215,479
Real estate	566,167
Money market securities	423,743
Private equity	820,909
Mortgage loans	596,919
Externally held irrevocable trusts	283,058
Securities lending collateral	3,497,400
Invested for others	(1,424,024)
Other	1,332,240
Total investments	\$ 48,453,081

^{*} 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, 2008

(amounts in thousands)

	Universit	y of	Univers	ity of
	Californ	-	California Fo	-
	Fair Value at	Effective	Fair Value at	Effective
Investment Type	Year End	Duration	Year End	Duration
U.S. Treasury bills, notes, and bonds	\$ 946,865	1.00	\$ 130,345	4.50
U.S. Treasury strips	29,659	8.00	_	_
U.S. TIPS	424,552	5.30	_	_
U.S. government-backed securities	3,637	6.30	4,406	3.80
U.S. government-backed asset-				
backed securities	_	_	2,240	3.90
Corporate bonds	3,259,085	2.60	61,324	4.00
Commercial paper	2,937,981	0.00	_	_
U.S. agencies	1,398,261	1.40	82,836	2.50
U.S. agencies asset-backed				
securities	137,200	4.40	2,101	3.30
Corporate asset-backed securities	241,409	3.80	11,947	0.60
Supranational/foreign		2.80	620	0.00
Government/Sovereign (foreign				
currency denominated)	189,068	6.60	_	_
Corporate (foreign currency				
denominated)	5,072	3.90	_	_
U.S. bond funds	40,243	4.70	168,668	4.60
Non-U.S. bond funds	_	_	49,544	5.10
Money market funds	26,895	0.00	357,418	1.80
Mortgage loans		0.00	10,532	5.40
Other		0.60	_	_
Total	\$ 11,054,362		\$ 881,981	
				
	State Comp	ensation	California	Housina
				•
	Insurance	Fund	Finance /	•
	Insurance	Fund Weighted		•
	Fair Value at			Agency Effective
Investment Type		Weighted	Finance /	Agency
Investment Type U.S. Treasury and agency securities	Fair Value at Year End	Weighted Average	Finance A	Agency Effective
	Fair Value at Year End	Weighted Average Maturity	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities	Fair Value at Year End \$ 5,192,014 \$ 328,583	Weighted Average Maturity 3.66	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities	Fair Value at Year End \$ 5,192,014 328,583 406,971	Weighted Average Maturity 3.66 7.27	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities	Fair Value at Year End \$ 5,192,014 328,583 406,971 6,283,723	Weighted Average Maturity 3.66 7.27 6.88	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities Corporate bonds	Fair Value at Year End \$ 5,192,014 328,583 406,971 6,283,723 173,911	Weighted Average Maturity 3.66 7.27 6.88 4.54	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities Corporate bonds Commercial paper	Fair Value at Year End \$ 5,192,014	Weighted Average Maturity 3.66 7.27 6.88 4.54 0.10	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities Corporate bonds Commercial paper Certificate of deposit	Fair Value at Year End \$ 5,192,014 \$ 328,583 \$ 406,971 6,283,723 173,911 104,994 1,101,675	Weighted Average Maturity 3.66 7.27 6.88 4.54 0.10 0.24	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities Corporate bonds Commercial paper Certificate of deposit Special revenue	Fair Value at Year End \$ 5,192,014 328,583 406,971 6,283,723 173,911 104,994 1,101,675 49,889	Weighted Average Maturity 3.66 7.27 6.88 4.54 0.10 0.24 11.24	Fair Value at Year End	Agency Effective Duration
U.S. Treasury and agency securities Municipal securities Public utilities Corporate bonds Commercial paper Certificate of deposit Special revenue Other government	Fair Value at Year End \$ 5,192,014	Weighted Average Maturity 3.66 7.27 6.88 4.54 0.10 0.24 11.24 0.92	Fair Value at Year End	Agency Effective Duration

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, 2008
(amounts in thousands)

		Univers Califor	•	С	University of California Foundation			
		Value at ear End	Effective Duration		Value at ear End	Effective Duration		
Mortgage-Backed Securities 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.		339,991	4.30	\$	72,953	2.50		
Collateralized Mortgage Obligations 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.					8,048	1.70		
Other Asset-Backed Securities 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.		4,139	3.20		11,947	0.60		
Variable-Rate Securities 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.		609,359	0.20					
Callable Bonds 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.		1,500,966	1.60		506	3.50		

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, comprising 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, 2008 (amounts in thousands)

Credit Rating as	Credit Rating as of Year End								
Short-term		Fair Value							
A-1+/P-1/F-1+	AAA/Aaa/AAA	\$	15,788,955						
A-1/P-1/F-1	AA/Aa/AA		6,693,224						
A-2/P-2/F-2	A/A/A		5,657,317						
A-3/P-3/F-3	BBB/Baa/BBB		1,628,259						
B/NP/B	BB/Ba/BB		108,070						
B/NP/B	B/B/B		130,112						
C/NP/C	CCC/Caa/CCC		408						
Not rated			1,286,582						
Total fixed-income secu	rities	. <u>\$</u>	31,292,927						

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 \$784 million in federal agency securities of the Federal National Mortgage Association; this amount represented 5.28% of the university's total investments as of June 30, 2008.

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, 2008 (amounts in thousands)

	 Fair Value
Investment Type	
Domestic equity securities	\$ 91,941
Foreign equity securities	1,212
U.S. Treasury bills, notes, and bonds	92,801
U.S. government-backed – asset-backed securities	2,226
U.S. agencies	2,224
Total exposure to custodial credit risk	\$ 190,404

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, 2008
(amounts in thousands of U.S. dollars at fair value)

Currency	Equity	Fixe	ed-Income	Total
Australian Dollar	\$ 62,575	\$	808	\$ 63,383
British Pound Sterling	224,191		13,685	237,876
Canadian Dollar	83,061		4,261	87,322
Danish Krone	10,595		1,527	12,122
Euro	418,975		99,699	518,674
Hong Kong Dollar	29,855		_	29,855
Japanese Yen	224,270		67,240	291,510
Malaysian Ringgit	_		854	854
New Zealand Dollar	741		_	741
Norwegian Krone	9,717		574	10,291
Polish Zloty	_		2,011	2,011
Singapore Dollar	16,800		729	17,529
South African Rand	2,406		_	2,406
South Korean Won	3,445		_	3,445
Swedish Krona	19,661		1,381	21,042
Swiss Franc	89,039		1,371	90,410
Thailand Baht	2,309		_	2,309
Other	19,052		_	19,052
Commingled currencies	 1,152,735		29,683	 1,182,418
Total exposure to foreign currency risk	\$ 2,369,427	\$	223,823	\$ 2,593,250

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, 2008
(amounts in thousands)

			imbursement	t							
			Interest		Lottery	Uı	nemployment				
	Taxes		Expense		Retailers		Programs		Other		Total
Current governmental activities											_
General Fund	¢ 0.252.420	\$		\$		\$		\$	565,336	\$	9,917,756
Federal Fund	Ψ 9,002,420	ψ		Ψ		Ψ		Ψ	1,535	Ψ	1,535
Transportation Fund	338.097	,							181,502		519,599
Nonmajor governmental funds	,		81						1,179,343		1,255,410
Internal service funds	75,900	,	01						53,406		53,406
Adjustment:									55,400		55,400
Fiduciary funds									371,746		371,746
Total current governmental				_		-		_	371,740		371,740
activities	\$ 9,766,503	\$	81	\$		\$		\$	2,352,868	\$	12,119,452
Amounts not scheduled for		==				=		=			
collection during the											
subsequent year	\$ 1,402,964	\$		\$		\$		\$	294,652	\$	1,697,616
Current business-type activities						_					
Water Resources Fund	\$	- \$		\$		\$		\$	109,775	\$	109,775
Public Building Construction Fund			108,498						_		108,498
State Lottery Fund		-			159,097				_		159,097
Unemployment Programs Fund		-			_		213,598		_		213,598
Nonmajor enterprise funds		-			_				41,715		41,715
Adjustment:											
Account reclassification			(107,888)						(3,745)		(111,633)
Total current business-type											
activities	\$	- \$	610	\$	159,097	\$	213,598	\$	147,745	\$	521,050
Amounts not scheduled for											
collection during the											
subsequent year	<u> </u>	\$		\$		\$	17,194	\$		\$	17,194

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, 2008

(amounts in thousands)

	Cash and Pooled Investments			Loans Receivable	Total
Primary government					
Debt service	\$ 1,185,560	\$ 524,135	\$ 57,496	\$ 454,214	\$ 2,221,405
Construction	15,866	_	_		15,866
Operations	1,781,301	_	_		1,781,301
Other	6,828	35,989			42,817
Total primary government	2,989,555	560,124	57,496	454,214	4,061,389
Discretely presented component units Nonmajor component units – debt service	148,336	78,679	_	_	227,015
Total discretely presented component units	148,336	78,679			227,015
Total restricted assets	\$ 3,137,891	\$ 638,803	\$ 57,496	\$ 454,214	\$ 4,288,404

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.

The California State University (CSU), an agency that accounts for its lease activities in the State University Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund, has entered into 30-year capital lease agreements with certain of its auxiliary organizations that are accounted for as a nonmajor discretely presented component unit. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

Table 18 summarizes the minimum lease payments to be received by the primary government.

Table 18

Schedule of Minimum Lease Payments to be Received by the Primary Government (amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	Nonmajor Component Unit	Local Agencies	Total
2009	\$ 478,184	\$ 168,319	\$ 16,237	\$ 70,844	\$ 733,584
2010	462,093	160,894	16,156	70,030	709,173
2011	436,079	160,765	16,209	68,700	681,753
2012	425,917	160,851	16,425	64,641	667,834
2013	415,753	160,804	19,793	63,671	660,021
2014-2018	2,028,494	671,719	94,534	252,529	3,047,276
2019-2023	1,289,034	557,237	90,863	77,765	2,014,899
2024-2028	852,301	291,450	90,960	63,379	1,298,090
2029-2033	206,303	118,240	75,647	39,021	439,211
2034-2038	_	_	17,768	_	17,768
Total minimum lease payments	6,594,158	2,450,279	454,592	770,580	10,269,609
Less: unearned income	2,352,986	827,806	196,952	220,520	3,598,264
Net investment in direct financing leases	\$ 4,241,172	\$ 1,622,473	\$ 257,640	\$ 550,060	\$ 6,671,345

NOTE 7: CAPITAL ASSETS

(amounts in thousands)

Table 19 summarizes the capital activity for the primary government, which includes \$6.0 billion in capital assets related to capital leases.

Table 19

Schedule of Changes in Capital Assets – Primary Government
June 30, 2008

	ı	Beginning			_			Ending
Covernmental activities	_	Balance	_	Additions		eductions	_	Balance
Governmental activities Capital assets not being depreciated								
Land	Ф	15,510,432	\$	605,961	\$	56,923	\$	16,059,470
State highway infrastructure	Ψ	55,991,217	Ψ	2,673,779	Ψ	117,496	Ψ	58,547,500
Collections		20,682		949				21,631
Construction in progress		7,876,896		3,010,934		3,148,934		7,738,896
Total capital assets not being depreciated	_	79,399,227	_	6,291,623	_	3,323,353	_	82,367,497
Capital assets being depreciated		10,000,221		0,201,020		0,020,000		02,007,407
Buildings and improvements		16,323,278		1,023,890		94,722		17,252,446
Infrastructure		566,630		102,739		_		669,369
Equipment and other assets		4,118,772		428,319		215,796		4,331,295
Total capital assets being depreciated		21,008,680	_	1,554,948		310,518		22,253,110
Less accumulated depreciation for:		, ,		, ,		,		, ,
Buildings and improvements		5,415,942		481,703		72,430		5,825,215
Infrastructure		173,550		23,662		_		197,212
Equipment and other assets		3,000,253		326,078		87,820		3,238,511
Total accumulated depreciation		8,589,745		831,443		160,250		9,260,938
Total capital assets being depreciated, net		12,418,935		723,505		150,268		12,992,172
Governmental activities, capital assets, net	\$	91,818,162	\$	7,015,128	\$	3,473,621	\$	95,359,669
Business-type activities								
Capital assets not being depreciated								
Land	\$	46,766	\$	6,082	\$	_	\$	52,848
Collections		29		_		_		29
Construction in progress		1,176,650		734,015		34,420		1,876,245
Total capital assets not being depreciated		1,223,445		740,097		34,420		1,929,122
Capital assets being depreciated								
Buildings and improvements		7,327,428		54,055		4,162		7,377,321
Infrastructure		1,223,588		8				1,223,596
Equipment and other assets		110,630		4,272		2,231		112,671
Total capital assets being depreciated		8,661,646		58,335		6,393		8,713,588
Less accumulated depreciation for:								
Buildings and improvements		2,831,523		159,117		2,432		2,988,208
Infrastructure		715,764		19,721				735,485
Equipment and other assets		70,367	_	9,737		2,117		77,987
Total accumulated depreciation		3,617,654		188,575		4,549		3,801,680
Total capital assets being depreciated, net		5,043,992	_	(130,240)		1,844		4,911,908
Business-type activities, capital assets, net	\$	6,267,437	\$	609,857	\$	36,264	\$	6,841,030

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

Table 20

Schedule of Depreciation Expense – Primary Government

June 30, 2008

(amounts in thousands)

	Amount
Governmental activities	
General government\$	72,471
Education	249,018
Health and human services	48,234
Resources	46,528
State and consumer services	42,892
Business and transportation	156,090
Correctional programs	175,237
Internal service funds (charged to the activities that utilize the fund)	40,973
Total depreciation expense – governmental activities	831,443
Business-type activities	
Enterprise	188,575
Total primary government\$	1,020,018

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, 2008

(amounts in thousands)

	Beginning				Ending
_	Balance	Additio	ns	Deductions	Balance
Capital assets not being depreciated					
Land	\$ 762,229	\$ 7	3,114 \$	3,977	\$ 831,366
Collections	270,097	1	8,762		288,859
Construction in progress	3,966,242	4	9,061_	872,251	 3,143,052
Total capital assets not being depreciated	4,998,568	14	0,937	876,228	4,263,277
Capital assets being depreciated					
Buildings and improvements	18,509,061	2,86	8,489	53,501	21,324,049
Equipment and other depreciable assets	8,129,581	66	8,126	311,096	8,486,611
Infrastructure	433,245	3	8,049	949	 470,345
Total capital assets being depreciated	27,071,887	3,57	4,664	365,546	30,281,005
Less accumulated depreciation for:					
Buildings and improvements	6,877,542	62	5,724	28,621	7,474,645
Equipment and other depreciable assets	5,474,912	55	5,465	298,100	5,732,277
Infrastructure	186,230	1	6,950	982	 202,198
Total accumulated depreciation	12,538,684	1,19	8,139	327,703	13,409,120
Total capital assets being depreciated, net	14,533,203	2,37	6,525	37,843	 16,871,885
Capital assets, net	\$ 19,531,771	\$ 2,51	7,462 \$	914,071	\$ 21,135,162

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due 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 fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets.

Table 22

Schedule of Accounts Payable
June 30, 2008
(amounts in thousands)

	Education	Health and Human Services	_R	esources	<u>Tr</u>	Business and ransportation	G	General overnment and Others	 Total
Governmental activities									
General Fund	\$ 55,000	\$ 685,568	\$	248,662	\$	1,500	\$	554,809	\$ 1,545,539
Federal Fund	142,580	581,721		58,212		124,040		194,523	1,101,076
Transportation Fund	218	26,294		21,917		369,789		95,056	513,274
Nonmajor governmental funds	1,175,322	1,018,088		246,053		1,205,702		450,780	4,095,945
Internal service funds	_	_		21,573				214,324	235,897
Adjustment:									
Fiduciary funds	3,396,563	4,449,341		28,709		162,048		1,074,270	9,110,931
Total governmental activities	\$ 4,769,683	\$ 6,761,012	\$	625,126	\$	1,863,079	\$	2,583,762	\$ 16,602,662
Business-type activities									
Electric Power Fund	\$ —	\$ 	\$	469,318	\$	_	\$		\$ 469,318
Water Resources Fund	_			91,143		_			91,143
Public Building Construction Fund	_					_		26,246	26,246
State Lottery Fund	_	_		_				31,384	31,384
Unemployment Program Fund	_	66		_				6	72
Nonmajor enterprise funds	42,885	484		250		10,382		3,316	57,317
Adjustment:									
Fiduciary funds		 						25,192	25,192
Total business-type activities	\$ 42,885	\$ 550	\$	560,711	\$	10,382	\$	86,144	\$ 700,672

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 November 1, 2007, the State issued \$7.0 billion of RANs to fund cash flow needs for the 2007-08 fiscal year. The RANs were repaid on June 30, 2008.

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, 2008 draws totaling \$40 million were outstanding.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2008, the primary government had long-term obligations totaling \$113.2 billion. Of that amount, \$6.1 billion is due within one year. The \$6.1 billion includes \$151 million in outstanding commercial paper that was scheduled to be repaid by general obligation bonds issued during the fiscal year. This commercial paper was not repaid until July 2008. The largest change in governmental activities long-term obligations is an increase of \$6.1 billion in general obligation bonds payable mainly attributed to the sale of \$3.2 billion of Economic Recovery bonds and \$1.1 billion of Highway Safety, Traffic Reduction, Air Quality, and Port Security (Proposition 1B) bonds. Another reason for the increase in general obligation bonds payable is the inclusion for the first time of the net unamortized bond premiums and refunding losses that have accumulated to a material amount since the inception of GASB 34 in 2001. This increased the June 30, 2008 general obligation bonds payable by \$914 million. Previously, the premiums and refunding losses were determined to be immaterial and were netted against debt service interest and fiscal charges in the governmental funds each year. Another reason for the increase in long-term obligations is the establishment of a \$2.3 billion net other postemployment benefits obligation.

The other long-term obligations for governmental activities consist of \$2.0 billion for net pension obligations, \$300 million owed for lawsuits, the University of California unfunded pension liability of \$63 million, and the Department of Technology Services notes payable of \$37 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability. The \$591 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, 2008.

Table 23

Schedule of Changes in Long-term Obligations (amounts in thousands)

	Balance			Balance	Due Within	Noncurrent
	July 1, 2007	Additions	Deductions	June 30, 2008	One Year	Liabilities
Governmental activities	Φ 005.055	Φ.	Φ 005.055	•	Φ.	Φ.
Loans payable		\$ —	\$ 925,855	\$ —	\$ —	\$ —
Compensated absences payable	1,999,193	955,912	930,304	2,024,801	112,878	1,911,923
Certificates of participation and	4 050 054	5 504 500	E 400 000	4 70 4 5 40	450.057	4 570 004
commercial paper	1,358,051	5,564,500	5,188,003	1,734,548	158,257	1,576,291
Accreted interest		1,541		1,541		1,541
Certificates of participation and						
commercial paper payable	1,358,051	5,566,041	5,188,003	1,736,089	158,257	1,577,832
Capital lease obligations	4,346,179	268,686	238,455	4,376,410	245,140	4,131,270
General obligation bonds	50,269,442	10,427,945	5,187,584	55,509,803	2,674,480	52,835,323
Accreted interest		478		478		478
Premiums/discounts/other	727,383	250,118	63,250	914,251	68,447	845,804
General obligation bonds payable	50,996,825	10,678,541	5,250,834	56,424,532	2,742,927	53,681,605
Revenue bonds	8,535,255	55,944	264,770	8,326,429	151,580	8,174,849
Premiums/discounts/other	(525,471)		(10,874)	(514,597)	(15,844)	(498,753)
Revenue bonds payable	8,009,784	55,944	253,896	7,811,832	135,736	7,676,096
Proposition 98 funding guarantee	3,964,600		300,000	3,664,600	600,000	3,064,600
Workers' compensation	2,320,478	568,481	338,457	2,550,502	310,069	2,240,433
Mandated costs	2,066,878	568,317	78,931	2,556,264	27,899	2,528,365
Net other postemployment						
benefits obligation	_	2,296,829		2,296,829		2,296,829
Other long-term obligations	2,285,275	355,123	214,916	2,425,482	59,391	2,366,091
Total	\$ 78,273,118	\$ 21,313,874	\$ 13,719,651	\$ 85,867,341	\$ 4,392,297	\$ 81,475,044
Business-type activities						
Benefits payable	\$ 10,054	\$ —	\$ 1,789	\$ 8,265	\$ 1,504	\$ 6,761
Lottery prizes and annuities	2,012,977	1,753,742	2,036,174	1,730,545	494,641	1,235,904
Compensated absences payable	53,699	25,676	22,828	56,547	29,973	26,574
Certificates of participation and						
commercial paper	179,782	225,237	337,815	67,204	_	67,204
General obligation bonds	1,954,220	91,200	136,430	1,908,990	135,340	1,773,650
Premiums/discounts/other	(1,841)	94	, <u> </u>	(1,747)	<i>_</i>	(1,747)
General obligation bonds payable	1,952,379	91,294	136,430	1,907,243	135,340	1,771,903
Revenue bonds	22,990,594	3,430,462	3,444,196	22,976,860	1,036,791	21,940,069
Premiums/discounts/other	(54,659)	107,404	26,508	26,237	17,421	8,816
Revenue bonds payable	22,935,935		3,470,704	23,003,097	1,054,212	21,948,885
Other long-term obligations		54,314	10,228	590,653	6,030	584,623
Total		\$ 5,688,129	\$ 6,015,968	\$ 27,363,554	\$ 1,721,700	\$ 25,641,854
* Restated	+ 11,001,000	+ 0,000,120	+ 0,010,000	+ 11,000,004	+ 1,121,100	+ 10,011,004

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)

June 30	Pr	incipal	 nterest	 Total
2009	\$	7,099	\$ 2,539	\$ 9,638
2010		6,883	2,758	9,641
2011		6,874	2,766	9,640
2012		6,909	2,732	9,641
2013		6,816	2,828	9,644
2014-2018		28,620	3,203	31,823
Total	\$	63,201	\$ 16,826	\$ 80,027

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)

Year Ending June 30	P	rincipal	 Interest	Total
2009	\$	2,175	\$ 158	\$ 2,333
2010		2,270	67	2,337
Total	\$	4,445	\$ 225	\$ 4,670

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 October 01, 2007, authorizes the issuance of notes in an aggregate principal amount not to exceed \$2.5 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, 2008, the enterprise fund commercial paper program had \$19 million in outstanding notes.

During the year ended June 30, 2008, the primary government issued \$5.2 billion in general obligation commercial paper, \$400 million in general obligation refunding commercial paper, and \$4.1 billion in long-term general obligation bonds to refund outstanding commercial paper. However, by June 30, 2008, only \$4.0 billion of the \$4.1 billion had been used to repay outstanding commercial paper. The remaining \$151 million was used to repay commercial paper in July 2008. As of June 30, 2008, the general obligation commercial paper program had \$1.7 billion in outstanding commercial paper notes, of which \$151 million is considered a current liability for governmental activities. Of the \$1.5 billion noncurrent liability, \$10.5 million is for business-type activities and the remainder is for governmental 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, 2008, \$37 million in outstanding BANs existed in anticipation of the primary government's issuing revenue bonds to the public. During the 2006-07 fiscal year, the primary government issued Stem Cell Research and Cures BANs to private individuals and philanthropic foundations to finance stem cell research. In October 2007, the primary government issued general obligation bonds to redeem the outstanding BANs. As of June 30, 2008, there were no outstanding Stem Cell Research and Cures BANs.

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, 2008, 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 \$310 million as of June 30, 2008, are various unsecured financing agreements with commercial banks totaling \$115 million.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2008, 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 \$9 million from internal service funds and \$4.4 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, 2008, amounted to approximately \$798 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 \$4.2 billion. This amount represents 97.0% 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 \$527 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)

				Capital	Le	ases	
Year Ending	Operating			Internal Service	(Other Governmental	
June 30	_	Leases	_	Funds	_	Activities	 Total
2009	\$	235,583	\$	2,006	\$	526,328	\$ 763,917
2010		161,845		2,047		497,725	661,617
2011		112,060		2,055		460,598	574,713
2012		68,207		2,085		442,625	512,917
2013		46,504		1,320		422,753	470,577
2014-2018		119,360		550		2,041,939	2,161,849
2019-2023		25,914				1,289,034	1,314,948
2024-2028		3,357				852,300	855,657
2029-2033		1,725		_		206,303	208,028
2034-2038		1,653		_		_	1,653
2039-2043		405		_		_	405
2044-2048		405				_	405
2049-2053		293				_	293
2054-2058		109					109
2059-2063		48				_	48
2064-2068		30					30
2069-2073		30					30
2074-2078		30					30
2079-2083		30					30
2084-2088		30					30
2089-2093		30					30
2094-2098.		30					30
2099		3					3
Total minimum lease payments		777,681		10,063	_	6,739,605	\$ 7,527,349
Less: amount representing interest				1,016		2,372,242	
Present value of net minimum lease payments			\$	9,047	\$	4,367,363	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2008, was approximately \$4.0 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, 2008, amounted to approximately \$243 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	Univ c Calif	•	State Compensation Insurance Fund				
June 30	Capital	_	Operating		Operating		Total
2009\$	249,594	\$	104,619	\$	49,135	\$	403,348
2010	223,935		83,609		41,550		349,094
2011	216,713		63,166		31,985		311,864
2012	207,597		142,670		14,400		364,667
2013	199,668		27,365		10,684		237,717
2014-2018	891,719		51,886		13,019		956,624
2019-2023	722,612		3,456				726,068
2024-2028	419,965		3,766				423,731
2029-2033	245,219		4,297				249,516
2034-2038			4,894				4,894
2039-2043			1,652				1,652
Total minimum lease payments	3,377,022	\$	491,380	\$	160,773	\$	4,029,175
Less: amount representing interest	1,134,473						
Present value of net minimum lease payments \$	2,242,549						

NOTE 14: COMMITMENTS

As of June 30, 2008, the primary government had commitments of \$6.8 billion for certain highway construction projects. These commitments are not included as a reserve for encumbrances in the Federal Fund or the Transportation Fund because the future expenditures related to these commitments will be reimbursed with \$2.9 billion from local governments and \$3.9 billion from proceeds of approved federal grants. The ultimate liability will not accrue to the State. In addition, the primary government had commitments of \$435 million for various education programs, \$204 million for services provided under various public health programs, \$352 million for terrorism and disaster prevention preparedness and response projects, and \$44 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 \$23.9 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. These commitments included \$4.9 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 \$8.1 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 fair value of \$459 million as of June 30, 2008. Also, the Department of Water Resources entered into bilateral arrangements, with a fair value of \$314 million, to hedge the price of natural gas. The \$23.9 billion in commitments also included grant agreements, totaling approximately \$8.8 billion, to reimburse other entities for construction projects for school building aid, parks, transportation related infrastructure, and other improvements, and to reimburse counties and cities for costs associated with various programs. Any

constructed assets 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 \$23.9 billion in commitments includes contracts of \$822 million for the construction of water projects and the purchase of power that are not included as a liability on the Statement of Net Assets of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts which are considered to be derivatives. These contracts had a fair value of \$570 million as of June 30, 2008. The primary government also had commitments of \$856 million for California State University construction projects, \$368 million for the California State Lottery's gaming and telecommunication systems and services, and \$86 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.

As of June 30, 2008, 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 \$3.3 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled \$429 million as of June 30, 2008. The California Housing Finance Agency had outstanding commitments to provide \$238 million for loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of \$26.4 billion and commitments to purchase real estate equity of \$17.1 billion 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, 2008, the State had \$55.5 billion in outstanding general obligation bonds related to governmental activities and \$1.9 billion related to business-type activities. In addition, \$58.3 billion of general obligation bonds had been authorized but not issued. This amount includes \$20.0 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, \$1.7 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, 2008, the State had \$3.0 billion of variable-rate general obligation bonds outstanding, consisting of \$987 million in daily rate, \$1.9 billion in weekly rate, and \$100 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 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 \$15.0 billion in Economic Recovery Bonds; during the 2003-04 fiscal year, the State sold a total of \$10.9 billion of these bonds. In February 2008, the State sold an additional \$3.2 billion Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund.

As of June 30, 2008, the State had \$10.0 billion of Economic Recovery Bonds outstanding. Of the \$10.0 billion outstanding, bonds totaling \$1.1 billion are variable rate bonds, consisting of \$500 million in daily rates and \$627 million 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 \$2.4 billion of the outstanding \$10.0 billion in Economic Recovery Bonds have interest-reset dates of July 2008 for the bonds issued in 2004 and beginning March 2010 for the bonds issued in 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 3.22% per year for the bonds issued in 2004 and 3.32% per year for the bonds issued in 2008. 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. 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. Stem Cell Research and Cures Bonds

In October 2007, the State issued \$250 million in Stem Cell Research and Cures Bonds with an interest reset date of April 1, 2010. At that time, the bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount thereof, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that date. If the bonds are not redeemed, the interest rate mode for the bonds will be adjusted to a new mode, and the bonds will be remarketed by a remarketing agent appointed by the State. The State has not obtained any credit enhancement with respect to the mandatory tender of the bonds on the first mandatory tender date and does not expect to do so. 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 assumes the full redemption of the bonds on October 1, 2037. In the event of a failed remarketing, funds for the payment will be provided by the General Fund.

D. Debt Service Requirements

Table 28 shows the debt service requirements for all general obligation bonds as of June 30, 2008. The estimated debt service requirements for the \$3.0 billion variable-rate general obligation bonds and the \$1.1 billion variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2008.

Table 28

Schedule of Debt Service Requirements for General Obligation Bonds (amounts in thousands)

Year Ending	Gov	err	Governmental Activities						Business-type Activities					
June 30	Principal		Interest		Total		Principal		Interest		Total			
2009	\$ 2,674,480	\$	2,558,766	\$	5,233,246	\$	135,340	\$	94,475	\$	229,815			
2010	2,791,790		2,444,152		5,235,942		118,190		85,202		203,392			
2011	2,875,421		2,300,115		5,175,536		86,480		77,872		164,352			
2012	2,492,710		2,149,274		4,641,984		100,895		73,239		174,134			
2013	2,617,645		2,019,699		4,637,344		79,885		69,205		149,090			
2014-2018	11,430,770		8,313,037		19,743,807		520,215		273,898		794,113			
2019-2023	8,562,140		6,195,025		14,757,165		247,010		175,719		422,729			
2024-2028	8,777,275		4,318,449		13,095,724		153,305		132,318		285,623			
2029-2033	8,685,050		2,231,621		10,916,671		308,395		76,795		385,190			
2034-2038	4,602,000		517,934		5,119,934		107,185		23,834		131,019			
2039-2043	1,000		26		1,026		52,090		3,773		55,863			
Total	55,510,281	\$	33,048,098	\$	88,558,379	\$	1,908,990	\$	1,086,330	\$	2,995,320			

E. General Obligation Bond Defeasances

1. Current Year

On October 18, 2007, the primary government issued \$999 million in various-purpose general obligation refunding bonds to current-refund and advance-refund \$1.0 billion in general obligation bonds maturing in years 2010 through 2024, 2026, and 2027. 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 \$71 million and resulted in an economic gain of \$49 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 4.5% per year over the life of the new bonds.

On April 10, 2008, the primary government issued \$400 million in general obligation refunding bonds to current-refund \$400 million in outstanding refunding commercial paper notes. These refunding commercial paper notes were issued in February and March 2008 to current-refund \$400 million outstanding auction—rate general obligation bonds. The commercial paper notes were redeemed within 90 days after issuance of the refunding bonds.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2008, the outstanding balance of general obligation bonds defeased in prior years was approximately \$7.3 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. Total principal and interest remaining on the bonds is \$510 million, payable through 2015. The annual principal and interest payments on these bonds are expected to require approximately 2% of the federal appropriation pledged. Principal and interest paid in the current year and total federal revenue related to transportation projects were \$71 million and \$3.0 billion, respectively. These bonds fund activity in the Transportation Fund and are 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, issued revenue bonds to provide funding for public capital improvements serving the California State University, Channel Islands. These bonds were 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 were included in the governmental activities column of the government-wide Statement of Net Assets, but were fully defeased during the 2007-08 fiscal year. For more information, refer to the Revenue Bond Defeasances section.

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 and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on these bonds. Total principal and interest remaining on the bonds is \$21.4 billion, payable through 2047. The annual principal and interest payments on these bonds are expected to require 100% of the Tobacco Settlement Revenue and interest. Principal and interest paid in the current year and total Tobacco Settlement Revenue and interest were \$456 million and \$445 million, respectively. 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 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 fund loans to qualified borrowers for single-family houses and multifamily developments. 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, 2008

(amounts in thousands)

Dulmanus massarant		
Primary government		
Governmental activities		
Transportation Fund	. \$	462,428
Nonmajor governmental funds		
Golden State Tobacco Securitization Corporation Fund		6,864,356
Building authorities		485,048
Total governmental activities		7,811,832
Business-type activities		
Electric Power Fund		9,509,000
Water Resources Fund		2,636,769
Public Building Construction Fund		7,061,248
Nonmajor enterprise funds		3,796,080
Total business-type activities		23,003,097
Total primary government		30,814,929
Discretely presented component units		
University of California		6,918,284
California Housing Finance Agency		8,617,578
Nonmajor component units		495,443
Total discretely presented component units		16,031,305
Total	\$	46,846,234

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)

_		•	Discretely Presented Component Units				
Year	Govern	nmental	Busine	ss-type		_	
Ending _	Acti	vities	Acti	vities			
June 30	Principal	Interest	Principal	Principal Interest*		Interest*	
2009 \$	151,580	\$ 365,433	\$ 1,036,791	\$ 947,786	\$ 303,619	\$ 644,116	
2010	159,120	358,604	1,079,741	902,835	368,232	640,429	
2011	162,210	358,488	1,123,835	852,801	424,746	625,053	
2012	154,715	350,032	1,165,560	803,565	442,866	608,127	
2013	139,900	356,747	1,217,805	750,109	512,639	586,886	
2014-2018	513,530	1,759,968	6,622,185	2,932,976	2,480,735	2,628,380	
2019-2023	466,391	1,654,362	6,286,148	1,682,344	2,643,149	2,068,461	
2024-2028	887,666	1,765,465	2,535,835	806,306	2,755,883	1,500,909	
2029-2033	779,975	1,384,488	1,358,570	273,860	2,821,375	932,721	
2034-2038	1,345,975	1,220,209	449,775	73,931	2,184,630	425,063	
2039-2043		847,580	92,020	9,128	815,150	108,968	
2044-2048	3,565,367	3,840,812	8,595	391	153,490	18,121	
Total	8,326,429	\$ 14,262,188	\$ 22,976,860	\$ 10,036,032	\$ 15,906,514	\$ 10,787,234	

 $^{^{\}star}$ Includes interest on variable-rate bonds based on rates in effect on June 30, 2008.

Table 31 shows debt service requirements as of June 30, 2008, for variable-rate debt included in Table 30, as well as net swap payments, assuming that current interest rates remain the same for their terms. 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)

		Primary G	overnment		Discr	etely Presente	ed Component	Units
		Business-ty	pe Activities					
Year			Interest				Interest	
Ending			Rate* Swap				Rate* Swap	
June 30	Principal	Interest*	Net	Total	Principal	Interest*	Net	Total
2009	\$ 127,000	\$ 61,000	\$ 54,000	\$ 242,000	\$ 35,230	\$ 120,474	\$ 80,707	\$ 236,411
2010	80,000	59,000	52,000	191,000	60,609	125,849	83,173	269,631
2011	241,000	57,000	50,000	348,000	81,070	123,984	81,055	286,109
2012	258,000	53,000	46,000	357,000	100,195	121,465	78,448	300,108
2013	54,000	50,000	45,000	149,000	103,967	118,546	74,626	297,139
2014-2018	2,420,000	180,000	175,000	2,775,000	650,007	545,232	318,942	1,514,181
2019-2023	759,000	31,000	34,000	824,000	812,580	450,085	233,338	1,496,003
2024-2028					964,827	333,678	162,731	1,461,236
2029-2033					1,221,073	182,815	91,784	1,495,672
2034-2038	_				685,985	58,391	33,200	777,576
2039-2043	_				142,452	16,965	11,092	170,509
2044-2048					57,870	3,819	3,199	64,888
Total	\$ 3,939,000	\$ 491,000	\$ 456,000	\$ 4,886,000	\$ 4,915,865	\$ 2,201,303	\$ 1,252,295	\$ 8,369,463
* Based on rates in e	ffect on June 30,	, 2008.						

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. Approximately 23% 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 21% 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 A1, 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, 2008	Fair Values at June 30, 2008	Fixed Rate Paid by Electric Power Fund	Variable Rate Received by Electric Power Fund	Counterparty Credit Ratings (Moody's, Fitch's
5/1/2011	\$ 94,000	\$ (1,000)	2.914 %	67% of LIBOR	Aaa, AAA, AAA
5/1/2012	234,000	(3,000)	3.024	67% of LIBOR	Aaa, AAA, AAA
5/1/2013	190,000	(3,000)	3.405	SMIFMA	Aa2, AA-, AA-
5/1/2013	95,000	(2,000)	3.405	SMIFMA	Aa3, AA-, A+
5/1/2013	28,000	(1,000)	3.405	SMIFMA	A1, A+, A
5/1/2014	194,000	(4,000)	3.204	67% of LIBOR	Aa2, AA, AA
5/1/2015	287,000	(5,000)	3.184	66.5% of LIBOR	Aa3, AA-, A+
5/1/2015	174,000	(4,000)	3.280	67% of LIBOR	Aaa, AAA, AAA
5/1/2016	202,000	(5,000)	3.342	67% of LIBOR	Aa1, AA, AA+
5/1/2016	485,000	(8,000)	3.228	66.5% of LIBOR	Aa1, AA, AA+
5/1/2017	202,000	(5,000)	3.389	67% of LIBOR	Aa3, AA-, A+
5/1/2017	480,000	(7,000)	3.282	66.5% of LIBOR	Aa3, AA-, AA-
5/1/2018	515,000	(7,000)	3.331	66.5% of LIBOR	Aa1, AA-, AA
5/1/2020	306,000	(3,000)	3.256	64% of LIBOR	Aa1, AA-, AA
5/1/2022	453,000	(3,000)	3.325	64% of LIBOR	Aaa, AA, AA-
otal	\$ 3,939,000	\$ (61,000)			

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 the 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 the DWR's bonds trade at levels higher in rate in relation to the tax-exempt market, the DWR's cost would increase.

The DWR has 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). At June 30, 2008, the fair values were provided by the counterparties, using the par value or mark-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, 2008	Fair Values at June 30, 2008		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	\$	4,000	67% of LIBOR	62.83% of CMS	Aa1, AA, AA+
5/1/2014	194,000		3,000	67% of LIBOR	62.70% of CMS	Aa1, AA-, AA
5/1/2015	174,000		3,000	67% of LIBOR	62.60% of CMS	Aa2, AA-, AA-
5/1/2016	202,000		4,000	67% of LIBOR	62.80% of CMS	Aa1, AA, AA+
5/1/2017	202,000		4,000	67% of LIBOR	62.66% of CMS	Aa2, AA-, AA-
Total	\$ 1,006,000	\$	18,000			

As of June 30, 2008, 67% of LIBOR paid on the basis swaps was equal to 1.66%, while the variable rates received based on the five-year CMS Index varied from 3.44 to 5.52%.

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, the 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, the 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 the DWR's underlying floating-rate bonds would no longer be hedged, and the 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, 2008, of the University of California, a discretely presented component unit. Total principal, variable interest, and interest rate net swap payments are \$284 million, \$165 million, and \$148 million, respectively.

Objective: The university 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. The university entered into interest rate swap agreements in connection with certain variable-rate Medical Center Pooled Revenue Bonds.

Terms: The notional amount of the swaps matches the principal amounts of the associated bond issuance. The university's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance. The university pays the swap counterparties a fixed interest rate payment and receives a variable interest rate payment. The university 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 negative fair value of \$24 million as of June 30, 2008. The fair value of the interest rate swaps is the estimated amount the university would have either received or (paid) if the swap agreements had been terminated on June 30, 2008. 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)

_	Outstanding		Fixed Rate	Variable Rate
Swap 	Notional	Fair	Paid by	Received by
Termination	Amounts at	Values at lune 30, 2008	University of California	University of California
Date	 June 30, 2008	 	Of Camornia	- Of California
05/15/2032	\$ 93,730	\$ (3,315)	3.5897 %	58% of 1-Month LIBOR + 0.48%
05/15/2047	189,775	 (20,848)	4.6868	67% of 3-Month LIBOR + 0.73%*
Total	\$ 283,505	\$ (24,163)		
* Weighted average spread				

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

Termination and Credit Risk: The university 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. The university 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, the university 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, 2008, 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, \$2.0 billion, and \$1.1 billion, respectively.

Objective: CalHFA has entered into interest rate swap agreements with various counterparties to protect itself against rising rates by providing synthetic fixed rates 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 \$603 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 uses 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. As of June 30, 2008, CalHFA's swap portfolio has an aggregate negative fair value of \$184 million due to a decline in interest rates. 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 154 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 A1 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, 2008, the SIFMA rate was 1.55%, 65% of the one-month LIBOR was 1.60%, and 60% of the one-month LIBOR plus 26 basis points was 1.7375%.

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 July 2007, the primary government issued revenue bond anticipation notes (BANs) to immediately refund the remaining \$45 million of the Channel Island Financing Authority revenue bonds. As a result, all of these bonds have been repaid and the liability for these bonds has been removed from the financing authority's financial statements.

2. Current Year—Business-type Activities

In August 2007, the primary government issued California State University systemwide revenue refunding bonds to defease the outstanding student union revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The refunding will reduce debt service payments by \$4 million over the life of the bonds and will result in an economic gain of \$3 million. The California State University systemwide revenue bonds are reported in the State Dormitory Building Maintenance and Equipment Fund, a nonmajor enterprise fund.

In March through May 2008, the primary government issued an aggregate \$1.8 billion in refunding power supply revenue bonds to refund \$1.8 billion in outstanding variable-rate power supply revenue bonds. The proceeds were deposited into an escrow account to provide for all future debt service payments on the refunded bonds. The refunded bonds were all redeemed in May 2008. The refunding did not result in an economic gain or loss because the refunded bonds were variable-rate bonds. These power supply revenue bonds are reported in the Electric Power Fund.

In May 2008, the primary government issued \$633 million in water system revenue bonds. A portion of the proceeds were used to current-refund and advance-refund \$500 million of outstanding water system revenue 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. This refunding will increase debt service payments by \$613 million over the life of the bonds and will result in an economic gain of \$5 million for the refunded fixed-rate bonds. These water system revenue bonds are reported in the Water Resources Fund.

3. Current Year—Discretely Presented Component Units

In July 2007, the University of California issued \$197 million in revenue bonds to refund \$188 million in outstanding revenue bonds. This refunding will increase debt service payments by \$153 million through 2047 and will result in an economic gain of \$2 million. In April 2008, the university issued \$323 million in revenue bonds. The proceeds were used to refund \$324 million in outstanding revenue bonds and for a swap termination payment of \$7 million. This refunding will increase debt service payments by \$47 million through 2027 and will result in an economic gain of \$23 million.

During the 2007-08 fiscal year, the California Housing Finance Agency issued nine fixed- and variable-rate refunding bond series totaling \$369 million to current-refund \$368 million in outstanding revenue bonds. This refunding will decrease debt service payments by approximately \$45 million and may also provide an economic gain of approximately \$45 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, 2008, the outstanding balance of revenue bonds defeased in prior years was \$4.9 billion for governmental activities and \$2.7 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, 2008, the outstanding balance of University of California revenue bonds defeased in prior years was \$1.4 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, 2008 (amounts in thousands)

	Due To										
Due From	General Fund	Federal Fund	Transportation Fund	Nonmajor Governmental Fund	Electric Power Fund	Water Resources Fund					
Governmental funds											
General Fund	\$ —	\$	\$ 643,986	\$ 76,349	\$ —	\$ —					
Federal Fund	582,411		1,224,669	482,123							
Transportation Fund				157,789							
Nonmajor governmental funds	320,097		27,471	405,321							
Total governmental funds	902,508		1,896,126	1,121,582							
Enterprise funds											
Water Resources Fund						_					
Public Building Construction Fund	3,491		_								
State Lottery Fund	407		_	237,609							
Unemployment Programs Fund	44,808	6,268	_								
Nonmajor enterprise funds	4,775			11,334							
Total enterprise funds	53,481	6,268		248,943							
Internal service funds	37,068	79	51,467	156,112	27,000	5,016					
Fiduciary funds	371,626			120							
Total primary government	\$ 1,364,683	\$ 6,347	\$ 1,947,593	\$ 1,526,757	\$ 27,000	\$ 5,016					

						Due To					
Public Building Construction Fund		State Lottery Fund		Unemployment Programs Fund		Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds			Total
\$		\$		\$		\$ 	\$ 100,703	\$	4,162,337	\$	4,983,375
						1,897	81,024		3,830,557		6,202,681
	261						9,398		141,046		308,494
					825	33	39,844		971,070		1,764,661
	261				825	1,930	230,969		9,105,010		13,259,211
			_				14,060				14,060
							88,218		25,187		116,896
	_		_		_		_				238,016
											51,076
						64	285	_	5	_	16,463
						64	102,563		25,192		436,511
	22,372		3,131		13,825	14,502	26,732		5,921		363,225
									432		372,178
\$	22,633	\$	3,131	\$	14,650	\$ 16,496	\$ 360,264	\$	9,136,555	\$	14,431,125

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. The \$1.6 billion in Transportation 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, 2008 (amounts in thousands)

_	Interfund Payables											
Interfund Receivables	General Fund		Transportation Fund		Nonmajor Governmental Funds		Water Resources Fund		Nonmajor Enterprise Funds		Total	
Governmental funds												
General Fund\$		\$	1,630,331	\$	601,464	\$		\$		\$	2,231,795	
Nonmajor governmental funds	13,404		15,472				_				28,876	
Total governmental funds	13,404		1,645,803		601,464						2,260,671	
Nonmajor enterprise funds									2,126		2,126	
Internal service funds	3,000		_		1,220		91,517				95,737	
Fiduciary funds	60,025				_						60,025	
Total primary government \$	76,429	\$	1,645,803	\$	602,684	\$	91,517	\$	2,126	\$	2,418,559	

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 To and Due From Component Units
June 30, 2008
(amounts in thousands)

					Due To			
	Prim Govern	•			Compon	ent	Units	
	Gen			niversity of	Public mployees'		Nonmajor Component	
Due From	Fu	nd	<u>C</u>	alifornia	 Benefits		Units	 Total
Governmental funds								
General Fund	\$	_	\$	163,561	\$ 	\$	_	\$ 163,561
Transportation Fund		_		2,565			_	2,565
Nonmajor governmental funds		_		64,584			105	64,689
Total governmental funds				230,710			105	230,815
Enterprise funds				5,563				5,563
Internal service funds					4,622		952	5,574
Total primary government	\$		\$	236,273	\$ 4,622	\$	1,057	\$ 241,952
Component units								
Public Employees' Benefits Fund		62,831						
Total component units	\$	62,831						

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 \$1.4 billion to the Transportation Fund for traffic congestion relief, \$1.8 billion to nonmajor governmental funds for support of trial courts, and \$1.0 billion to a nonmajor governmental fund for the redemption of outstanding Economic Recovery Bonds. The \$3.9 billion transfer from the nonmajor governmental funds to the General Fund includes a \$3.3 billion transfer of bond proceeds from the Economic Recovery Fund. Table 38 presents interfund transfers of the primary government.

Table 38

(amounts in thousands)

Schedule of Interfund Transfers June 30, 2008

-	Transferred To									
Transferred From	General Fund	Tra	ansportation Fund		Nonmajor overnmental Funds	E	onmajor nterprise Funds	Internal Service Funds		Total
Governmental funds										
General Fund \$	· —	\$	1,416,478	\$	4,010,713	\$		\$ 	\$	5,427,191
Federal Fund					1,070,105					1,070,105
Transportation Fund	96,852				597,680					694,532
Nonmajor governmental funds	3,890,585		107		253,847			397		4,144,936
Total governmental funds	3,987,437		1,416,585		5,932,345			397		11,336,764
Enterprise funds										
Public Building Construction Fund	6,277						1,237			7,514
Nonmajor enterprise funds	1,982				46,735		204			48,921
Total enterprise funds	8,259				46,735		1,441			56,435
Internal service funds	_				22,771			_		22,771
Total primary government	3,995,696	\$	1,416,585	\$	6,001,851	\$	1,441	\$ 397	\$	11,415,970

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, 2008 (amounts in thousands)

	-	Governmental Funds	Internal Service Funds
General Fund	\$	4,168,869	\$
Higher Education Construction Fund		924,901	
Architecture Revolving Fund			 24,248
Total	\$	5,093,770	\$ 24,248

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, 2008, the total value of restricted and unrestricted endowments and gifts was \$10.3 billion and \$1.3 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 \$1.7 billion at June 30, 2008. 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 \$2.5 billion as of June 30, 2008. 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 \$2.5 billion using a 3.5% interest rate. Of the total, \$310 million is a current liability, of which \$198 million is included in the General Fund, \$111 million in the special revenue funds, and \$1 million in the internal service funds. The remaining \$2.2 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 5.0% 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			
2008		2007		2008		2007	
\$ 2,321,887	\$	2,576,741	\$	559,581	\$	524,220	
568,617		97,287		191,819		224,926	
(338,638)		(352,141)		(154,659)		(189,565)	
\$ 2,551,866	\$	2,321,887	\$	596,741	\$	559,581	
\$	2008 \$ 2,321,887 568,617 (338,638)	\$ 2,321,887 \$ 568,617 (338,638)	Government 2008 2007 \$ 2,321,887 \$ 2,576,741 568,617 97,287 (338,638) (352,141)	Government 2008 2007 \$ 2,321,887 \$ 2,576,741 568,617 97,287 (338,638) (352,141)	Primary Government Discretely Compore 2008 2007 2008 \$ 2,321,887 \$ 2,576,741 \$ 559,581 568,617 97,287 191,819 (338,638) (352,141) (154,659)	Primary Government Discretely Prese Component U 2008 2007 2008 \$ 2,321,887 \$ 2,576,741 \$ 559,581 \$ 568,617 \$ 568,617 97,287 191,819 (338,638) (352,141) (154,659)	

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.

Table 41

Nonmajor Enterprise Segments

(amounts in thousands)

			Sta	te University	
Condensed Statement of Net Assets			[Dormitory	
June 30, 2008		High		Building	
	Te	chnology	Maintenance an		
		ducation		quipment	
Assets					
Due from other funds	\$	403	\$	4,552	
Due from other governments	•	_	,	1,000	
Other current assets		54,231		1,001,250	
Capital assets		· —		2,178,147	
Other noncurrent assets		111,247		280,502	
Total assets	\$	165,881	\$	3,465,451	
Liabilities					
Due to other funds	\$	3,490	\$	9,886	
Due to other governments		_	*	_	
Other current liabilities		40,592		182,450	
Noncurrent liabilities		86,039		2,756,729	
Total liabilities		130,121		2,949,065	
Net assets		,		_,-,-,-,-	
Investment in capital assets, net of related debt		_		(605,030)	
Restricted		35,760		328,321	
Unrestricted		_		793,095	
Total net assets		35,760		516,386	
		00,700		010,000	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net As Year Ended June 30, 2008		165,881	\$	3,465,451	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net As Year Ended June 30, 2008	ssets	,	<u></u>	3,465,451	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net As Year Ended June 30, 2008 Operating revenues	ssets	20,600	\$	577,694	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net As Year Ended June 30, 2008 Operating revenues Depreciation expense	ssets \$	20,600	<u></u>	577,694 (68,829)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses	ssets \$	20,600 — (16,916)	<u></u>	577,694 (68,829) (630,190)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss)	ssets \$	20,600	<u></u>	577,694 (68,829) (630,190) (121,325)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues	ssets \$	20,600 — (16,916)	<u></u>	577,694 (68,829) (630,190)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss)	ssets \$	20,600 — (16,916) 3,684 —	<u></u>	577,694 (68,829) (630,190) (121,325)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions	ssets \$	20,600 — (16,916)	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in	ssets \$	20,600 — (16,916) 3,684 —	<u></u>	577,694 (68,829) (630,190) (121,325)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expenses Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets	\$	20,600 — (16,916) 3,684 — — 1,237	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 — — (24,974) (83,784)	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out	ssets \$	20,600 ——————————————————————————————————	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008	ssets \$	20,600 ——————————————————————————————————	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows	ssets \$	20,600 ——————————————————————————————————	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows Year Ended June 30, 2008	ssets \$	20,600 ——————————————————————————————————	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Astronomy Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows Year Ended June 30, 2008	ssets \$	20,600 ——————————————————————————————————	<u></u>	577,694 (68,829) (630,190) (121,325) 62,515 — (24,974) (83,784) 600,170 516,386	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Aster and Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows Year Ended June 30, 2008 Net cash provided (used) by:	ssets \$	20,600 — (16,916) 3,684 — — 1,237 — 4,921 30,839 35,760	\$	577,694 (68,829) (630,190) (121,325) 62,515 — (24,974) (83,784) 600,170 516,386	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Asternation of Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows Year Ended June 30, 2008 Net cash provided (used) by: Operating activities Noncapital financing activities Capital and related financing activities	ssets \$	20,600 — (16,916) 3,684 — 1,237 — 4,921 30,839 35,760	\$	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Asterior Year Ended June 30, 2008 Operating revenues	ssets \$	20,600 — (16,916) 3,684 — 1,237 — 4,921 30,839 35,760	\$	577,694 (68,829) (630,190) (121,325) 62,515 ———————————————————————————————————	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Asteries Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Condensed Statement of Cash Flows Year Ended June 30, 2008 Net cash provided (used) by: Operating activities Noncapital financing activities Capital and related financing activities	ssets \$	20,600 — (16,916) 3,684 — 1,237 — 4,921 30,839 35,760	\$	577,694 (68,829) (630,190) (121,325) 62,515 — (24,974) (83,784) 600,170 516,386	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Asternation of Year Ended June 30, 2008 Operating revenues Depreciation expense Other operating expenses Operating income (loss) Nonoperating revenues Capital contributions Transfers in Transfers out Change in net assets Total net assets, July 1, 2007 Total net assets, June 30, 2008 Net cash provided (used) by: Operating activities Noncapital financing activities Investing activities Investing activities	\$ \$	20,600 — (16,916) 3,684 — 1,237 — 4,921 30,839 35,760 22,025 1,237 (22,265) —	\$	577,694 (68,829) (630,190) (121,325) 62,515 — (24,974) (83,784) 600,170 516,386	
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Asteries Year Ended June 30, 2008 Operating revenues	\$ \$	20,600 — (16,916) 3,684 — 1,237 — 4,921 30,839 35,760 22,025 1,237 (22,265) — 997	\$	577,694 (68,829) (630,190) (121,325) 62,515 — (24,974) (83,784) 600,170 516,386 84,067 (24,974) (25,163) (159,792) (125,862)	

	State Water				
	Pollution		Housing		
	Control		Loan		Total
\$	4,566	\$	4,301	\$	13,822
	131,548				132,548
	398,575		561,384		2,015,440
			570		2,178,717
	2,475,807		1,750,447		4,618,003
\$	3,010,496	\$	2,316,702	\$	8,958,530
\$	1,351	\$	461	\$	15,188
Ψ		Ψ	77	Ψ	77
	26,416		112,190		361,648
	191,657		1,970,918		5,005,343
	219,424		2,083,646		5,382,256
	210,424		2,000,040		0,002,200
			570		(604,460)
	537,710		232,486		1,134,277
	2,253,362		202,400		3,046,457
-	2,791,072		222.056		3,576,274
_			233,056	Φ.	
\$	3,010,496	\$	2,316,702	\$	8,958,530
\$	54,474	\$	128,456	\$	781,224
			(546)		(69,375)
	(4,521)		(130,593)		(782,220)
	49,953		(2,683)		(70,371)
	8,395		721		71,631
	189,064				189,064
					1,237
					(24,974)
	247,412		(1,962)		166,587
	2,543,660		235,018		3,409,687
\$	2,791,072	\$	233,056	\$	3,576,274
\$	(254,868)	\$	(150,413)	\$	(299,189)
	(33,379)		41,235	•	(15,881)
	189,951				142,523
	20,752	_	4,148		(134,892)
	(77,544)		(105,030)		(307,439)
	418,538		657,402		1,766,458
\$	340,994	\$	552,372	\$	1,459,019
	,			-	,,

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, 2008, these component units had \$20.2 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, 2008, one of the special-purpose trusts had approximately \$1.7 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, 2008; legal proceedings that were in progress as of June 30, 2008, and were settled or decided against the primary government as of February 25, 2009; and legal proceedings having a high probability of resulting in a decision against the primary government as of February 25, 2009, 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 addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

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

The primary government is the defendant in two cases that raise essentially the same issues regarding Assembly Bill 5 (AB 5), which was effective July 1, 2008, and reduced reimbursement to various Medi-Cal service providers by 10%. Independent Living Center of Southern California, Inc. et al. v. Sandra Shewry et al. was filed on behalf of various Medi-Cal providers and associations to prevent the reimbursement cuts that they allege violate state and federal Medi-Cal/Medicaid laws. A U. S. district court granted the preliminary injunction for various providers. Multiple appeals have been filed in response to the injunction. California Medical Association et al. v. Sandra Shewry et al. raises essentially the same issues; however it was filed by different providers. This case was kept in the state superior court and the preliminary injunction was denied. The plaintiffs have appealed that ruling and will probably amend their original complaint to add a Supremacy Clause so the case can be heard in federal court. It is estimated that AB 5 would save the State approximately

\$1.0 billion to \$1.5 billion annually. However, following the enactment of AB 5, the Legislature enacted Assembly Bill 1183 (AB 1183), which terminates AB 5 as of March 2009 and replaces the 10% Medi-Cal provider cut with a smaller reimbursement cut. The potential cost to the State if the plaintiffs in these two cases prevail in preventing the 10% cuts under AB 5 prior to its termination in March 2009 would be approximately \$750 million to \$1.25 billion. The plaintiffs have also filed two lawsuits seeking to prevent the reimbursement cuts under AB 1183, but as AB 1183 is not effective until March 2009, a U.S. district court temporarily suspended the case until the law becomes effective.

The primary government is a defendant in three cases regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. The primary government has already begun to pay refunds to LLCs with the same facts as *Northwest* who have no income earned inside California. In *Ventas Finance I, LLC v. Franchise Tax Board*, the Court of Appeal also ruled that the fee is unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. The plaintiff has filed a petition requesting a review of the case by the U. S. Supreme Court. The third case, *Bakersfield Mall, LLC v. Franchise Tax Board*, is still pending. It raised the same constitutional issues as *Northwest* and *Ventas* but for LLCs that conduct business solely within California, and it intends to bring a class action suit for refund on behalf of all similarly situated LLCs and to declare the LLC fee unconstitutional. However, given the Court of Appeal's decisions in *Northwest* and *Ventas*, the Franchise Tax Board believes that an adverse decision on such a case would be remote. Actual claims for refunds to LLCs like Northwest and potential claims for refunds to LLCs similar to Ventas and Bakersfield are estimated to be approximately \$580 million plus interest.

The primary government is a defendant in *River Garden Retirement Home v. Franchise Tax Board*, a case that challenges the constitutionality of the penalty assessed under the State's tax amnesty program. Under the amnesty program, for taxable years beginning before January 1, 2003, taxpayers that had not paid or had underpaid an eligible tax could agree to pay the tax and waive their rights to claim refunds. In exchange, certain penalties and fees associated with the unpaid taxes would be waived and no criminal actions would be brought for the taxable years for which amnesty was allowed. The program also imposed a new penalty equal to 50 percent of accrued interest as of March 31, 2005, on any unpaid tax liabilities ultimately determined to be due for taxable years 2002 and earlier for which amnesty could have been requested. The trial court granted judgment for the State, but the plaintiff appealed. An adverse action in the appellate court could result in the State having to refund in excess of \$1.5 billion. This estimate includes the potential return of \$1.0 billion to \$1.5 billion of protective claim deposits received by the Franchise Tax Board.

The University of California, 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 the university, 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, the university, 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, the university, 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, 2008. The investments of these fiduciary component units are presented in Table 6 in Note 3, Deposits and Investments.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public employee Replacement Benefit Fund, and the public employee Supplemental Contributions Program Fund. 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 Pension2 Program, formerly known as the Voluntary Investment Program, through a third-party administrator; the Pension2 Program 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 Public Employees' Retirement Fund (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 1,511 public agencies as of June 30, 2008. 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 \$31.7 billion at June 30, 2007. This is a result of the difference between the actuarial value of assets of \$216.5 billion and the actuarial accrued liability of \$248.2 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, 2008, was approximately \$16.1 billion.

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

Funding Policy: Benefits are funded by contributions from members and the primary government and by earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit 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, 2008

			Group	
	Normal	Unfunded	Term Life	Total
-	Cost	Liability	Benefit	Rate
Miscellaneous members				
First tier	9.914 %	6.719 %	0.000 %	16.633 %
Second tier	9.846	6.719	0.000	16.565
Industrial (first and second tier)	13.671	3.648	0.026	17.345
California Highway Patrol	16.608	15.507	0.097	32.212
Peace officers and firefighters	17.691	7.861	0.000	25.552
Other safety members	15.510	3.325	0.000	18.835

For the year ended June 30, 2008, the annual pension cost (APC) and the amount of contributions made by the primary government were each \$3.0 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, 2007, is also shown in Table 43 for the primary government.

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

Actuarial Methods and Assumptions: In the June 30, 2007, actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return, projected salary increases of 3.25% to 19.95%, depending on duration of service, and post-retirement benefit increases of 2.00% - 3.00%, compounded annually. The projected salary increases include a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over 21 years to 28 years.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the Judges' Retirement Fund (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, 2008. The payroll for employees covered by the JRF for the year ended June 30, 2008, was approximately \$125 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, 2008, 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, 2008, 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, 2008, were \$315 million and \$163 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2008, was \$2.0 billion, an increase of \$152 million over last year's balance of \$1.9 billion. The APC is comprised of \$624 million for the annual required contribution (ARC), \$130 million for interest on the NPO, and a negative \$439 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, 2007, is shown in Table 43. The aggregate cost method that was used for the June 30, 2007, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the information about funded status in Table 43 is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

Actuarial Methods and Assumptions: In the June 30, 2007, actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 7.00% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.25%. The projected salary increases include a 3.00% inflation assumption.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the Judges' Retirement Fund II (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, 2008, was approximately \$174 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, 2008, 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, 2008, the annual pension cost (APC) and the amount of contributions made for the JRF II were approximately \$36.8 million, which is more than the actuarially determined required contribution of approximately \$31.7 million. The APC and the percentage of APC contributed for the year ended June 30, 2008, are shown in Table 43. Information on the last valuation, which was performed as of June 30, 2007, is also shown in Table 43.

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

Actuarial Methods and Assumptions: In the June 30, 2007 actuarial valuation, the aggregate entry age normal cost method was used. The actuarial assumptions included a 7.25% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption. The UAAL is being amortized as a level percentage of increasing payroll on a closed basis over an average of 30 years.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the Legislators' Retirement Fund (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 7, 1990, constitutional officers, and legislative statutory officers. For the fiscal year ending June 30, 2008, no statutory contribution was required, based on the June 30, 2006 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 14 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, 2008, 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 toward military service and prior service.

The net pension obligation (NPO) of the LRF on June 30, 2008, 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, 2007, is also shown in Table 43. The aggregate cost method that was used for the June 30, 2007 valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the

information about funded status in Table 43 is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funded status and funding progress of the plan.

Actuarial Methods and Assumptions: In the June 30, 2007 actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 7.00% investment rate of return, projected salary increases of 3.25%, and post-retirement benefit increases of 3.00%. The projected salary increases include a 3.00% inflation assumption.

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

Plan Description: CalPERS administers the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (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. 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, 2008, contributions by the primary government to the SPOFF were approximately \$51 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, 2008, there were 40,470 participants in the SPOFF.

F. 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. Three programs comprise the STRP: 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, 2008, the DB Program had approximately 1,700 contributing employers and as of June 30, 2007, had 597,143 active and inactive program members and 215,641 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, 2008, was approximately \$28.2 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, 2008, the CB Benefit Program had 33 contributing school districts and 28,857 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 2007-08, 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, 2007, 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, 2008.

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, 2008, the annual pension cost (APC) for the DB Program was approximately \$4.4 billion; the employer and primary government contributions were approximately \$2.4 billion and \$501 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.

G. CalSTRS Pension2 Program

Plan Description: CalSTRS administers the Pension2 Program, formerly known as the Voluntary Investment Program (VIP), an IRC 403(b) program, through a third-party administrator. The Pension2 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, 2008, the Pension2 had approximately 597 participating employers (school districts) and approximately 4,196 plan members.

H. 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, 2008, there were 6,290 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		F	Judges' Retirement Fund ¹			Judges' Retirement II Fund
Last actuarial valuation	June 30, 200	7	Ju	une 30, 2007		Jı	une 30, 2007
Actuarial cost method	Individual Enti Age Normal	у		Aggregate Cost		_	gregate Entry Age Normal
Amortization method	Level % of Payroll, Closed			None			Level % of Payroll, Closed
Remaining amortization period	21 to 28 years	S		None			Average of 30 Years
Asset valuation method	Smoothed Market Value			Market Value			Smoothed Market Value
Actuarial assumption Investment rate of return Projected salary increase Includes inflation at Post-retirement benefit increases	7.75 3.25 - 19.99 3.00 2.00 - 3.00	5		7.00 3.25 3.00	%		7.25 % 3.25 3.00
Annual pension costs (in millions) Year ended 6/30/06 Year ended 6/30/07 Year ended 6/30/08	\$ 2,419 2,782 3,016	2	\$	315 324 315		\$	24 27 32
Percent contribution Year ended 6/30/06 Year ended 6/30/07 ³ Year ended 6/30/08	100 100 100			62 23 26	%		95 % 95 116
Net pension obligation (NPO) (in millions) Year ended 6/30/06 Year ended 6/30/07 Year ended 6/30/08	_ _ _	- -	\$	1,672 1,864 2,016			
Funding as of last valuation (in millions) Actuarial value – assets	\$ 96,988 100,352		\$	12 2,714		\$	268 295
(unfunded actuarial accrued liability (UAAL)) Covered payroll Funded ratio EAV (UAAL) as percent of covered payroll	(3,364 16,136 96.6 (20.8	%		(2,702) 119 0.4 (2,265.3)			(27) 156 90.7 % (17.5) %

¹ The aggregate cost method is used to determine the annual required contribution of the employer for the Judges' Retirement Fund and the Legislators' Retirement Fund. Because this method does not identify or separately amortize unfunded actuarial liabilities, information about funded status is prepared using the entry age cost method and is intended to serve as a surrogate for the funded status of the plan.

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 \$501 million and \$2.4 billion, respectively, for the year ending June 30, 2008. Based on the most recent actuarial valuation, dated June 30, 2007, 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.

³ 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 ¹			ate Teachers' Retirement Defined nefit Program Fund ²	_						
June 30, 2007		J	June 30, 2007							
Aggregate Cost			Entry Age Normal							
None		Level % of Payroll, Open								
None			30 years							
Smoothed Market Value		Expected Value With 33% Adjustment to Market Value								
7.00 3.25 3.00	%		8.00 4.25 3.25	%						
3.00			2.00							
_ _ _		\$	3,821 3,980 4,362							
_ _ _			64 67 66	%						
\$ 10 10 10			_ _ _							
142 102		\$	148,427 167,129							
40 2 139.4 1,900.9	%			%						

NOTE 24: POSTEMPLOYMENT HEALTH CARE BENEFITS

A. State of California Other Postemployment Benefits Plan

Plan Description: The primary government and certain discretely presented component units provide health benefits (medical and prescription drug benefits) and dental benefits to annuitants of retirement systems through a substantive single-employer defined benefit plan to which the primary government contributes as an employer. The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 3.6% of plan participation. The design of health and dental benefit plans can be amended by the California Public Employees' Retirement System (CalPERS) Board of Administration and the Department of Personnel Administration, respectively. Employer and retiree contributions are governed by the primary government and can be amended by the primary government through the Legislature. The plan is not accounted for as a trust fund because an irrevocable trust has not been established for the plan. The plan does not issue a separate report.

Fifty-eight county superior courts (trial courts) are included in the primary government. However, each trial court is a separate employer for GASB Statement 45 reporting purposes. Fifty-one trial courts have a single-employer defined benefit plan, six trial courts (Amador, Fresno, Modoc, San Benito, San Bernardino, and Stanislaus) have no plan, and one trial court (San Diego) has a cost-sharing multiple-employer defined benefit plan. These plans have separate actuarial valuations, are not accounted for in a trust fund, and do not issue separate reports.

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, 2008, approximately 138,300 annuitants were enrolled to receive health benefits and approximately 112,600 annuitants were enrolled to receive dental benefits. The trial courts have approximately 2,700 enrolled retirees and spouses.

Funding Policy: The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the California Government Code does not specify the State's contribution toward dental insurance costs, the State generally pays all or a portion of the dental insurance cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant. The State and trial courts fund the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. The maximum 2008 monthly State contribution was \$471 for one-party coverage, \$886 for two-party coverage, and \$1,129 for family coverage. The 2008 monthly contribution rate for the trial courts with single-employer defined benefit plans ranged from zero to \$1,567. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 2.31% of annual covered pension payroll. For the year ended June 30, 2008, the State contributed \$1.3 billion for current premiums. Of this amount, the trial courts represent \$19 million and certain discretely presented component units represent \$44 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level

of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008, including trial courts, is shown in Table 44.

Table 44

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

June 30, 2008 (amounts in thousands)

		Percentage of Annual OPEB Cost	
Fiscal Year Ended	Annual OPEB Cost	Contributed	Net OPEB Obligation
June 30, 2008	\$ 3,731,701	34.06 %	\$ 2,460,718

Table 45 shows the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 45

Schedule of Net OPEB Obligation

June 30, 2008 (amounts in thousands)

	_	Amount
Annual required contribution	\$	3,731,701
Interest on net OPEB obligation		_
Adjustment to annual required contribution		_
Annual OPEB cost (expense)		3,731,701
Contributions made		(1,270,983)
Increase in net OPEB obligation		2,460,718
Net OPEB obligation — beginning of year		_
Net OPEB obligation — end of year		2,460,718

Funded Status and Funding Progress: As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability (AAL), for benefits was \$48.2 billion, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of negative \$48.2 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$17.9 billion, and the ratio of the UAAL to the covered payroll was negative 270%.

For the trial courts, as of July 1, 2007, the most recent actuarial valuation date, the AAL for benefits was \$1.3 billion, with no actuarial value of assets, resulting in an UAAL of negative \$1.3 billion. The covered payroll was \$989 million, and the ratio of the UAAL to the covered payroll was negative 131%.

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

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

In the June 30, 2008 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return and an annual health care cost trend rate of actual increases for 2009 and 8.50% in 2010, initially, reduced to an ultimate rate of 4.50% after seven years. Both rates included a 3.00% annual inflation assumption. Annual wage inflation is assumed to be 3.25%. The UAAL is being amortized as a level percentage of projected payroll on an open basis over thirty years.

For the trial courts, in the July 1, 2007 actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 4.15% investment rate of return and an annual health care cost trend rate of 9.50%, initially, reduced by 0.50% increments to an ultimate rate of 5.00% after nine years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively. The UAAL is amortized on a closed basis over 30 years as a level percentage of payroll for 49 trial courts and as a level dollar amount for two trial courts (Alpine and Mendocino).

B. University of California Retiree Health Plan

Plan Description: The University of California, a discretely presented component unit, administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their families and survivors (retirees) of the university and its affiliates. The Regents have the authority to establish or amend the plans. Additional information can be obtained from the 2007–08 annual report of the University of California Health and Welfare Plans.

Membership in the University of California Retirement Plan is required to become eligible for retiree health benefits. As of July 1, 2007, the date of the latest actuarial valuation, 32,932 retirees are receiving such benefits.

Funding Policy: The contribution requirements of the university and eligible retirees are established and may be amended by the university. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the university and the retiree. The university does not contribute toward the cost of other benefits available to retirees. Employees who meet specific requirements including completed years of credited service may continue their medical and dental benefits into retirement and continue to receive university contributions for those benefits. Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the university's maximum contribution.

The university's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2008, is shown in Table 46.

Table 46

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation - University of California

June 30, 2008 (amounts in thousands)

		Percentage of Annual OPEB Cost	
Fiscal Year Ended	Annual OPEB Cost	Contributed	Net OPEB Obligation
June 30, 2008	\$ 1,399,788	20.08 %	\$ 1,118,754

Table 47 shows the components of the university's net OPEB obligation to the University of California Health and Welfare Plans.

Table 47

Schedule of Net OPEB Obligation - University of California

June 30, 2008

(amounts in thousands)

	_	Amount
Annual required contribution	\$	1,399,788
Interest on net OPEB obligation.		_
Adjustment to annual required contribution.		_
Annual OPEB cost (expense)	—	1,399,788
Contributions made		(281,034)
Increase in net OPEB obligation		1,118,754
Net OPEB obligation — beginning of year		_
Net OPEB obligation — end of year	\$	1,118,754

Funded Status and Funding Progress: For the University of California, as of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$12.5 billion, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of negative \$12.5 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$6.9 billion, and the ratio of the UAAL to the covered payroll was negative 181%.

Actuarial Methods and Assumptions: For the University of California, in the July 1, 2007, actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 5.5% investment rate of return, an annual health care cost trend rate of 10.0% to 12.0% initially, depending on the type of plan, reduced by increments to an ultimate rate of 5.0% over nine years, with a projected 3.0% inflation rate. The UAAL is being amortized as a flat dollar amount over 30 years on a closed basis.

NOTE 25: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2008, but prior to the date of the auditor's report.

A. Debt Issuances

In July 2008, the primary government issued \$1.5 billion in general obligation bonds to retire commercial paper previously issued to finance capital projects for public purposes, including: seismic safety, water supply, river and coastal protection, flood protection, library construction and renovation, public school and university facilities, housing and emergency shelter, children's hospitals, highway and transportation facilities, park and recreation facilities, and disaster preparedness projects. In October 2008, the primary government issued revenue anticipation notes of \$5.0 billion, of which \$1.2 billion will mature on May 20, 2009, and \$3.8 billion will mature on June 22, 2009.

In October 2008, the primary government issued \$98 million in Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). GARVEE bonds are used to accelerate the funding and construction of transportation infrastructure projects and are secured and payable from future federal appropriations. Also in October, the primary government issued \$5.0 billion in Revenue Anticipation Notes to fund cash flow needs for the 2008-09 fiscal year. These notes are scheduled to be redeemed in May and June 2009.

In November 2008, the Department of Water Resources reoffered \$173 million in Power Supply Revenue Bonds to convert certain outstanding Power Supply Revenue Bonds bearing interest at variable rates to fixed-rate instruments. In January 2009, the department reoffered an additional \$348 million in Power Supply Revenue Bonds for the same purposes.

Since June 30, 2008, the California State University (CSU) authorized \$503 million in commercial paper to finance or refinance construction projects at various campuses. As of December 18, 2008, CSU had issued only \$96 million of the authorized commercial paper.

In July 2008, The Regents of the University of California, a discretely presented component unit, authorized an increase in the university's commercial paper program, from \$550 million to \$2.0 billion, in order to reduce the number of bank line commitments, provide greater access to tax-exempt financing, and preserve flexibility for future interim financing needs.

B. Fair Value of Investments

Subsequent to June 30, 2008, the financial markets and banking systems have experienced substantial volatility due to the credit market crisis, concerns about global recession, and other market factors. These events have had a negative impact on the investment portfolios of the State. The fiduciary funds and similar component units, like CalPERS and CalSTRS, are at a higher risk of exposure due to the long-term focus of their investment portfolios. The long-term effects of this market volatility on any particular investment cannot be determined. However, the short-term effect of the volatility has had a material effect on the reported values of investments subsequent to year-end.

CalPERS reported in its annual financial report that as of October 31, 2008, the Public Employees' Retirement Fund's investment portfolio, excluding securities lending collateral, had declined an estimated \$50.4 billion in value since June 30, 2008, to \$186.7 billion. The most significant decline was in the domestic and international public-equity portfolios, which declined by \$40.5 billion, or 33%. After June 30, 2008, CalPERS's holdings for

American International Group, Fannie Mae, Freddie Mac, Lehman Brothers, and Washington Mutual decreased in value by approximately \$1.7 billion. In addition, CalPERS's real estate program continued to experience declines due to overall market conditions and negative returns in the housing program.

Also, CalSTRS reported in its annual financial report that as of September 30, 2008, the State Teachers' Retirement Fund's investment portfolio, excluding securities lending collateral, declined \$15 billion in value from June 30, 2008, to \$147 billion. The most significant decline was in the international equity portfolio, which declined by \$8.4 billion, or 26%, and domestic equity portfolio, which declined \$6.4 billion, or 10%. After June 30, 2008, CalSTRS's holdings for American International Group, Lehman Brothers, and Washington Mutual decreased in value by approximately \$776 million.

C. Other

In the general election held on November 4, 2008, voters approved the sale of \$11.8 billion in general obligation bonds with the passage of three propositions.

- \$9.95 billion for Proposition 1A, the Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century.
- \$980 million for Proposition 3, the Children's Hospital Bond Act of 2008.
- \$900 million for Proposition 12, the Veterans' Bond Act of 2008.

Due to the State's 2008-09 budget shortfall and the depletion of its cash resources, the primary government was forced to take several measures in the current fiscal year to alleviate its fiscal crisis.

- All state-funded capital projects, including general obligation and lease revenue bond projects, were suspended and disbursements on these projects were frozen beginning December 17, 2008, when the Pooled Money Investment Board voted to significantly curtail loans from the State's Pooled Money Investment Account.
- Unpaid furloughs of state employees for two days each month were ordered and commenced on February 1, 2009.
- A payment-deferral plan was implemented in February 2009 to preserve cash for education, debt service, and other payments required by the State Constitution, federal law, and court rulings.
- The Governor called a special session of the Legislature in November 2008, and two fiscal emergency special sessions in December 2008, which resulted in the enactment of the 2009 Budget Act on February 20, 2009. This budget act covers a 17-month period including the remainder of the 2008-09 fiscal year and the 2009-10 fiscal year. The budget is intended to address the State's current financial crisis and includes spending reductions, temporary revenue increases, new borrowing, and an economic stimulus component. The budget also proposes long-lasting reforms that will require voter approval in May 2009. Since the enactment of this budget, the expenditure reduction and payment delay measures previously discussed were either reversed or revised.

California experienced a significant increase in the State's unemployment rate due to the nation's economic slowdown. The unemployment rate increased from 6.1% in January 2008 to 10.1% in January 2009, which created high demand for Unemployment Insurance and depleted the reserves of the Unemployment Programs

Fund. In response to the State's request, the U.S. Department of Labor approved a \$1.8 billion loan to cover a projected shortfall in the Unemployment Programs Fund during the first quarter of 2009. As of February 25, 2009, the State used \$414 million of the authorized loan.

In February 2009, Standard & Poor's reduced the State's general obligation bond credit rating from "A+" to "A" due to the State's inability to reach an agreement on the mid-year budget revision and its rapidly eroding cash position. The current ratings from the other two rating services are "A1" from Moody's Investors Service and "A+" from Fitch. These ratings have remained unchanged for almost three years.

Required Supplementary Information

Schedule of Funding Progress

Public Employees' Retirement Fund - Primary Government

(amounts in millions)

Exces	ss of	
Actuarial	Value	of

Actuarial Valuation Date	Actuarial Value of Assets (a)	,	Actuarial Accrued bility (AAL) (b)	(l Actu	ets Over AAL Unfunded arial Accrued bility (UAAL)) (a - b)	Funded Ratio (a / b)		Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
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)
June 30, 2007	96,988		100,352		(3,364)	96.6		16,136	(20.8)

Judges' Retirement Fund¹

(amounts in thousands)

			Act	Excess of uarial Value of sets Over AAL			
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Act	(Unfunded uarial Accrued ibility (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2007	\$ 11,672	\$ 2,713,640	\$	(2,701,968)	0.4 %	\$ 119,274	(2,265.3) %

Judges' Retirement Fund II

(amounts in thousands)

Excess of Actuarial Value of

Assets Over AAI

					Ass	ets Over AAL			
Actuarial		Actuarial		Actuarial	(Unfunded			Excess (UAAL) as
Valuation		Value of		Accrued	Actu	arial Accrued	Funded	Covered	a Percentage of
Date		Assets	Lia	bility (AAL)	Lial	bility (UAAL))	Ratio	Payroll	Covered Payroll
		(a)		(b)		(a - b)	(a / b)	(c)	((a - b) / c)
June 30, 200	5 \$	167,556	\$	177,761	\$	(10,205)	94.3 %	\$ 111,767	(9.1) %
June 30, 200	6	212,904		220,135		(7,231)	96.7	125,300	(5.8)
June 30, 200	7	267,604		294,983		(27,378)	90.7	156,300	(17.5)

¹ The Legislators' Retirement Fund (LRF) and the Judges' Retirement Fund (JRF) are funded using the aggregate actuarial cost valuation method. This method does not identify actuarial liabilities and funded ratios. For this reason, no funding progress information is available for either the LRF or the JRF prior to June 30, 2007. Information about funded status is prepared using the entry age actuarial cost method and is intended to serve as a surrogate for the funding progress of the plan.

 $^{^{2}}$ The trial courts reporting is based on 51 individual actuarial valuations as of July 1, 2007.

Legislators' Retirement Fund¹

(amounts in thousands)

			Excess of			
			Actuarial Value of			
			Assets Over AAL			
Actuarial	Actuarial	Actuarial	(Unfunded			Excess (UAAL) as
Valuation	Value of	Accrued	Actuarial Accrued	Funded	Covered	a Percentage of
Date	Assets	Liability (AAL)	Liability (UAAL))	Ratio	Payroll	Covered Payroll
	(a)	(b)	(a - b)	(a / b)	(c)	((a - b) / c)
June 30, 2007	\$ 141,603	\$ 101,571	\$ 40,032	139.4 % \$	2,106	1,900.9 %

State Teachers' Retirement Defined Benefit Program

(amounts in millions)

			Actuarial Valu			
Actuarial Valuation	Actuarial Value of	Actuarial Accrued	(Unfunded		Covered	Excess (UAAL) as a Percentage of
Date	Assets (a)	Liability (AAL)(b)	Liability (UA/	AL)) Ratio (a / b)	Payroll (c)	Covered Payroll ((a - b) / c)
June 30, 2005	\$ 121,882	\$ 142,193	\$ (20,3	11) 85.7 %	\$ 23,257	(87.3) %
June 30, 2006	131,237	150,872	(19,6	35) 87.0	24,240	(81.0)
June 30, 2007	148,427	167,129	(18,70	02) 88.8	25,906	(72.2)

Excess of

Other Postemployment Benefit Plan

(amounts in millions)

				Excess of				
			Acti	uarial Value of				
			Ass	ets Over AAL				
Actuarial	Actuarial	Actuarial	(Unfunded				Excess (UAAL) as
Valuation	Value of	Accrued	Actu	uarial Accrued	Funded	t	Covered	a Percentage of
Date	Assets	Liability (AAL)) Lia	bility (UAAL))	Ratio		Payroll	Covered Payroll
	(a)	(b)		(a - b)	(a / b)		(c)	((a - b) / c)
Primary govern	nment and ce	rtain component u	nits					
June 30, 2007	\$ —	\$ 47,878	\$	(47,878)		% \$	17,940	(266.9) %
June 30, 2008	_	48,220		(48,220)			17,890	(269.5)
Trial Courts ²								
July 1, 2007	_	1,291		(1,291)			989	(130.6)

Schedule of Funding Progress (continued)

University of California Retiree Health Plan

(amounts in millions)

			Excess of Actuarial Value of			
			Assets Over AAL			
Actuarial	Actuarial	Actuarial	(Unfunded			Excess (UAAL) as
Valuation	Value of	Accrued	Actuarial Accrued	Funded	Covered	a Percentage of
Date	Assets	Liability (AAL)	Liability (UAAL))	Ratio	Payroll	Covered Payroll
	(a)	(b)	(a - b)	(a / b)	(c)	((a - b) / c)
July 1, 2007	\$ —	\$ 12,534	\$ (12,534)	%	\$ 6,913	(181.3) %

Infrastructure Assets Using the Modified Approach

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

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2008, are in the following categories and amounts: state highway infrastructure (completed highway projects), totaling \$58.5 billion; land purchased for highway projects, totaling \$11.7 billion; and infrastructure construction-in-progress (uncompleted highway projects), totaling \$5.3 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, 2008. Relinquishments for the fiscal year ending June 30, 2008, are \$117 million of state highway infrastructure and \$24 million of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

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

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 has a BHI of 100%. As a bridge deteriorates over time,

it loses asset value as represented by a decline in its BHI. When a deteriorated bridge is repaired, it will regain some (or all) of its asset value and its BHI will increase.

The State's established condition baseline and actual BHI for fiscal years 2005-06 through 2007-08 are shown in the following table.

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2006	80.0 %	94.5 %
2007	80.0	94.3
2008	80.0	94.3

The following table provides details on the State's actual BHI as of June 30, 2008.

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

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,270	51.46 %	99.9 %
Good	4,657	38.23	96.2
Acceptable	884	7.26	85.7
Fair	204	1.67	74.8
Poor	168	1.38	60.4
Total	12,183	100.00 %	

2. Roadways

The State uses AASHTO "Pavement Performance Data Collection Protocols" in its periodic pavement condition survey, which evaluates ride quality and structural integrity and identifies the number of distressed lane miles. The State classifies its roadways' pavement condition by the following descriptions:

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

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

The State's established condition baseline and actual distressed lane miles from the last three pavement condition surveys are shown in the following table.

Condition Assessment Date	Established Condition Baseline Distressed Lane Miles (maximum)*	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
February 2005	18,000	13,845	27.9 %
April 2006	18,000	12,905	26.1
November 2007	18,000	12,998	26.3

^{*} 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 on the State's actual distressed lane miles as of the last pavement condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	36,479	_
Fair	981	981
Poor	12,017	12,017
Total	49,477	12,998

C. Budgeted and Actual Preservation Costs

The estimated budgeted preservation costs represent the preservation projects approved by the California Transportation Commission and the State's scheduled preservation work for each fiscal year. The actual preservation costs represent the cumulative cost to date for the projects approved and work scheduled in each fiscal year. Up to fiscal year 2006-07, the State included encumbrances with actual preservation costs. Beginning in fiscal year 2007-08, the State excluded encumbrances from actual preservation costs and restated the costs reported for previous years.

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

Fiscal Year Ending June 30	Estimated Budgeted Preservation Costs (in millions)	Actual Preservation Costs (in millions)				
2004	\$ 975	\$ 856				
2005	1,049	884				
2006	2,025	1,580				
2007	2,313	1,218				
2008	2,575	392				

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Budgetary Comparison Schedule General Fund and Major Special Revenue Funds

Year Ended June 30, 2008 (amounts in thousands)

Page Page		General					
Page Page		Budgete	d Amounts	Actual	Variance With		
Corporation tax \$ 10,675,000 \$ 11,926,000 \$ 11,849,096 \$ 76,904 Intergovernmental — — — — Cigarette and tobacco taxes 116,300 114,000 109,871 4,129 Inheritance, estate, and gift taxes — — 6,303 (6,303) Insurance gross premiums tax 2,075,000 2,171,000 2,172,935 (19,35) Vehicle license fees 27,713 — 27,367 (27,367) Motor vehicle fuel tax — — — — — — Personal income tax 52,681,000 54,380,000 54,763,105 (383,105) Retail sales and use taxes 27,689,000 26,813,000 26,613,264 199,736 Other major taxes and licenses 334,000 334,000 329,758 4,242 Other revenues 6,427,288 6,092,519 2,668,966 3,433,553 Total revenues 6,427,288 6,092,519 9,853,0665 3,299,854 EXPERDITURES State and consumer services 596,768 604,477 588,983 15,494 Business		Original	Final	Amounts	Final Budget		
Intergovernmental	REVENUES						
Cigarette and tobacco taxes	Corporation tax	\$ 10,675,000	\$ 11,926,000	\$ 11,849,096	\$ 76,904		
Inheritance, estate, and gift taxes	Intergovernmental	_	_	_	_		
Insurance gross premiums tax	Cigarette and tobacco taxes	116,300	114,000	109,871	4,129		
Vehicle license fees 27,713 — 27,367 (27,367) Motor vehicle fuel tax — — — — Personal income tax 52,681,000 54,380,000 54,763,105 (383,105) Retail sales and use taxes 27,689,000 26,813,000 26,613,264 199,736 Other major taxes and licenses 334,200 334,000 329,758 4,242 Other revenues 6,427,288 6,092,519 2,658,966 3,433,553 Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687	Inheritance, estate, and gift taxes	_	_	6,303	(6,303)		
Motor vehicle fuel tax —	Insurance gross premiums tax	2,075,000	2,171,000	2,172,935	(1,935)		
Personal income tax 52,681,000 54,380,000 54,763,105 (383,105) Retail sales and use taxes 27,689,000 26,813,000 26,613,264 199,736 Other major taxes and licenses 334,200 334,000 329,758 4,242 Other revenues 6,427,288 6,092,519 2,658,966 3,433,553 Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures <td>Vehicle license fees</td> <td>27,713</td> <td>_</td> <td>27,367</td> <td>(27,367)</td>	Vehicle license fees	27,713	_	27,367	(27,367)		
Retail sales and use taxes 27,689,000 26,813,000 26,613,264 199,736 Other major taxes and licenses 334,200 334,000 329,758 4,242 Other revenues 6,427,288 6,092,519 2,658,966 3,433,553 Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 1 13,83,877 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government	Motor vehicle fuel tax	_	_	_	_		
Other major taxes and licenses 334,200 334,000 329,758 4,242 Other revenues 6,427,288 6,092,519 2,658,966 3,433,553 Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,966 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 7 7 84,002 9,959,143 265,816 Education 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,524,736 3,536,470 6,266 Other general government 103,604	Personal income tax	52,681,000	54,380,000	54,763,105	(383,105)		
Other revenues 6,427,288 6,092,519 2,658,966 3,433,553 Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,542,736 3,536,470 6,266 Other service 3,523,706 3,542,736 3,536,470 6,266 Other general government 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds	Retail sales and use taxes	27,689,000	26,813,000	26,613,264	199,736		
Total revenues 100,025,501 101,830,519 98,530,665 3,299,854 EXPENDITURES State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers from other funds — — </td <td>Other major taxes and licenses</td> <td>334,200</td> <td>334,000</td> <td>329,758</td> <td>4,242</td>	Other major taxes and licenses	334,200	334,000	329,758	4,242		
State and consumer services 596,768 604,477 588,983 15,494	Other revenues	6,427,288	6,092,519	2,658,966	3,433,553		
State and consumer services 596,768 604,477 588,983 15,494 Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — 6,900,994 — Total other financing sources (uses) — — — 6,90	Total revenues	100,025,501	101,830,519	98,530,665	3,299,854		
Business and transportation 1,432,866 1,432,746 1,432,656 90 Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,524,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources — — (876,457)	EXPENDITURES						
Resources 1,191,678 1,649,970 1,472,130 177,840 Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: Tax relief 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) Transfers from other funds — — 6,900,994 — Transfers to other funds — — 6,900,994 — Transfers from other funds — — 99,840 — Other additions and deductions — — 3,351,372 — Excess (deficency) of revenues and other sou	State and consumer services	596,768	604,477	588,983	15,494		
Health and human services 29,884,890 29,939,782 29,492,395 447,387 Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: Tax relief 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) Transfers from other funds — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — 99,840 — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and ot	Business and transportation	1,432,866	1,432,746	1,432,656	90		
Correctional programs 9,829,041 10,224,959 9,959,143 265,816 Education 50,854,052 50,454,687 50,444,696 9,991 General government: 3,523,706 3,528,00 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — 99,840 — Other additions and deductions — — 3,351,372 — Excess (deficency) of revenues and other sources — — (876,457) — ever (under) expenditures and other uses — — 6,565,208 —	Resources	1,191,678	1,649,970	1,472,130	177,840		
Education 50,854,052 50,454,687 50,444,696 9,991 General government: Tax relief 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Health and human services	29,884,890	29,939,782	29,492,395	447,387		
General government: Tax relief 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Correctional programs	9,829,041	10,224,959	9,959,143	265,816		
Tax relief 983,887 983,280 961,088 22,192 Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Education	50,854,052	50,454,687	50,444,696	9,991		
Debt service 3,523,706 3,542,736 3,536,470 6,266 Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	General government:						
Other general government 5,307,296 5,119,962 4,870,933 249,029 Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) Transfers from other funds — — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Tax relief	983,887	983,280	961,088	22,192		
Total expenditures 103,604,184 103,952,599 102,758,494 1,194,105 OTHER FINANCING SOURCES (USES) — — 6,900,994 — Transfers from other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Debt service	3,523,706	3,542,736	3,536,470	6,266		
OTHER FINANCING SOURCES (USES) Transfers from other funds — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Other general government	5,307,296	5,119,962	4,870,933	249,029		
Transfers from other funds — 6,900,994 — Transfers to other funds — — (3,649,462) — Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Total expenditures	103,604,184	103,952,599	102,758,494	1,194,105		
Transfers to other funds — — (3,649,462) — Other additions and deductions — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources — (876,457) — over (under) expenditures and other uses — — 6,565,208 — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	OTHER FINANCING SOURCES (USES)						
Other additions and deductions — — 99,840 — Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources — — (876,457) — over (under) expenditures and other uses — — 6,565,208 — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Transfers from other funds	_	_	6,900,994	_		
Total other financing sources (uses) — — 3,351,372 — Excess (deficency) of revenues and other sources — — (876,457) — over (under) expenditures and other uses — — 6,565,208 — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Transfers to other funds	_	_	(3,649,462)	_		
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	Other additions and deductions	_	_	99,840	_		
over (under) expenditures and other uses — — (876,457) — Fund balances, July 1, 2007 (restated) — — 6,565,208 —	Total other financing sources (uses)			3,351,372	_		
Fund balances, July 1, 2007 (restated)	Excess (deficency) of revenues and other sources						
Fund balances, July 1, 2007 (restated)	` '	_	_	(876,457)	_		
	, , ,	_	_	,	_		
		\$	\$ —		\$ <u> </u>		

	Fed	deral			Transp	ortation	ation		
Budgeted	d Amounts	Actual	Variance With	Budgeted Amounts Actual			Variance With		
Original	Final	Amounts	Final Budget	Original Final		Amounts	Final Budget		
\$ —	\$ _	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —		
44,743,852	44,743,852	44,743,852		_	_	_	_		
_	_	_	_	_	_	_	_		
_	_	_	_	_	_	_	_		
_	_	_	_	_	_	_	_		
_	_	_	_	_	_	_	_		
_	_	_	_	3,545,851	3,503,863	3,351,268	152,595		
_	_	_	_	_	_	_	_		
_	_	_	_	_	_	_			
450	450	450	_	3,095,929	2,966,413	2,925,781	40,632		
453	453	453		604,995	623,325	617,588	5,737		
44,744,305	44,744,305	44,744,305		7,246,775	7,093,601	6,894,637	198,964		
52,941	52,941	52,941		113,663	115,864	109,970	5,894		
3,193,996	3,193,996	3,193,996		7,632,620	9,893,092	9,252,264	640,828		
264,353	264,353	264,353		567,447	573,590	569,570	4,020		
31,156,589	31,156,589	31,156,589		132,213	138,388	137,863	525		
21,942	21,942	21,942				_			
6,389,926	6,389,926	6,389,926		101,575	101,605	101,418	187		
_	_	_	_	_	_	_	_		
_	_	_	_	900	949	949	_		
1,336,458	1,336,458	1,336,458		55,397	494,094	335,242	158,852		
42,416,205	42,416,205	42,416,205		8,603,815	11,317,582	10,507,276	810,306		
_	_	5,933,917	_	_	_	8,599,560	_		
_	_	(8,234,823)	_	_	_	(8,181,160)	_		
_	_	(2,843)	_	_	_	851,979	_		
		(2,303,749)				1,270,379			
		(=,===,=							
_	_	24,351	_	_	_	(2,342,260)	_		
		(14,108)				25,468,222			
\$ —	\$ —	\$ 10,243	\$ —	\$ —	\$ —	\$ 23,125,962	\$ —		

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

June 30, 2008 (amounts in thousands)

(amounto in moudando)			Special Revenue Funds			Funds
	General		Federal		Transportation	
Budgetary fund balance reclassified into						
GAAP statement fund structure	\$	5,688,751	\$	10,243	\$	23,125,962
Basis difference:						
Interfund receivables		76,429		_		1,645,803
Loans receivable		103,082		46,011		
Interfund payables		(2,231,795)		_		
Escheat property		(969,109)		_		_
Bonds authorized but unissued		_		_		(18,820,405)
Other		9,567		_		75,377
Timing difference:						
Liabilities budgeted in subsequent years		(6,845,794)		(13,502)		(581,305)
GAAP fund balance (deficit), June 30, 2008	\$	(4,168,869)	\$	42,752	\$	5,445,432

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 *Comprehensive Annual Financial 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. This report includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the *Comprehensive Annual Financial Report Supplement* is available upon request from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5872.

Reconciliaton 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 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 \$76 million increase to the fund balance in the General Fund and a \$1.6 billion increase to the fund balance in the Transportation Fund. The adjustments related to loans receivable caused increases of \$103 million in the General Fund and \$46 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 \$2.2 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 \$969 million decrease to the General Fund balance.

Bond Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused an \$18.8 billion decrease to the fund balance in the Transportation Fund.

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 \$10 million in the General Fund and \$75 million in the Transportation 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 \$6.8 billion in the General Fund, \$14 million in the Federal Fund, and \$581 million in the Transportation Fund. The large decrease in the General Fund primarily consists of \$2.2 billion for deferred apportionment payments to K-12 schools and community colleges, \$445 million in tax amnesty program overpayments, and \$2.3 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 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.

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.

(continued)

(continued)

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.

The **Transportation Debt Service Fund** accounts for Transportation Fund transfers used for the payment of principal and interest related to various transportation related general obligation bonds and transfers to the General Fund for reimbursement of prior year debt service expenditures.

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, 2008 (amounts in thousands)

(amounts in thousands)	Special Revenue								
		Business		Financing					
		and	En	vironmental		for Local		Cigarette	
	Pı	Professions and Government				overnments	and		
	R	egulatory		Natural		and the		Tobacco	
	and	d Licensing	Resources			Public	Tax		
ASSETS									
Cash and pooled investments	\$	924,464	\$	1,664,581	\$	2,262,280	\$	702,287	
Investments		_		_		_		_	
Receivables (net)		51,507		389,935		19,277		74,845	
Due from other funds		15,945		71,688		45,603		5,366	
Due from other governments		14,215		20,025		105,239		181	
Interfund receivables		52,290		387,500		36,094			
Loans receivable		178,004		805,570		1,385,983			
Other assets		743		149				1_	
Total assets	\$	1,237,168	\$	3,339,448	\$	3,854,476	\$	782,680	
LIABILITIES									
Accounts payable	\$	56,571	\$	274,079	\$	1,859,853	\$	67,658	
Due to other funds		20,637		108,073		407,519		71,501	
Due to component units		_		1,300		82		56,577	
Due to other governments		2,120		169,786		350,904		125,838	
Interfund payables		_		15,472		_		_	
Tax overpayments		_		_		_		_	
Deposits		495		701		_		_	
Advance collections		31,834		74,862		640		_	
Interest payable		_		_		_		_	
General obligation bonds payable		_		_		_		_	
Other liabilities		7,283		6,233		399		3	
Total liabilities		118,940		650,506		2,619,397		321,577	
FUND BALANCES									
Reserved for:									
Encumbrances		233,047		1,579,262		159,280		34,916	
Interfund receivables		52,290		387,500		36,094			
Loans receivable		178,004		805,570		1,385,983		_	
Continuing appropriations		28,292		519,777		1,354,862		375,172	
Debt service		_		_		_		_	
Unreserved, reported in:									
Special revenue funds		626,595		(603,167)		(1,701,140)		51,015	
Capital projects funds					_		_		
Total fund balances (deficits)		1,118,228		2,688,942		1,235,079		461,103	
Total liabilities and fund balances	\$	1,237,168	\$	3,339,448	\$	3,854,476	\$	782,680	

_	_						Special	Heve	enue						
	Local Revenue			(California			Go	olden State				Other		Total
	and	Une	employment		State			1	Говассо				Special		Nonmajor
	Public	F	Programs	ı	Jniversity		Trial	Se	curitization		Economic	c Revenue			Special
	Safety	Adı	ministration		Programs	_	Courts	Co	orporation	_	Recovery	_	Programs	_	Revenue
\$	1,118,107	\$	193,540	\$	66,468	\$	1,573,703	\$	191,236	\$	S 74	\$	2,046,871	\$	10,743,611
					1,368,168		434,559		472,636		_				2,275,363
	2,889		89,111		119,789		284,770		950		1		221,673		1,254,747
	31,928		313,868		31,197		6,000						791,385		1,312,980
			928		2,305		32,940						26,845		202,678
													126,800		602,684
					110,664								77,963		2,558,184
			18,531		512		23,271						263		43,470
\$	1,152,924	\$	615,978	\$	1,699,103	\$	2,355,243	\$	664,822	\$	5 75	\$	3,291,800	\$	18,993,717
\$		\$	127,816	\$	444,469	\$	205,826	\$	284	\$	5 7	\$	517,078	\$	3,553,641
•	516,382	,	61,504	•	7,210	•	35,985	,	_	,		,	20,619	_	1,249,430
									_				6,730		64,689
	636,317		26		49		305,636		_				267,654		1,858,330
			_		_				_				13,404		28,876
			8,240												8,240
			_		2,603		254,372		_				14,065		272,236
					126,394		1,911		_				45,379		281,020
					1,050				26,258						27,308
							_								
			8,799		49,732		327,762						38,400		438,611
	1,152,699		206,385		631,507		1,131,492		26,542	_	7		923,329		7,782,381
	_		304,665		_		185,270		_		_		168,639		2,665,079
													126,800		602,684
					110,664								77,963		2,558,184
	2						11,145						46,793		2,336,043
			_		_		_		_						_
	223		104,928		956,932		1,027,336		638,280		68		1,948,276		3,049,346

225

\$

\$ 1,152,924

409,593

615,978

1,067,596

\$ 1,699,103

1,223,751

\$ 2,355,243

\$

638,280

664,822

\$

68

75

2,368,471

3,291,800

(continued)

11,211,336

\$ 18,993,717

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2008 (amounts in thousands)

(amounts in thousands)								
		Economic Recovery Bond Sinking	Tra	ansportation Debt Service		Total Debt Service	Co	Prison enstruction
ASSETS	_		_				_	
Cash and pooled investments	\$	1,487,760	\$	_	\$	1,487,760	\$	554
Investments				_				
Receivables (net)		_				_		16
Due from other funds		24,879		134,822		159,701		3
Due from other governments		_				_		_
Interfund receivables		_						_
Loans receivable		_		_				_
Other assets					_			
Total assets	\$	1,512,639	\$	134,822	\$	1,647,461	\$	573
LIABILITIES								
Accounts payable	\$	9	\$	_	\$	9	\$	363
Due to other funds				130,103		130,103		24
Due to component units								_
Due to other governments		_						_
Interfund payables		_		_		_		_
Tax overpayments		_		_		_		_
Deposits		_		_		_		_
Advance collections		_		_				_
Interest payable		197,136		_		197,136		_
General obligation bonds payable		421,405				421,405		_
Other liabilities								
Total liabilities		618,550		130,103		748,653		387
FUND BALANCES								
Reserved for:								
Encumbrances						_		263
Interfund receivables						_		_
Loans receivable		_		_				_
Continuing appropriations						_		497
Debt service		894,089		4,719		898,808		_
Unreserved, reported in:								
Special revenue funds		_		_		_		_
Capital projects funds								(574)
Total fund balances (deficits)		894,089		4,719		898,808		186
Total liabilities and fund balances	\$	1,512,639	\$	134,822	\$	1,647,461	\$	573

						Capi	tal Projects						
			Natural										
	Higher Acquisition Education and Construction Enhancement		and		East Bay		s Angeles	Building Authoritie San Francisco		Oakland		Riverside	
\$	6,544	\$	55,990	\$	19,951	\$	28,568	\$	22,280	\$	6,955	\$	1,130
*		*		•		*		•		*		*	
	147		500										
	4,282		26,764		2,041		6,489		9,812		2,438		372
	_								_				
\$	10,973	\$	83,254	\$	21,992	\$	35,057	\$	32,092	\$	9,393	\$	1,502
\$	536,111	\$	5,397	\$		\$		\$		\$		\$	
*	383,252	*	5	*		*		•	677	*		*	
	· —		_		_				_				_
	16,511								47				
	_				_		_		_		_		_
			52				4						
					759		1,000		1,266		1,313		132
	935,874		5,454		759		1,004		1,990		1,313		132
	933,074		3,434		739		1,004		1,990		1,313		132
	8,776		24,074		_				_				_
			45,270										
	_						_		_		_		
	_				_		_		_				_
	(933,677)		8,456		21,233		34,053		30,102		8,080		1,370
	(924,901)		77,800		21,233		34,053		30,102		8,080		1,370
\$	10,973	\$	83,254	\$	21,992	\$	35,057	\$	32,092	\$	9,393	\$	1,502

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2008 (amounts in thousands)

,			Ca	pital Projects				
	Bu	ıilding						
	Aut	horities				Total		
				Other		Nonmajor		Total
		San		Capital		Capital		Nonmajor
	Ber	nardino		Projects	Projects		G	overnmental
ASSETS								
Cash and pooled investments	\$	9,078	\$	2,036	\$	153,086	\$	12,384,457
Investments		_		_				2,275,363
Receivables (net)		_				663		1,255,410
Due from other funds		1,689		186		54,076		1,526,757
Due from other governments		_						202,678
Interfund receivables								602,684
Loans receivable		_						2,558,184
Other assets		_						43,470
Total assets	\$	10,767	\$	2,222	\$	207,825	\$	20,849,003
LIABILITIES								
Accounts payable	\$		\$	424	\$	542,295	\$	4,095,945
Due to other funds		26		1,144		385,128		1,764,661
Due to component units				_				64,689
Due to other governments				_		16,558		1,874,888
Interfund payables				_				28,876
Tax overpayments		_		_				8,240
Deposits		_		_		_		272,236
Advance collections		_		_		56		281,076
Interest payable		202		_		4,672		229,116
General obligation bonds payable		_		_				421,405
Other liabilities		_						438,611
Total liabilities		228		1,568		948,709		9,479,743
FUND BALANCES								
Reserved for:								
Encumbrances		_		17,585		50,698		2,715,777
Interfund receivables		_						602,684
Loans receivable		_						2,558,184
Continuing appropriations						45,767		2,381,810
Debt service		_						898,808
Unreserved, reported in:								
Special revenue funds		_						3,049,346
Capital projects funds		10,539		(16,931)		(837,349)		(837,349)
Total fund balances (deficits)		10,539		654		(740,884)		11,369,260
Total liabilities and fund balances	\$	10,767	\$	2,222	\$	207,825	\$	20,849,003
								(concluded)

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

Nonmajor Governmental Funds

Nonmajor Governmental Funds	Special Revenue										
Year Ended June 30, 2008 (amounts in thousands)	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public	Cigarette and Tobacco Tax							
REVENUES											
Personal income taxes	\$ —	\$ —	\$ 982,777	\$ —							
Sales and use taxes	_	_	_	_							
Other taxes	69,404	360,548	446,429	920,236							
Intergovernmental	_	_	_	_							
Licenses and permits	244,474	219,806	15,327	_							
Charges for services	9,434	103,711	2,920	_							
Fees	709,412	2,019,435	_	_							
Penalties	20,108	27,716	229	_							
Investment and interest	45,106	160,980	205,630	30,205							
Other	8,215	106,523	32,987	14							
Total revenues	1,106,153	2,998,719	1,686,299	950,455							
EXPENDITURES											
Current:											
General government	454,918	89,654	382,826	11,215							
Education	14,379	19,360	2,853,660	50,273							
Health and human services	163,532	75,213	1,235,778	750,265							
Resources	51,476	4,020,163	41,431	19,388							
State and consumer services	234,198	49,340	13,434	_							
Business and transportation	174,409	5,660	430,010	_							
Correctional programs	_	_	23,599	_							
Capital outlay	_	254,856	_	_							
Debt service:											
Bond and commercial paper retirement	_	728,015	2,584,702	_							
Interest and fiscal charges		93,383	151,555								
Total expenditures	1,092,912	5,335,644	7,716,995	831,141							
Excess (deficiency) of revenues											
over (under) expenditures	13,241	(2,336,925)	(6,030,696)	119,314							
OTHER FINANCING SOURCES (USES)											
General obligation bonds and commercial											
paper issued	_	1,694,480	4,589,925	_							
Refunding bonds issued	_	153,895	1,428,610	_							
Payment to refunding agent	_	(153,895)	(1,428,610)	_							
Premium on bonds issued	_	_	_	_							
Transfers in	23,165	99,483	704,225	_							
Transfers out	(7,312)	(95,683)	(268,000)	(84,397)							
Total other financing sources (uses)	15,853	1,698,280	5,026,150	(84,397)							
Net change in fund balances	29,094	(638,645)	(1,004,546)	34,917							
Fund balances (deficits), July 1, 2007	1,089,134	3,327,587 *									
Fund balances (deficits), June 30, 2008	\$ 1,118,228	\$ 2,688,942	\$ 1,235,079	\$ 461,103							
* Destated	- 1,110,220	,000,042	- 1,200,010	- 101,100							

			Special	Revenue			
Local Revenue and	Unemployment	California State		Golden State		Other Special	Total Nonmajor
Public	Programs	University	Trial	Securitization	Economy	Revenue	Special
Safety	Administration	Programs	Courts	Corporation	Recovery	Programs	Revenue
- Cuiloty				<u> </u>			
_	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 982,777
5,607,176	_	_		_	_		5,607,176
_	131,456	_		_	_	353	1,928,426
_	_	960,151	966,651	_		4,408	1,931,210
1,713,720	_			_	_	94,185	2,287,512
	_	_	34,976	_		181,227	332,268
_	_	1,235,717	41,302	_	_	1,230,055	5,235,921
_	94,083	_	243,960	_	_	254,588	640,684
13,543	5,220	81,072	54,743	29,049	17	186,952	812,517
	11,097	922,541	81,331	416,048		1,369,615	2,948,371
7,334,439	241,856	3,199,481	1,422,963	445,097	17	3,321,383	22,706,862
2,804,300	_	_	3,244,149	_	14,185	1,364,263	8,365,510
_	_	3,469,569		_		367,814	6,775,055
4,537,250	1,139,763	_		_		1,974,962	9,876,763
_	_	_		_	_	44,670	4,177,128
_	_	_	169	_	_	256,004	553,145
_	_	_		_	_	57,882	667,961
_	_	_		_	_	19,889	43,488
_	_	_		_	_		254,856
_	_	_	_	129,120	_	82,386	3,524,223
				326,631		18,956	590,525
7,341,550	1,139,763	3,469,569	3,244,318	455,751	14,185	4,186,826	34,828,654
(7,111)	(897,907)	(270,088)	(1,821,355)	(10,654)	(14,168)	(865,443)	(12,121,792

11,862

11,862

4,751

(4,526)

225

\$

\$

1,017,083

(55, 195)

961,888

63,981

345,612

409,593

100,372

(2,497)

97,875

(172,213)

1,239,809

1,067,596

1,847,542

1,847,542

26,187

1,197,564 *

1,223,751

3,179,260

147,976

14,236

68

68

(3,313,000)

(10,654)

648,934

638,280

\$

430,380

505,124

(117,673)

817,831

(47,612)

2,416,083 *

2,368,471

\$

11,211,336 (continued)

9,894,045 1,582,505 (1,582,505)

147,976

4,308,856

(3,943,757)

10,407,120

(1,714,672)

12,926,008

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

Nonmajor Governmental Funds

Nonmajor Governmental Funds		Debt Service		
Year Ended June 30, 2008 (amounts in thousands)	Economic Recovery Bond Sinking	Transportation Debt Service	Total Debt Service	Prison Construction
REVENUES				
Personal income taxes	\$ —	\$ —	\$ —	\$ —
Sales and use taxes	1,401,282	_	1,401,282	
Other taxes	_		_	
Intergovernmental	_		_	
Licenses and permits	_		_	
Charges for services	_		_	
Fees	_		_	
Penalties	_		_	
Investment and interest	54,955	_	54,955	118
Other	27,303		27,303	
Total revenues	1,483,540	_	1,483,540	118
EXPENDITURES				
Current:				
General government	15,504		15,504	_
Education	· <u> </u>		<u> </u>	_
Health and human services	_			_
Resources	_		_	_
State and consumer services	_			_
Business and transportation	_		_	_
Correctional programs	_		_	_
Capital outlay	_		_	857
Debt service:				
Bond and commercial paper retirement	2,358,230	177,055	2,535,285	_
Interest and fiscal charges	391,328	157,515	548,843	164
Total expenditures		334,570	3,099,632	1,021
Excess (deficiency) of revenues				
over (under) expenditures	(1,281,522)	(334,570)	(1,616,092)	(903)
OTHER FINANCING SOURCES (USES)			(1,010,002)	
General obligation bonds and commercial				
paper issued	_		_	1,495
Refunding bonds issued	_	_		3,805
Payment to refunding agent	_	_		(3,805)
Premium on bonds issued	_			(0,000)
Transfers in	1,022,621	539,289	1,561,910	
Transfers out		(200,000)	(200,000)	
Total other financing sources (uses)	1,022,621	339,289	1,361,910	1,495
Net change in fund balances		4,719		592
-	(258,901)	4,719	(254,182)	
Fund balances (deficits), July 1, 2007	1,152,990		1,152,990	(406)
Fund balances (deficits), June 30, 2008	\$ 894,089	\$ 4,719	\$ 898,808	\$ 186

			Capital Projects										
	Natural Resources		,	Building Authoritie	•								
Higher Education	Acquisition												
Construction	Enhancement	East Bay	Los Angeles	San Francisco	Oakland	Riverside							
\$ —	\$ —	\$	\$ —	\$ —	\$ —	\$ —							
·	<u> </u>	·		<u> </u>									
	_	_		_	_	_							
					_								
		_		_	_	_							
	_	_											
46,424	390	866	1,413	1,047	313	50							
46.404	12,272				423								
46,424	12,662	866	1,413	1,047	736	50							
_		_		_	_	_							
	_	_			_								
		_			_								
					_								
		68		_									
1,163,923	30,197	_	201	2,586	_								
767,892		7,310	16,940	15,335	5,120	440							
82,437		2,252	5,437	10,607	5,910	539							
2,014,252	30,197	9,630	22,578	28,528	11,030	979							
(1,967,828)	(17,535)	(8,764)	(21,165)	(27,481)	(10,294)	(929)							
2,172,335				_									
168,620													
(168,620)					_								
	_				_								
	56,097	9,718	22,771	26,145	10,492	990							
(1,179)													
2,171,156	56,097	9,718	22,771	26,145	10,492	990							
203,328	38,562	954	1,606	(1,336)	198	61							
(1,128,229)	39,238	20,279	32,447	31,438	7,882	1,309							
\$ (924,901)	\$ 77,800	\$ 21,233	\$ 34,053	\$ 30,102	\$ 8,080	\$ 1,370							

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(continued)

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

Nonmajor Governmental Funds

Nonmajor Governmental Funds		Capital Projects		
	Building	Capital Projects		
Year Ended June 30, 2008	Authorities		Total	
(amounts in thousands)	Authorities	Other		Total
	•	Other	Nonmajor	Total
	San	Capital	Capital	Nonmajor
	Bernardino	Projects	Projects	Governmental
REVENUES				
Personal income taxes	\$ —	\$ —	\$ —	\$ 982,777
Sales and use taxes	_	_		7,008,458
Other taxes	_	_		1,928,426
Intergovernmental	_	_		1,931,210
Licenses and permits	_	_		2,287,512
Charges for services	_	_		332,268
Fees	_	_		5,235,921
Penalties	_	_		640,684
Investment and interest	400	898	51,919	919,391
Other		319	13,014	2,988,688
Total revenues	400	1,217	64,933	24,255,335
EXPENDITURES				
Current:				
General government	_	_		8,381,014
Education	_	_		6,775,055
Health and human services	_	2,386	2,386	9,879,149
Resources	_	_		4,177,128
State and consumer services	_	1,834	1,834	554,979
Business and transportation	_	_	68	668,029
Correctional programs	_	_		43,488
Capital outlay	_	2,768	1,200,532	1,455,388
Debt service:				
Bond and commercial paper retirement	2,330	12,173	827,540	6,887,048
Interest and fiscal charges	2,515	827	110,688	1,250,056
Total expenditures	4,845	19,988	2,143,048	40,071,334
Excess (deficiency) of revenues				
over (under) expenditures	(4,445)	(18,771)	(2,078,115)	(15,815,999)
OTHER FINANCING SOURCES (USES)		- 		
General obligation bonds and commercial				
paper issued	_	33,400	2,207,230	12,101,275
Refunding bonds issued	_	2,050	174,475	1,756,980
Payment to refunding agent	_	(2,050)	(174,475)	(1,756,980)
Premium on bonds issued	_	(=,···)	(11 1, 11 c)	147,976
Transfers in	4,872	_	131,085	6,001,851
Transfers out		_	(1,179)	(4,144,936)
Total other financing sources (uses)	4,872	33,400	2,337,136	14,106,166
Net change in fund balances	427	14,629		
-			259,021	(1,709,833)
Fund balances (deficits), July 1, 2007	10,112	(13,975)	(999,905)	13,079,093
Fund balances (deficits), June 30, 2008	\$ 10,539	\$ 654	\$ (740,884)	\$ 11,369,260
* Restated				(concluded)

Budgetary Comparison Schedule

Budgetary Basis Nonmajor Governmental Cost Funds*

Year Ended June 30, 2008 (amounts in thousands)

		Budget Amounts		Actual Amounts		Variance With Final Budget
REVENUES	_	Amounts	_	Amounts	_	i illai buuget
Cigarette and tobacco taxes	\$	952,269	\$	927.408	\$	24.861
Vehicle license fees	Ψ	2,331,959	Ψ	2,262,282	Ψ	69,677
Personal income tax		1,493,000		987,023		505,977
Retail sales and use taxes		5,487,571		8,169,328		(2,681,757)
Other major taxes and licenses		38,299		35,227		3,072
Other revenues		7,988,493		8,096,745		(108,252)
Total revenues		18,291,591		20,478,013		(2,186,422)
EXPENDITURES						
State and consumer services		670,959		573,957		97,002
Business and transportation		1,204,221		1,184,427		19,794
Resources		3,282,067		3,181,696		100,371
Health and human services		8,111,315		8,023,026		88,289
Correctional programs		21,437		19,279		2,158
Education		(10,944)		(12,384)		1,440
General government		5,059,160		4,684,570		374,590
Total expenditures		18,338,215		17,654,571		683,644
OTHER FINANCING SOURCES (USES)						
Transfers from other funds		_		14,073,710		_
Transfers to other funds		_		(16,550,075)		_
Other additions and deductions				662,251		<u> </u>
Total other financing sources (uses)				(1,814,114)		
Excess (deficiency) of revenues and other sources over (under)						
expenditures and other uses		_		1,009,328		_
Fund balances, July 1, 2006 (restated)				8,148,582		
Fund balances, June 30, 2007	\$		\$	9,157,910	\$	

^{*} 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, notes to the Required Supplementary Information, and the Comprehensive Annual Financial Report Supplement.



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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.

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, 2008 (amounts in thousands)

	chitecture evolving	Service Revolving
ASSETS		
Current assets:		
Cash and pooled investments	\$ 222,136	\$ 76,483
Receivables (net)	4	5,819
Due from other funds	126,934	9,535
Due from other governments	1,210	12,591
Prepaid items	36	69,802
Inventories	_	32,885
Total current assets	350,320	207,115
Noncurrent assets:		
Capital assets:		
Land	_	_
Buildings and other depreciable property	479	253,695
Less: accumulated depreciation	(426)	(154,288)
Construction in progress	 	
Total noncurrent assets	 53	99,407
Total assets	\$ 350,373	\$ 306,522
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 62,414	\$ 4,420
Due to other funds	272	134,100
Due to component units	_	_
Due to other governments	_	_
Deposits	_	488
Contracts and notes payable	_	4,301
Advance collections	304,361	13,695
Current portion of long-term obligations	4,751	1,573
Other liabilities	472	118
Total current liabilities	 372,270	158,695
Noncurrent liabilities:		
Interfund payables	_	_
Compensated absences payable	_	32,389
Capital lease obligations	_	7,474
Other noncurrent liabilities	2,351	45,467
Total noncurrent liabilities	2,351	85,330
Total liabilities	374,621	244,025
NET ASSETS	 	<u> </u>
Investment in capital assets, net of related debt	53	90,360
Unrestricted	(24,301)	(27,863)
Total net assets (deficit)	(24,248)	62,497
Total liabilities and net assets	\$ 350,373	\$ 306,522

Prison Industries		Office of Systems Integration		Department of Technology Services			Water Resources Revolving		Other Internal Service Programs		Total
\$	140,862	\$	16,883 727	\$	44,479	\$	21,186	\$	396,624 297	\$	918,653
	4,217 7,546		88,330		3,638 76,629		38,704 46,913		4,377		53,406 360,264
	302				309				69		14,481
	458		259		1,237		16,696		432		88,920
	55,832		_		, <u> </u>		478		_		89,195
_	209,217		106,199		126,292		123,977		401,799		1,524,919
									004		004
	151,708		_		177,966		15,756		231 6,292		231 605,896
	(99,155)		_		(134,948)		(15,756)		(5,310)		(409,883)
	(00,100)		_		14,689		(10,700)		3,536		18,225
	52,553		_		57,707		_		4,749		214,469
\$	261,770	\$	106,199	\$	183,999	\$	123,977	\$	406,548	\$	1,739,388
<u>*</u>		÷		<u> </u>		<u> </u>		<u> </u>		-	,,
\$	24,220	\$	58,831	\$	27,321	\$	21,573	\$	37,118	\$	235,897
	40		5		_		465		228,343		363,225
	_		_		_		_		5,574		5,574
	_		_		20,074		_		1		20,075
	_		_		5,900		_		_		6,388
	31,036		46,652		10,579 41		_		_		14,880
	9,136		40,032		2,065		_		_		395,785 17,525
			_		31		2,742		744		4,107
	64,432		105,488		66,011		24,780		271,780		1,063,456
			_		_		94,517		1,220		95,737
			_		11,217		4,680		_		48,286
			_		_		_				7,474
_	17,489		711		32,804				6,910		105,732
	17,489		711		44,021		99,197		8,130		257,229
_	81,921		106,199		110,032	_	123,977		279,910		1,320,685
	52,553		_		21,140		_		4,749		168,855
_	127,296	_		_	52,827	_		_	121,889		249,848
	179,849				73,967				126,638		418,703
\$_	261,770	\$	106,199	\$	183,999	\$_	123,977	\$_	406,548	\$	1,739,388

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

Internal Service Funds

Year Ended June 30, 2008 (amounts in thousands)

	chitecture evolving	F	Service Revolving
OPERATING REVENUES			
Services and sales	\$ 459,415	\$	879,057
Total operating revenues	459,415		879,057
OPERATING EXPENSES			
Personal services	28,394		263,021
Supplies	_		_
Services and charges	435,192		591,841
Depreciation	_		19,036
Interest expense	 		588
Total operating expenses	463,586		874,486
Operating income (loss)	 (4,171)		4,571
NONOPERATING REVENUES (EXPENSES)			
Investment and interest income	_		_
Interest expense and fiscal charges	_		_
Other	 47		
Total nonoperating revenue (expenses)	47		
Income (loss) before capital contributions and transfers	(4,124)		4,571
Transfers in			397
Transfers out			(22,771)
Change in net assets	(4,124)		(17,803)
Total net assets (deficit), July 1, 2007	 (20,124)		80,300
Total net assets (deficit), June 30, 2008	\$ (24,248)	\$	62,497

								Other		
		Office of	De	partment of	Water			Internal		
	Prison	Systems	Т	Technology Services		Resources Revolving		Service		
In	dustries	Integration	_					Programs	Total	
\$	279,541	\$ 123,842	2 \$	203,883	\$	286,043	\$	228,983	\$	2,460,764
	279,541	123,842		203,883	_	286,043		228,983		2,460,764
	69,915	711		82,394		279,543		6,910		730,888
	3,686		-			6,065		1,519		11,270
	162,953	123,131		126,167		_		172,478		1,611,762
	8,739		-	12,685		435		78		40,973
	_		-	_						588
	245,293	123,842	?	221,246		286,043		180,985		2,395,481
	34,248			(17,363)				47,998		65,283
	1,367	_	-	1,218				749		3,334
	(26)			(454)						(480)
	(770)		-	(20,074)						(20,797)
	571		-	(19,310)				749		(17,943)
	34,819	_	-	(36,673)				48,747		47,340
	_		-					_		397
	_		-					_		(22,771)
	34,819			(36,673)				48,747		24,966
	145,030		·	110,640		_		77,891		393,737
\$	179,849	\$	\$	73,967	\$		\$	126,638	\$	418,703

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2008 (amounts in thousands)

	Architecture			Service
	F	Revolving		Revolving
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts from customers	\$	585,892	\$	923,690
Receipts from interfund services provided	•	_	•	_
Payments to suppliers		(406,893)		(589,788)
Payments to employees		(26,776)		(232,562)
Payments for interfund services used		(11,036)		(71,458)
Claims paid to other than employees		_		_
Other receipts (payments)		(1,727)		(1,449)
Net cash provided by (used in) operating activities		139,460		28,433
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Change in interfund payables and loans payable		_		_
Interest paid on operating debt		_		_
Transfers in		_		397
Transfers out		_		(22,771)
Net cash provided by (used in) noncapital financing activities				(22,374)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of intangible assets		_		_
Acquisition of capital assets		_		(20,601)
Proceeds from sale of capital assets		_		_
Principal paid on notes payable and commercial paper		_		_
Interest paid		_		(588)
Net cash provided by (used in) capital and related financing activities				(21,189)
CASH FLOWS FROM INVESTING ACTIVITIES				
Earnings on investments		_		_
Net cash provided by investing activities		_		_
Net increase (decrease) in cash and pooled investments		139,460		(15,130)
Cash and pooled investments at July 1, 2007		82,676		91,613
Cash and pooled investments at June 30, 2008	\$	222,136	\$	76,483

Prison Industries		Office of Systems Integration		Department of Technology Services		Water Resources Revolving			Other Internal Service Programs	Total		
\$	305,530	\$	123,121	\$	207,209	\$	316,408	\$	228,921	\$	2,690,771	
	_		6,708		_		_		13,938		20,646	
	(160,848)		(134,125)		(122,071)		_		(148,661)		(1,562,386)	
	(61,753)		_		(74,928)		(274,863)		_		(670,882)	
	_		_		_		(29,730)		(23)		(112,247)	
	(5,165)		_				_		(1,566)		(6,731)	
			106	_			6,264		(169,372)		(166,178)	
	77,764		(4,190)		10,210	_	18,079	_	(76,763)		192,993	
	(406)		_		_		_		_		(406)	
	(26)		_		_		_		_		(26)	
	_		_		_		_		_		397	
											(22,771)	
	(432)			_							(22,806)	
	_		_		(2,951)		_		_		(2,951)	
	(8,457)				(3,036)		(435)		(123)		(32,652)	
	430				_				_		430	
	_				(3,556)		_		_		(3,556)	
					(454)						(1,042)	
	(8,027)				(9,997)		(435)		(123)		(39,771)	
	1,189		_		1,590		_		749		3,528	
	1,189		_		1,590				749		3,528	
	70,494		(4,190)		1,803	_	17,644		(76,137)		133,944	
	70,368		21,073		42,676		3,542		472,761		784,709	
\$	140,862	\$	16,883	\$	44,479	\$	21,186	\$	396,624	\$	918,653	
											(continued)	

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Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2008 (amounts in thousands)

	Architecture			Service
	Revol	ving		Revolving
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH				
PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$	(4,171)	\$	4,571
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest expense on operating debt		_		588
Depreciation		_		19,036
Change in assets and liabilities:				
Receivables		1,494		42,415
Due from other funds		(8,035)		(52,330)
Due from other governments		(288)		2,037
Prepaid items		51		(19,707)
Inventories		_		(5,257)
Other current assets		_		_
Accounts payable		28,248		27,089
Due to other funds		(3,001)		(19,200)
Due to component units		_		_
Due to other governments		_		_
Deposits		_		46
Contracts and notes payable		_		(214)
Advance collections		124,983		2,218
Other current liabilities		(1,450)		112
Compensated absences payable		(10)		(837)
Capital lease obligations		_		(1,571)
Other noncurrent liabilities		1,639	_	29,437
Total adjustments		143,631		23,862
Net cash provided by (used in) operating activities	\$	139,460	\$	28,433

Prison Industries		Office of Systems Integration			Department of Technology Services		Water Resources Revolving		Other Internal Service Programs		Total	
\$	34,248	\$	_	\$	(17,363)	\$	_	\$	47,998	\$	65,283	
	_		_		_		_		_		588	
	8,739		_		12,685		435		78		40,973	
	(2,757)		(10)		(127)		31,587		7		72,609	
	3,099		(6,664)		2,920		(24,390)		14,055		(71,345)	
	149		_		533		_		(69)		2,362	
	399		(248)		662		(610)		(257)		(19,710)	
	(5,081)		_		_		203		_		(10,135)	
	177		_		_		_		_		177	
	3,858		(10,746)		4,043		10,818		2,265		65,575	
	1,758		13,478		(368)		(5,340)		(200,119)		(212,792)	
	(6)		_		_		_		51,964		51,958	
	_		_		_		_		(6)		(6)	
	_		_		_		_		_		46	
	_		_		_		_		_		(214)	
	25,321		_		_		(1,222)		_		151,300	
	(224)		_		_		1,918		411		767	
	(240)		_		409		4,680		_		4,002	
	8,324		_		_		_		_		6,753	
	<u> </u>	_		_	6,816	_			6,910		44,802	
	43,516		(4,190)		27,573		18,079		(124,761)		127,710	
\$	77,764	\$	(4,190)	\$	10,210	\$	18,079	\$	(76,763)	\$	192,993	
											(concluded)	

(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, 2008 (amounts in thousands)

	_	High Technology Education	_	Dormitory Building Maintenance and Equipment
ASSETS				
Current assets:				
Cash and pooled investments	\$	_	\$	517,043
Investments		_		455,006
Restricted assets:				
Cash and pooled investments		32,571		_
Due from other governments		_		_
Net investment in direct financing leases		17,616		3,693
Receivables (net)		4,044		24,850
Due from other funds		403		4,552
Due from other governments		_		1,000
Prepaid items		_		658
Inventories		_		_
Other current assets		_		_
Total current assets		54,634		1,006,802
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments		15,239		800
Investments		11,843		_
Loans receivable		_		_
Investments		_		_
Net investment in direct financing leases		83,997		253,947
Interfund receivables		_		
Loans receivable		_		_
Deferred charges		168		25,755
Capital assets:				
Land		_		44,285
Collections – nondepreciable		_		29
Buildings and other depreciable property		_		2,729,390
Less: accumulated depreciation		_		(1,045,060)
Construction in progress		_		449,503
Other noncurrent assets		_		_
Total noncurrent assets		111,247		2,458,649
Total assets	\$	165,881	\$	3,465,451
	=		=	-,,

State University

Total	 Other Enterprise Programs	 Housing Loan	 ollution	State Water Pollution Control				
1,753,026	\$ 385,041	\$ 552,372	\$ 298,570	\$				
455,006			_					
74,995			42,424					
57,496			57,496					
21,309	_	_	_					
41,715	3,809	9,012	_					
16,496	2,674	4,301	4,566					
138,133	5,585		131,548					
939	281		_					
3,652	3,652		_					
617	532		 85					
2,563,384	 401,574	 565,685	 534,689					
16,039			_					
11,843			_					
454,214			454,214					
56,807		56,807	· —					
337,944		_	_					
2,126	2,126	_	_					
3,801,965	115,806	1,664,908	2,021,251					
41,521		15,256	342					
46,379	1,651	443	_					
29			_					
4,009,713	1,264,473	15,850	_					
(1,858,264)	(797,481)	(15,723)	_					
449,503	_		_					
13,476	 	 13,476	 					
7,383,295	586,575	1,751,017	 2,475,807					
9,946,679	\$ 988,149	\$ 2,316,702	\$ 3,010,496	\$				

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2008 (amounts in thousands)

	High Technology Education	Dormitory Building Maintenance and Equipment	
LIABILITIES			
Current liabilities:			
Accounts payable	\$ _	\$	37,432
Due to other funds	3,490		9,886
Due to component units	5,563		_
Due to other governments	_		_
Deferred revenue	_		60,446
Deposits			4,648
Advance collections	2,393		_
Interest payable	584		23,441
Current portion of long-term obligations	32,052		48,783
Other current liabilities		_	7,700
Total current liabilities	44,082	_	192,336
Noncurrent liabilities:			
Interfund payables	_		2,126
Benefits payable	_		_
Compensated absences payable	_		6,406
Certificates of participation, commercial paper,			
and other borrowings	_		37,352
General obligation bonds payable	_		_
Revenue bonds payable	86,039		2,704,820
Other noncurrent liabilities	_		6,025
Total noncurrent liabilities	86,039		2,756,729
Total liabilities	130,121		2,949,065
NET ASSETS			
Investment in capital assets, net of related debt	_		(605,030)
Restricted – expendable:			, , ,
Construction	_		328,321
Debt service	35,760		· <u> </u>
Security for revenue bonds	<u> </u>		_
Other purposes	_		_
Total expendable	35,760		328,321
Unrestricted			793,095
Total net assets	35,760		516,386
Total liabilities and net assets	\$ 165,881	\$	3,465,451

State University

State Wat Pollution Control	1	Housing Loan	_	Other Enterprise Programs	Total				
\$	_	\$ _	\$	19,885	\$	57,317			
	1,351	461		1,275		16,463			
	_	_		_		5,563			
	_	77		78		155			
	119			_		60,565			
	_			83		4,731			
	_			895		3,288			
:	2,331	24,171				50,527			
2	3,966	88,019		6,030		198,850			
				21		7,721			
2	7,767	 112,728		28,267		405,180			
	_					2,126			
	_	6,761		_		6,761			
	_			1,924		8,330			
	_	10,500		_		47,852			
	_	1,240,203				1,240,203			
19	1,198	713,130				3,695,187			
	459	 324		127,813		134,621			
19	1,657	1,970,918		129,737		5,135,080			
21	9,424	2,083,646		158,004		5,540,260			
	_	570		468,643		(135,817)			
	_					328,321			
2	6,000	_		_		61,760			
51	1,710	_		_		511,710			
		 232,486		348,186		580,672			
53	7,710	232,486		348,186		1,482,463			
2,25	3,362			13,316		3,059,773			
2,79	1,072	233,056		830,145		4,406,419			
\$ 3,01	0,496	\$ 2,316,702	\$	988,149	\$	9,946,679			
						(concluded)			

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

Nonmajor Enterprise Funds

Year Ended June 30, 2008 **Dormitory** (amounts in thousands) Building High Maintenance **Technology** and Education Equipment **OPERATING REVENUES** Student tuition and fees 561,762 Services and sales 3,606 Investment and interest Rent 16,994 15,932 Other Total operating revenues 20,600 577,694 **OPERATING EXPENSES** Personal services 166,860 Services and charges 314,412 3,511 Depreciation 68,829 Interest expense 13,344 118,295 Amortization (recovery) of deferred charges 61 Other 30,623 Total operating expenses 16,916 699,019 3,684 (121, 325)Operating income (loss) **NONOPERATING REVENUES (EXPENSES)** Investment and interest income 40,256 Interest expense and fiscal charges 22,259 Other Total nonoperating revenues 62,515 Income (loss) before capital contributions and transfers 3,684 (58,810)Capital contributions Transfers in 1,237 Transfers out (24,974)Change in net assets 4,921 (83,784)Total net assets, July 1, 2007 30.839 600,170 3 Total net assets, June 30, 2008 35,760 516,386

State University

State Water Pollution	Housing		Other Enterprise	
Control	 Loan	_	Programs	 Total
\$ —	\$ _	\$	_	\$ 561,762
_	2,956		99,967	102,923
54,474	125,179		1,577	184,836
_			23,017	40,011
	 321		675	 16,928
54,474	 128,456		125,236	906,460
2,663	9,703		6,486	185,712
_	10,360		86,056	414,339
_	546		30,321	99,696
_	108,211			239,850
_	1,119			1,180
1,858	 1,200			 33,681
4,521	131,139		122,863	 974,458
49,953	 (2,683)		2,373	(67,998)
16,930	1,683		12,240	71,109
(8,422)				(8,422)
(113)	 (962)		(58)	21,126
8,395	721		12,182	83,813
58,348	(1,962)		14,555	15,815
189,064	_		_	189,064
_			204	1,441
	 		(23,947)	(48,921)
247,412	(1,962)		(9,188)	157,399
2,543,660	 235,018		839,333	4,249,020
\$ 2,791,072	\$ 233,056	\$	830,145	\$ 4,406,419

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2008 (amounts in thousands)

	High Technology Education	Dormitory Building Maintenance and Equipment
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employees	\$ —	\$ 574,076
Receipts from interfund services provided	_	4,683
Payments to suppliers	, , ,	(325,486)
Payments to employees	_	(158,686)
Payments for interfund services used	_	
Claims paid to other than employees	_	
Other receipts (payments)	33,116	(10,520)
Net cash provided by (used in) operating activities	22,025	84,067
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	_	_
Retirement of notes payable and commercial paper	_	_
Interest paid on operating debt	_	
Transfers in	1,237	
Transfers out		(24,974)
Net cash provided by (used in) noncapital financing activities	1,237	(24,974)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	_	(62)
Acquisition of intangible assets	_	(71)
Acquisition of capital assets	_	(268,600)
Proceeds from sale of capital assets	_	15,676
Proceeds from notes payable and commercial paper	_	139,322
Principal paid on notes payable and commercial paper	_	(132,390)
Proceeds from revenue bonds	_	442,120
Retirement of revenue bonds	(22,265)	(105,229)
Interest paid	_	(115,929)
Grants received		
Net cash provided by (used in) capital and related financing activities	(22,265)	(25,163)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	_	(200,048)
Proceeds from maturity and sale of investments	_	_
Earnings (loss) on investments		40,256
Net cash provided by (used in) investing activities		(159,792)
Net increase (decrease) in cash and pooled investments	997	(125,862)
Cash and pooled investments at July 1, 2007	46,813	643,705
Cash and pooled investments at June 30, 2008	\$ 47,810	\$ 517,843

State University

Total	Other nterprise Programs	Housing Loan	 ate Water Pollution Control	F
745,076	\$ 121,537	\$ _	\$ 49,463	\$
5,935	1,231	21	_	
(450,463	(94,655)	(18,538)	(693)	
(176,608	(5,550)	(9,703)	(2,669)	
(1,311	(1,311)	_	_	
(2	(2)	_	_	
(406,406	(5,840)	(122,193)	(300,969)	
(283,779	15,410	(150,413)	(254,868)	
(20	_	(20)	_	
191,200		191,200	_	
(87,066	_	(87,066)	_	
(80,964	_	(57,379)	(23,585)	
(5,500	_	(5,500)	_	
(9,794	_	_	(9,794)	
1,441	204	_	_	
(48,921	(23,947)	 		
(39,624	(23,743)	 41,235	 (33,379)	
1,114	1,176	_	_	
(71	_	_	_	
(269,180	(580)	_	_	
15,679	3	_	_	
139,322	_	_	_	
(132,390	_	_	_	
442,120	_	_	_	
(127,494	_	_	_	
(115,929	_	_	_	
189,951	 	 	 189,951	
143,122	599	 	 189,951	
(200,048	_	_	_	
3,328	863	2,465	_	
74,939	12,248	 1,683	20,752	
(121,781	 13,111	 4,148	 20,752	
(302,062	5,377	(105,030)	(77,544)	
2,146,122	379,664	 657,402	 418,538	
1,844,060	\$ 385,041	\$ 552,372	\$ 340,994	\$

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2008 (amounts in thousands)

	High Technology Education	Dormitory Building Maintenance and Equipment
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH		
PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ 3,684	\$ (121,325)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Interest expense on operating debt	_	115,929
Depreciation	_	68,829
Accretion of capital appreciation bonds	1,127	_
Provisions and allowances	_	_
Amortization of discounts	91	_
Amortization of deferred charges	4,040	_
Other	_	22,259
Change in assets and liabilities:		
Receivables	(1,753)	(7,878)
Due from other funds	271	8,861
Due from other governments	_	(1,000)
Prepaid items	_	(140)
Inventories	_	_
Net investment in direct financing leases	14,609	2,095
Other current assets	_	(4,791)
Loans receivable	_	_
Interfund receivables	_	_
Accounts payable	_	(10,934)
Due to other funds	_	(4,178)
Due to other governments	_	(17)
Deposits	_	861
Advance collections	(7)	_
Interest payable	(37)	2,367
Other current liabilities	_	2,791
Deferred revenue	_	2,164
Benefits payable	_	_
Compensated absences payable	_	2,149
Other noncurrent liabilities	_	6,025
Total adjustments	18,341	205,392
Net cash provided by (used in) operating activities	-	\$ 84,067
p 2, (wood iii) opoidiiiig dourings iiiiiiiiiiiiiiiiiiiiiiiiiiiiiiiiiii		

State University

State Water Pollution Control		_	Housing Loan	Other Enterprise Programs	Total
\$	49,953	\$	(2,683)	\$ 2,373	\$ (67,998)
	_			_	115,929
	_		546	30,321	99,696
	_		(0.115)	_	1,127
	_		(2,115)	_	(2,115)
	_			_	91
	(5.004)		1,119		5,159
	(5,264)		962	(31)	17,926
	_		(1,044)	(164)	(10,839)
	_		3,126	892	13,150
	316		_	(1,130)	(1,814)
	_		_	(221)	(361)
	_		_	30	30
	_		_	_	16,704
	_		(5,910)	(79)	(10,780)
	(300,957)		(142,306)	(1,174)	(444,437)
	_		21	62	83
	_		_	7,346	(3,588)
	1,158		188	(17,202)	(20,034)
	_		(1,153)	70	(1,100)
	_		_	2	863
	_		_	(811)	(818)
	_		_	_	2,330
	_		301	274	3,366
	(74)		_	_	2,090
	_		(1,789)	4	(1,785)
	_		_	(57)	2,092
			324	(5,095)	1,254
	(304,821)		(147,730)	13,037	(215,781)
\$	(254,868)	\$	(150,413)	\$ 15,410	\$ (283,779)
					(concluded)



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, 2008 (amounts in thousands)

			Other	
	Scholarshare		Private	
	Program	Unclaimed	Purpose	
	Trust	Property	Trust	Total
ASSETS				
Cash and pooled investments	\$ 99	\$ 395,453	\$ 2,721	\$ 398,273
Investments, at fair value:				
Equity securities	58,995	_	_	58,995
Other	3,051,256	_	_	3,051,256
Total investments	3,110,251	_	_	3,110,251
Receivables (net)	7,062	_	_	7,062
Due from other funds	_	_	22	22
Other assets		299,658		299,658
Total assets	3,117,412	695,111	2,743	3,815,266
LIABILITIES				
Accounts payable	2,508	_	610	3,118
Due to other funds	_	370,404	106	370,510
Deposits	_	299,658	_	299,658
Other liabilities			611	611
Total liabilities	2,508	670,062	1,327	673,897
NET ASSETS				
Held in trust for benefits and other purposes	\$ 3,114,904	\$ 25,049	\$ 1,416	\$ 3,141,369

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

Year Ended June 30, 2008 (amounts in thousands)

			Other	
	Scholarshare		Private	
	Program	Unclaimed	Purpose	
	Trust	Property	Trust	Total
ADDITIONS				
Investment income:				
Net appreciation (depreciation) in fair value of				
investments	\$ (221,204)	\$ —	\$ —	\$ (221,204)
Interest, dividends, and other investment income	121,923	_	_	121,923
Less: investment expense	(9,792)			(9,792)
Net investment income	(109,073)	_	_	(109,073)
Receipts from depositors	969,702	395,070	672	1,365,444
Total additions	860,629	395,070	672	1,256,371
DEDUCTIONS				
Administrative expenses	_	_	24	24
Payments to and for depositors	478,938	370,021	815	849,774
Total deductions	478,938	370,021	839	849,798
Change in net assets	381,691	25,049	(167)	406,573
Net assets, July 1, 2007	2,733,213		1,583	2,734,796
Net assets, June 30, 2008	\$ 3,114,904	\$ 25,049	\$ 1,416	\$ 3,141,369



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 postemployment benefits plan that provides prefunding accounts to pay for health care or other postemployment 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 (VFF) was administered by CalPERS and accounted for employer contributions of the agent multiple-employer retirement plan that provided awards to volunteer firefighters. On February 29, 2008, CalPERS ceased to administer the VFF, the assets and liabilities were transferred to the California State Fire Employees' Welfare Benefit Corporation.

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 boxers and funds contributed by eligible state 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.

Combining Statement of Fiduciary Net Assets

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

June 30, 2008 (amounts in thousands)

		Public			
	Public	Employees'	State	Teachers'	
	Employees'	Health	Teachers'	Health	Deferred
	Retirement	Benefits	Retirement	Benefits	Compensation
ASSETS					
Cash and pooled investments	\$ 1,429,502	\$ 143,889	\$ 533,807	\$ 2,382	\$ 11,351
Investments, at fair value:					
Short-term	3,386,237	58,854	1,605,780	_	5,448
Equity securities	122,375,604	280,314	92,307,702	_	508,289
Debt securities	59,934,933	115,923	31,657,373	_	200,296
Real estate	21,818,432	48,079	20,412,118	_	_
Other	28,670,605	_	16,577,341	_	7,103,676
Securities lending collateral	35,177,731	_	27,076,636	_	_
Total investments	271,363,542	503,170	189,636,950		7,817,709
Receivables (net)	3,036,586	1,896	5,068,196	1,812	18,388
Due from other funds	440,088	2	2,027	40	91
Due from other governments	_	_	_	_	7
Other assets	389,962		1,604		
Total assets	276,659,680	648,957	195,242,584	4,234	7,847,546
LIABILITIES					
Accounts payable	6,841	1	4,434,297	_	2,358
Due to other funds	_	184	_	14	733
Due to other governments	_	_	191	_	_
Benefits payable	957,846	_	719,028	_	_
Securities lending obligations	35,177,731	_	27,076,636	_	_
Other liabilities	2,601,637	4,999	1,514,239	36	10,800
Total liabilities	38,744,055	5,184	33,744,391	50	13,891
NET ASSETS					
Held in trust for benefits and					
other purposes	\$ 237,915,625	\$ 643,773	\$ 161,498,193	\$ 4,184	\$ 7,833,655

Judges' Retirement		Judges' Retirement II	Legislators'	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
\$	14,459	\$ 2,921	\$ 768	\$ —	\$ 571	\$ 443	\$ 9,997	\$ 2,150,090
	2,682	9,982 162,492	6 51,231	_	— 348,285	205 14,736	_	5,069,194 216,048,653
		117,856	82,792	_		6,141	_	92,115,314
	_	27,836	-	_	_	o,	_	42,306,465
	_		_	_	_	_	_	52,351,622
	_	_	_	_	_	_	_	62,254,367
	2,682	318,166	134,029	_	348,285	21,082		470,145,615
	3,089	1,814	25	_	6,296	65	_	8,138,167
	· —	2,940	_	_	· —	_	81	445,269
	_	_	_	_	_	_	_	7
	_	_	_	_	_	_	_	391,566
	20,230	325,841	134,822		355,152	21,590	10,078	481,270,714
	_	_	_	_	_	_	618	4,444,115
	106	166	27	_	_	_	92	1,322
	_	_		_	_	_	_	191
	174	53	633	_	_	_	_	1,677,734
	_	_	_	_	_	_	_	62,254,367
	704	200	43	_	445	39	41	4,133,183
	984	419	703	_	445	39	751	72,510,912
								·
\$	19,246	\$ 325,422	\$ 134,119	<u>\$</u>	\$ 354,707	\$ 21,551	\$ 9,327	\$ 408,759,802

Combining Statement of Changes in Fiduciary Net Assets

Net assets, June 30, 2008 \$ 237,915,625 \$

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

Year Ended June 30, 2008

(amounts in thousands) **Public Public** Employees' State Teachers' **Employees'** Health Teachers' Health **Deferred** Retirement **Benefits** Retirement **Benefits** Compensation **ADDITIONS** Contributions: 7,245,285 \$ 655,030 \$ 4,084,609 33,239 298 Employer \$ Plan member 3,512,075 5,789 2,511,810 700,154 Total contributions 10,757,360 660,819 6,596,419 33,239 700,452 Investment income (loss): Net appreciation (depreciation) in fair value of investments (14,387,399)(14,523,848)(488, 130)(22,445)Interest, dividends, and 6,239,888 other investment income 6,479,236 1,447 205 20,930 Less: investment expense (4,590,897)(1,371,158)(1,937)Net investment income (loss) 205 (12,499,060)(20,998)(9,655,118)(469, 137)Other 6,202 213,361 12,378 Total additions (reductions) (1,735,498)639,821 33,444 243,693 (2,845,338)**DEDUCTIONS** Distributions to beneficiaries 8,206 10,887,115 5,655 7,823,241 32,689 Refunds of contributions 182,415 101,778 Administrative expense 402,340 1,833 109,368 334 13,635 403,812 Payments to and for depositors Total deductions 11,471,870 7,488 8,034,387 33,023 425,653 Change in net assets 632,333 (10,879,725)421 (181,960)(13,207,368)Net assets, July 1, 2007 251,122,993 11,440 172,377,918 3,763 8,015,615

643,773 \$ 161,498,193 \$

7,833,655

4,184 \$

^{*} Restated

			Volunteer	State Peace Officers' and		Other	
			Firefighters'	Firefighters'		Pension and	
			Length of	Defined	Supplemental	Other	
Judges'	Judges'	Legislators'	Service	Contribution	Contributions	Employee	
etirement	Retirement II	Retirement	Award	Plan	Program	Benefit Trust	Total
				·			
\$ 163,206	\$ 36,761	\$ —	\$ —	\$ 51,475	\$ —	\$ —	\$ 12,269,903
 9,569	13,808	14			713	21,596	6,775,528
172,775	50,569	14	_	51,475	713	21,596	19,045,431
_	(15,029)	214	(208)	(18,477)	(1,554)	_	(29,456,876)
384	0.045	0	81	114	38		10 745 177
364	2,845	9	01	114	(1)	_	12,745,177
 							(5,963,993)
384	(12,184)	223	(127)	(18,363)	(1,517)		(22,675,692)
 3,827							235,768
 176,986	38,385	237	(127)	33,112	(804)	21,596	(3,394,493)
168,304	964	7,621	98	11,626	_	19,685	18,965,204
136	2,134	309	_	_	_	_	286,772
973	597	397	101	2,157	113	41	531,889
			3,601		870		408,283
 169,413	3,695	8,327	3,800	13,783	983	19,726	20,192,148
7,573	34,690	(8,090)	(3,927)	19,329	(1,787)	1,870	(23,586,641)
11,673	290,732	142,209	3,927	* 335,378	23,338	7,457	432,346,443
\$ 19,246	\$ 325,422	\$ 134,119	\$	\$ 354,707	\$ 21,551	\$ 9,327	\$ 408,759,802
	· — — — — — — — — — — — — — — — — — — —	· 			· 	· — 	



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, 2008 (amounts in thousands)

	Receipting and Disbursing
ASSETS	
Cash and pooled investments	\$ 2,696,371
Receivables (net)	654,186
Due from other funds	7,642,328
Due from other governments	14,095
Prepaid Items	11,646
Loans receivable	60,025
Other assets	168
Total assets	\$ 11,078,819
LIABILITIES	
Accounts payable	\$ 5,256,467
Due to other governments	5,350,576
Tax overpayments	11,037
Benefits payable	292,394
Deposits	52,566
Advance collections	55,379
Interfund payables	60,025
Other liabilities	375
Total liabilities	\$ 11,078,819

					Other		
		D	epartmental		Agency		
	Deposit		Trust		Activities		Total
\$	961,531	\$	118,499	\$	70,761	\$	3,847,162
*	322,511	*	509	•	3,677	•	980,883
	1,043,464		629		4,843		8,691,264
	74,606		_		· 		88,701
	2,860		_		_		14,506
	_		_		8,939		68,964
	44		43		_		255
\$	2,405,016	\$	119,680	\$	88,220	\$	13,691,735
\$	82,920	\$	4	\$	40,841	\$	5,380,232
	678,946		99		27,175		6,056,796
	_		_		_		11,037
	_		_		_		292,394
	787,789		118,908		7,926		967,189
	10,600		19		_		65,998
	_		_		_		60,025
	844,761		650		12,278		858,064
\$	2,405,016	\$	119,680	\$	88,220	\$	13,691,735

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2008 (amounts in thousands)

Receipting and Disbursing Fund		Balance			Balance		
	J	luly 1, 2007	Additions	Deductions	Ju	ine 30, 2008	
ASSETS							
Cash and pooled investments	\$	2,268,982	\$ 135,934,162	\$ 135,506,773	\$	2,696,371	
Receivables (net)		623,314	2,462,491	2,431,619		654,186	
Due from other funds		7,792,011	7,748,412	7,898,095		7,642,328	
Due from other governments		12,176	4,701	2,782		14,095	
Prepaid items		29,470	11,646	29,470		11,646	
Loans receivable		66,936	3	6,914		60,025	
Other assets		168	_	_		168	
Total assets	\$	10,793,057	\$ 146,161,415	\$ 145,875,653	\$	11,078,819	
LIABILITIES							
Accounts payable	\$	4,609,246	\$ 46,229,169	\$ 45,581,948	\$	5,256,467	
Due to other governments		5,799,607	59,488,250	59,937,281		5,350,576	
Tax overpayments		2,354	53,744	45,061		11,037	
Benefits payable		224,916	67,478	_		292,394	
Deposits		36,150	16,416	_		52,566	
Advance collections		53,237	1,461,919	1,459,777		55,379	
Interfund payables		66,936	3	6,914		60,025	
Other liabilities		611	 235	 471		375	
Total liabilities	\$	10,793,057	\$ 107,317,214	\$ 107,031,452	\$	11,078,819	

Deposit Fund		Balance				Balance			
	Jı	uly 1, 2007		Additions		Deductions	June 30, 2008		
ASSETS									
Cash and pooled investments	\$	429,303	\$	19,736,018	\$	19,203,790	\$	961,531	
Receivables (net)		687,913		2,386,400		2,751,802		322,511	
Due from other funds		174,720		1,046,846		178,102		1,043,464	
Due from other governments		49,762		31,784		6,940		74,606	
Prepaid items		1,440		1,420		_		2,860	
Other assets	36			8				44	
Total assets	\$	1,343,174	\$	23,202,476	\$	22,140,634	\$	2,405,016	
LIABILITIES									
Accounts payable	\$	59,558	\$	216,606	\$	193,244	\$	82,920	
Due to other governments		83,085		602,557		6,696		678,946	
Deposits		663,048		246,717		121,976		787,789	
Advance collections		12,038		10,600		12,038		10,600	
Other liabilities		525,445		7,528,179		7,208,863		844,761	
Total liabilities	\$	1,343,174	\$	8,604,659	\$	7,542,817	\$	2,405,016	

Departmental Trust Fund		Balance						Balance		
	Ju	ıly 1, 2007		Additions	D	eductions	June 30, 2008			
ASSETS										
Cash and pooled investments	\$	126,397	\$	_	\$	7,898	\$	118,499		
Receivables (net)		421		88		_		509		
Due from other funds		178		451		_		629		
Other assets		184				141		43		
Total assets	\$	127,180	\$	539	\$	8,039	\$	119,680		
LIABILITIES										
Accounts payable	\$	74	\$	_	\$	70	\$	4		
Due to other governments		6		93		_		99		
Deposits		126,077		_		7,169		118,908		
Advance collections		16		3		_		19		
Other liabilities		1,007				357		650		
Total liabilities	\$	127,180	\$	96	\$	7,596	\$	119,680		

Other Agency Activity Funds		Balance	Balance				
	Ju	ly 1, 2007	 Additions	Deductions		Jur	ne 30, 2008
ASSETS							
Cash and pooled investments	\$	82,887	\$ 5,073	\$	17,199	\$	70,761
Receivables (net)		3,650	27		_		3,677
Due from other funds		5,619	9		785		4,843
Due from other governments		5	_		5		
Loans receivable		11,532	 		2,593		8,939
Total assets	\$	103,693	\$ 5,109	\$	20,582	\$	88,220
LIABILITIES							
Accounts payable	\$	51,375	\$ 3,916	\$	14,450	\$	40,841
Due to other governments		31,486	1,177		5,488		27,175
Deposits		7,362	564		_		7,926
Other liabilities		13,470	 		1,192		12,278
Total liabilities	\$	103,693	\$ 5,657	\$	21,130	\$	88,220
							(continued)

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

Agency Funds

Year Ended June 30, 2008 (amounts in thousands)

Total	Balance						Balance		
	_J	luly 1, 2007		Additions		Deductions	Ju	ıne 30, 2008	
ASSETS									
Cash and pooled investments	\$	2,907,569	\$	155,675,253	\$	154,735,660	\$	3,847,162	
Receivables (net)		1,315,298		4,849,006		5,183,421		980,883	
Due from other funds		7,972,528		8,795,718		8,076,982		8,691,264	
Due from other governments		61,943		36,485		9,727		88,701	
Prepaid items		30,910		13,066		29,470		14,506	
Loans receivable		78,468		3		9,507		68,964	
Other assets		388		8		141		255	
Total assets	\$	12,367,104	\$	169,369,539	\$	168,044,908	\$	13,691,735	
LIABILITIES									
Accounts payable	\$	4,720,253	\$	46,449,691	\$	45,789,712	\$	5,380,232	
Due to other governments		5,914,184		60,092,077		59,949,465		6,056,796	
Tax overpayments		2,354		53,744		45,061		11,037	
Benefits payable		224,916		67,478		_		292,394	
Deposits		832,637		263,697		129,145		967,189	
Advance collections		65,291		1,472,522		1,471,815		65,998	
Interfund payables		66,936		3		6,914		60,025	
Other liabilities		540,533		7,528,414		7,210,883		858,064	
Total liabilities	\$	12,367,104	\$	115,927,626	\$	114,602,995	\$	13,691,735	
								(concluded)	

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Nonmajor Component Units

Nonmajor component units are legally separate entities that are discretely presented in the State's financial statements in accordance with 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 nonprofit 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, 2007.

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, 2007.

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. The Demand Reserve Program, which was established to compensate businesses for reducing their electricity usage during peak demand times, expired in 2007 and all other activities were transferred to other state organizations.

Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2008 (amounts in thousands)

	Califo Altern Energy Advar Transpo Finan Autho	ative / and nced ortation cing	Infr	alifornia astructure and conomic elopment Bank	Po C Fin	alifornia ollution control nancing uthority	Fi Fi	alifornia Health acilities nancing uthority	Ed	alifornia ucational acilities uthority
ASSETS								•		
Current assets:										
Cash and pooled investments	\$	86	\$	58,422	\$	30,999	\$	29,745	\$	109,414
Investments	Ψ	_	Ψ		Ψ	_	Ψ		Ψ	_
Restricted assets:										
Cash and pooled investments		_		_		_		_		_
Investments		_		20,033		_		_		10,071
Receivables (net)		_		13,625		4		3,331		11,608
Due from primary government		_		455		336		266		_
Due from other governments		_		_		_		_		78,534
Prepaid items		_		_		_		_		933
Inventories		_				_		_		
Other current assets		_		_		_		_		14,837
Total current assets	-	86		92,535		31,339		33,342		225,397
Noncurrent assets:	-									
Restricted assets:										
Cash and pooled investments		_		_		_		_		_
Investments		_		30,398		_		_		1,869
Investments		_		_		_		_		_
Receivables (net)		_		_		_		_		15,915
Loans receivable		_		295,932		_		29,691		_
Deferred charges		_		1,108		_		_		303
Capital assets:										
Land		_		_		_		_		_
Collections – nondepreciable		_		_		_		_		_
Buildings and other depreciable property		_		_		84		48		14,348
Less: accumulated depreciation		_		_		(77)		(47)		(11,671)
Construction in progress		_		_		_		_		1,176
Other noncurrent assets		_		_		_		_		_
Total noncurrent assets				327,438		7		29,692		21,940
Total assets	\$	86	\$	419,973	\$	31,346	\$	63,034	\$	247,337

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
\$	72	\$ 350,475	\$ 72,776	\$ 8,686	\$ 650	\$ 15	\$ —	\$ 661,340
	_	215,572	4,754	_	_	_	_	220,326
			0.015	45.004				00.100
		_	6,315	15,881	_	_	_	22,196
	_		8,879		_	_	_	38,983
	1	313,328	7,801	3,261	2	_	_	352,961
	_	_	_	_	_	_	_	1,057
	_	_	600	 58	_	_	_	78,534
	_	_	600	245	_	_	_	1,591 245
	_	56,950	958	245	_	_	_	72,745
	73	936,325	102,083	28,131	652			1,449,978
			102,000					1,443,370
	_	122,103	_	4,037	_	_	_	126,140
	_	_	7,429	_	_	_	_	39,696
	_	1,015,652	_	41,622	_	_	_	1,057,274
	_	221,308	_	14,097	_	_	_	251,320
	_	_	_	_	_	_	_	325,623
	_	_	_	_	_	_	_	1,411
	_	83,526	20,181	5,585	_	_	_	109,292
	_	3,984	_	_	_	_	_	3,984
	_	893,082	593,335	111,800	_	_	_	1,612,697
	_	(304,613)	(308,224)	(37,371)	_	_	_	(662,003)
	_	51,030	3,302	6,855	_	_	_	62,363
-		85,861	626	8,750				95,237
		2,171,933	316,649	155,375				3,023,034
\$	73	\$ 3,108,258	\$ 418,732	\$ 183,506	\$ 652	\$ 15	<u> </u>	\$ 4,473,012
								(continued)

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2008 (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	\$ 3	\$ 229	\$ 669	\$ 4,991	\$ 2,109
Deferred revenue	_	2,271	_	_	
Deposits	_	, <u> </u>	_	_	_
Contracts and notes payable	_	_	_	_	_
Advance collections	_	_	_	_	_
Interest payable	_	1.044	_	_	_
Current portion of long-term obligations	_	2,840	_	_	54
Other current liabilities	_	44,349	130	132	27,225
Total current liabilities	3	50,733	799	5,123	29,388
Noncurrent liabilities:					
Compensated absences payable	_	_	_	_	_
Certificates of participation, commercial paper,					
and other borrowings	_	_	_	_	_
Capital lease obligations	_	_	_	_	_
Revenue bonds payable	_	97,592	_	_	30,315
Other noncurrent liabilities	_	13,200	131	_	5,441
Total noncurrent liabilities		110,792	131		35,756
Total liabilities	3	161,525	930	5,123	65,144
NET ASSETS		101,020		- 0,120	
Investment in capital assets, net of related debt	_	_	7	1	3,855
Restricted:					5,555
Nonexpendable – endowment	_	_	_	_	_
Expendable:					
Endowment	_	_	_	_	_
Education	_	_	_	_	_
Statute	_	258,448	_	_	_
Other purposes	83	, <u> </u>	30,409	57,910	178,338
Total expendable	83	258,448	30,409	57,910	178,338
Unrestricted	_	, <u> </u>	, <u> </u>	, <u> </u>	, <u> </u>
Total net assets	83	258,448	30,416	57,911	182,193
	\$ 86				
Total liabilities and net assets	φ 00	\$ 419,973	\$ 31,346	\$ 63,034	\$ 247,337

Total	Power and Conservation Financing Authority	Waterfront Area Restoration Financing Authority	San Joaquin River Conservancy	University of California Hastings College of the Law	District Agricultural Associations	California State University Auxiliary Organizations	California School Finance Authority
\$ 100,115	\$ —	\$ —	\$ 14	\$ 6,134	\$ 8,023	\$ 77,943	\$ —
64,093	_	_	<u> </u>	429		61,393	_
1,281	_	_	_	357	924	_	_
11,589	_	_	_	_	11,589	_	_
618	_	_	351	_	267	_	_
1,885	_	_	_	_	841	_	_
125,903	_	_	_	1,005	2,805	119,199	_
184,949	_	_	_	_	6,215	106,898	_
490,433			365	7,925	30,664	365,433	
11,213	_	_	_	344	6,989	3,880	_
64,174	_	_	_	_	_	64,174	_
227,859	_	_	_	15	220	227,624	_
480,480	_	_	_	32,878	43,076	276,619	_
373,918				8,406	1,935	344,805	
1,157,644				41,643	52,220	917,102	
1,648,077			365	49,568	82,884	1,282,535	
528,791	_	_	_	73,194	252,602	199,132	_
702,197	_	_	_	18,955	_	683,242	_
8,456	_	_	_	8,456	_	_	_
596,405	_	_	_	18,089	_	578,316	_
258,448	_	_	_	_	_	_	_
289,252		15			22,424		73
1,152,561	_	15	_	26,545	22,424	578,316	73
441,386			287	15,244	60,822	365,033	
2,824,935		15	287	133,938	335,848	1,825,723	73
\$ 4,473,012	\$ <u> </u>	\$ 15	\$ 652	\$ 183,506	\$ 418,732	\$ 3,108,258	\$ 73

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Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2008 (amounts in thousands)

	California									
	Alternative									
	Energy and		Cali	ifornia	Ca	alifornia	California			
	Advanced		Infras	tructure	P	ollution	- 1	Health	С	alifornia
	Transportation Financing		and E	conomic	(Control	F	acilities	Educational Facilities	
			Devel	opment	Fi	nancing	Fi	nancing		
	Authority		В	ank	Α	uthority	Α	uthority	Α	uthority
OPERATING EXPENSES										
Personal services	\$ —	- :	\$	_	\$	131	\$	_	\$	110,870
Scholarships and fellowships	_	-		_		_		_		_
Supplies	_	-		_		_		_		_
Services and charges	67	7		2,753		7,009		2,189		156,323
Depreciation	_	-		_		5		1		1,861
Interest expense and fiscal charges	_		4,204		_		_			1,697
Amortization of deferred charges		-		86		_		_		_
Other	_					150				10,583
Total operating expenses	67	,		7,043		7,295		2,190		281,334
PROGRAM REVENUES										
Charges for services	_	-		15,042		2,447		3,934		319,098
Operating grants and contributions	_	-		_		_		_		_
Capital grants and contributions	_	-		_		_		_		_
Total program revenues	_			15,042		2,447		3,934		319,098
Net revenues (expenses)	(67	')		7,999		(4,848)		1,744		37,764
GENERAL REVENUES										
Investment and interest income (loss)	_	-		_		_		_		5,794
Other	150)								5
Total general revenues	150)								5,799
Change in net assets	83	}		7,999		(4,848)	1,744			43,563
Net assets (deficit), July 1, 2007			:	250,449		35,264		56,167		138,630
Net assets, June 30, 2008	\$ 83		\$ 2	258,448		\$ 30,416		\$ 57,911		182,193

California

^{*} Restated

California School Finance Authority		California State University Auxiliary Organizations	District Agricultural Associations	of I	Iniversity California Hastings College of the Law	Ri	oaquin ver rvancy	California Urban Waterfront Area Restoration Financing Authority	Cor	alifornia onsumer Power and aservation nancing uthority	Total
\$	_	\$ 328,503	\$ 75,740	\$	26,441	\$	_	\$ _	\$	_	\$ 541,685
	_	38,348	_		2,005		_	_		_	40,353
	_	_	_		9,193		_	_		_	9,193
	3	955,098	138,242		4,755		1	45		3,683	1,270,168
	_	40,100	19,002		2,932		_	_		_	63,901
	_	23,938	2,181		413		_	_		_	32,433
	_	_	_		_		_	_		_	86
		38,128	18		2,016						 50,895
	3	1,424,115	235,183		47,755		1	45		3,683	2,008,714
	_	665,215	211,201		28,067		_	_		42	1,245,046
	_	537,373	_		11,874		60	_		_	549,307
		3,995	183		619						4,797
		1,206,583	211,384		40,560		60			42	1,799,150
	(3)	(217,532)	(23,799)		(7,195)		59	(45)		(3,641)	(209,564)
	_	(32,586)	1,005		(302)		_	_		_	(26,089)
	66	226,537	30,110		8,117		102	2		_	265,089
	66	193,951	31,115		7,815		102	2		_	239,000
	63	(23,581)	7,316		620		161	(43)		(3,641)	29,436
	10	1,849,304	* 328,532		133,318		126	58		3,641	2,795,499
\$	73	\$ 1,825,723	\$ 335,848	\$	133,938	\$	287	\$ 15	\$		\$ 2,824,935
						_					



Statistical Section



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 Seven Fiscal Years

(accrual basis of accounting, amounts in thousands)

	 2002	 2003	_	2004	 2005
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	(19,417,429)	(43,927,987)		(52,897,395)	(52,631,090)
Total governmental activities					
net assets	\$ (1,716,488)	\$ (24,516,888)	\$	31,963,163	\$ 34,579,643
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	15,567	(125,809)		1,316,631	1,566,246
Total business-type activities					
net assets	\$ 8,714,909	\$ 9,205,149	\$	8,042,390	\$ 9,638,143
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	(19,401,862)	(44,053,796)		(51,580,764)	(51,064,844)
Total primary government	<u></u>	<u></u>	-	<u></u>	<u>-</u> _
net assets	\$ 6,998,421	\$ (15,311,739)	\$	40,005,553	\$ 44,217,786

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.

	2006		2007	2008				
\$	83,489,137	\$	81,352,744	\$	84,255,048			
*	8,431,279	*	10,543,602	*	10,148,648			
	(54,710,847)		(56,519,478)		(69,346,950)			
	(01,710,017)	_	(00,010,110)	_	(00,010,000)			
\$	37,209,569	\$	35,376,868	\$	25,056,746			
\$	818,405	\$	208,268	\$	49,510			
	8,722,865		8,574,932		6,853,621			
	1,801,304		2,430,492		3,009,297			
\$	11,342,574	\$	11,213,692	\$	9,912,428			
\$	84,307,542	\$	81,561,012	\$	84,304,558			
	17,154,144		19,118,534		17,002,269			
	(52,909,543)		(54,088,986)		(66,337,653)			
\$	48,552,143	\$	46,590,560	\$	34,969,174			

Schedule of Changes in Net Assets

For the Past Seven 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.

 $^{^{\}rm 2}$ 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.

	2006	2007	2008
\$	9,674,816	\$ 13,313,463	\$ 12,229,890
	62,652,997	61,542,105	65,130,420
	65,763,380	69,979,980	74,309,784
	4,161,814	5,316,769	6,333,252
	595,602	1,214,740	1,129,063
	8,809,236	9,763,200	13,068,043
	7,299,124	8,945,325	10,504,182
	704,306	948,127	957,190
	2,893,537	2,596,316	4,184,631
	162,554,812	173,620,025	187,846,455
	4,614,567	4,490,117	4,399,159
	3,360,919	2,689,906	3,343,205
	4,554,673	4,751,011	5,191,548
	2,198,886	2,110,593	2,648,952
	640,088	704,512	692,348
	3,776,098	4,040,268	3,987,958
	37,203	30,821	27,702
	5,463	5,049	4,967
	42,254,065	43,440,102	45,849,413
	1,272,506	1,164,526	1,207,101
	62,714,468	63,426,905	67,352,353
	(99,840,344)	 (110,193,120)	 (120,494,102)
	51,251,266	53,272,229	55,355,266
	34,162,177	35,427,013	34,856,824
	10,735,792	11,211,267	11,207,468
	2,212,916	2,165,567	2,190,870
	2,099,075	5,939,890	5,594,970
	504,655	730,066	639,059
	291,549	334,002	282,287
	_	_	_
	23,259	29,855	54,994
	_	_	_
	1,218,311	 	
	102,499,000	109,109,889	110,181,738
\$	2,658,656	\$ (1,083,231)	\$ (10,312,364)
—		 (1,000,201)	 (10,012,004)

(continued)

Schedule of Changes in Net Assets (continued)

For the Past Seven Fiscal Years

(accrual basis of accounting, amounts in thousands)

Business-type activities Expenses Electric Power		2002	2003		2004		2005	
Electric Power	Business-type activities						_	
Water Resources 770,351 739,819 731,099 731,383 Public Building Construction 294,818 347,988 296,502 299,305 State Lottery 2,913,061 2,791,144 3,347,644 3,483,984 Unemployment Programs 8,800,546 10,651,949 10,271,962 8,939,654 High Technology Education 38,415 37,727 37,261 33,690 State University Dormitory Building 46,161 449,080 426,187 449,080 State Water Pollution Control Revolving 14,970 15,131 14,638 School Building Ald. 29,837 15,131 14,638 School Building Ald. 29,837 14,970 15,131 14,638 Public Employees' Benefits 3 1,760,926 1,694,231 14,265 103,974 98,654 86,612 20,620,037 19,866,897 20,620,037 19,866,897 21,815,706 20,620,037 19,866,897 21,815,706 20,620,037 19,866,897 20,807 <td< th=""><th>Expenses</th><th></th><th></th><th></th><th></th><th></th><th></th></td<>	Expenses							
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 8,999,654 High Technology Education 38,415 37,727 37,261 33,890 Toll Facilities 26,658 21,796 18,968 20,861 State University Dormitory Building 48,772 37,261 33,890 State Water Pollution Control Revolving	Electric Power	\$ 4,241,000	\$	4,985,000	\$ 5,203,000	\$	5,655,000	
State Lottery	Water Resources	770,351		739,819	731,099		731,393	
Unemployment Programs 8,900,546 10,651,949 10,271,962 8,939,654 High Technology Education 38,415 37,727 37,261 33,950 Toll Facilities 26,058 21,796 18,968 20,861 State University Dormitory Building 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' Benelits 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 10,222 693,566 714,647 750,282 Charges for services: 12,241,000 4,985,000 5,203,000 5,655,000 Water Resources 761,222 693,566 714,647 750,282	Public Building Construction	294,818		347,898	296,502		299,900	
High Technology Education	State Lottery	2,913,051		2,791,144	3,347,644		3,493,984	
Toll Facilities	Unemployment Programs	8,900,546		10,651,949	10,271,962		8,939,654	
State University Dormitory Building 168,513 220,334 426,187 449,080 State Water Pollution Control Revolving ————————————————————————————————————	High Technology Education	38,415		37,727	37,261		33,690	
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. 28,837 — — — 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 5,665,000 Water Resources 761,222 693,566 714,647 750,282 Public Building Construction 320,220 317,741 307,910 315,718 State Lottery 2,986,030 3,143,408 3,512,126 Guestic Lottery 2,986,030 3,143,408 3,512,126 Guestic Lottery 2,986,030 3,143,408 3,512,126 Guestic Lottery 4,242,100 4,242,80	Toll Facilities	26,058		21,796	18,968		20,861	
State Water Pollution Control Revolving — 14,970 15,131 14,688 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 1	State University Dormitory Building							
School Building Aid. 29,837 — <td>Maintenance and Equipment</td> <td>168,513</td> <td></td> <td>220,334</td> <td>426,187</td> <td></td> <td>449,080</td>	Maintenance and Equipment	168,513		220,334	426,187		449,080	
Housing Loan	State Water Pollution Control Revolving	_		14,970	15,131		14,638	
Public Employees' Benefits 3 1,760,926 1,694,231 — — 6,652 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 187,921 284,719 250,208 395,396 State Water Pollution Control 2 4,24348 — — —	School Building Aid	29,837		_	_		_	
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 48,241,19 250,208 395,396 State Water Pollution Control 24,348 — — — Revolving 24,348 — — — Public Employees' Benefits 3 1,682,323 2,06	Housing Loan	217,523		206,864	173,629		142,085	
Total expenses	Public Employees' Benefits 3	1,760,926		1,694,231	_		_	
Program revenues	Other enterprise programs	142,556		103,974	98,654		86,612	
Charges for services: Electric Power	Total expenses	19,503,594		21,815,706	20,620,037		19,866,897	
Electric Power	Program revenues							
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 Building Ald 284,719 250,208 395,396 State Water Pollution Control — 54,201 51,687 55,218 School Building Ald 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 — — <t< td=""><td>Charges for services:</td><td></td><td></td><td></td><td></td><td></td><td></td></t<>	Charges for services:							
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 187,921 284,719 250,208 395,396 State Water Pollution Control 8,243,448 — — — 55,218 School Building Aid 24,348 — — — — — Housing Loan 222,086 189,812 143,805 121,063 121,063 Public Employees' Benefits 3 1,682,323 2,066,530 — — — Other enterprise programs 131,152 134,544 114,081 115,901 Operating grants/contributions — — — — — — — — — <td>Electric Power</td> <td>4,241,000</td> <td></td> <td>4,985,000</td> <td>5,203,000</td> <td></td> <td>5,655,000</td>	Electric Power	4,241,000		4,985,000	5,203,000		5,655,000	
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 187,921 284,719 250,208 395,396 State Water Pollution Control 8,24,719 250,208 395,396 State Water Pollution Control 9,631,916 151,687 55,218 School Building Aid 24,348 - - - - Revolving 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 g	Water Resources	761,222		693,566	714,647		750,282	
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 187,921 284,719 250,208 395,396 State Water Pollution Control — 54,201 51,687 55,218 School Building Aid 24,348 — — — 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 busines	Public Building Construction	320,220		317,741	307,910		315,718	
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 (13,475) <td< td=""><td>State Lottery</td><td>2,966,270</td><td></td><td>2,936,030</td><td>3,143,408</td><td></td><td>3,512,126</td></td<>	State Lottery	2,966,270		2,936,030	3,143,408		3,512,126	
Toll Facilities 5,933 172 121 66 State University Dormitory Building 187,921 284,719 250,208 395,396 Maintenance and Equipment 187,921 284,719 250,208 395,396 State Water Pollution Control - 54,201 51,687 55,218 Revolving - - - - - School Building Aid 24,348 - - - - - Housing Loan 222,086 189,812 143,805 121,063 121,063 Public Employees' Benefits 3 1,682,323 2,066,530 -	Unemployment Programs	7,799,776		8,230,208	9,631,916		10,459,688	
State University Dormitory Building 187,921 284,719 250,208 395,396 State Water Pollution Control Fevolving 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 (1,3475) (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 governm	High Technology Education	44,127		44,268	34,052		36,737	
Maintenance and Equipment 187,921 284,719 250,208 395,396 State Water Pollution Control Fevolving 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 18,387,923 20,082,894 19,642,363 21,490,377 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 (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	Toll Facilities	5,933		172	121		66	
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 (1,3475) (66,630) (32,965) (27,727) Total business-type activities (1,129,146) (1,799,442) (1,010,639) 1,595,753 Total primary government	State University Dormitory Building							
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 (13,475) (66,630) (32,965) (27,727) Total business-type activities \$ (1,129,146) (1,799,442) \$ (1,010,639) \$ 1,595,753 Total primary government	Maintenance and Equipment	187,921		284,719	250,208		395,396	
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 (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	State Water Pollution Control							
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 (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	Revolving	_		54,201	51,687		55,218	
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 (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	School Building Aid	24,348		_				
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 (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	Housing Loan	222,086		189,812	143,805		121,063	
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 (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	Public Employees' Benefits 3	1,682,323		2,066,530				
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	Other enterprise programs	131,152		134,544	114,081		115,901	
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	Operating grants/contributions	1,545		762				
Total business-type activities net program revenues (expenses) (1,115,671) (1,732,812) (977,674) 1,623,480 Other changes in net assets (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	Capital grants/contributions	_		145,341	47,528		73,182	
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	Total program revenues	18,387,923		20,082,894	19,642,363		21,490,377	
Other changes in net assets (13,475) (66,630) (32,965) (27,727) Total business-type activities (1,129,146) (1,799,442) (1,010,639) 1,595,753 Total primary government	Total business-type activities net							
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	program revenues (expenses)	(1,115,671)		(1,732,812)	(977,674)		1,623,480	
Total business-type activities change in net assets	Other changes in net assets							
change in net assets	Transfers	(13,475)		(66,630)	(32,965)		(27,727)	
Total primary government	Total business-type activities							
	change in net assets	\$ (1,129,146)	\$	(1,799,442)	\$ (1,010,639)	\$	1,595,753	
change in net assets	Total primary government							
	change in net assets	\$ (13,326,333)	\$	(20,158,458)	\$ (8,463,565)	\$	4,115,127	

2006		2007	2008
\$ 5,342,000	\$	5,865,000	\$ 5,362,000
949,691		951,590	1,009,214
334,094		334,777	371,904
3,911,717		3,470,615	3,173,060
8,584,521		9,136,218	10,622,582
30,871		22,704	16,916
18,265		,	
491,914		844,798	699,018
20,427		12,702	13,056
_		_	
138,988		127,206	132,101
113,976		141,859	122,921
 19,936,464		20,907,469	21,522,772
5,342,000		5,865,000	5,362,000
949,691		951,590	1,009,214
384,442		396,895	384,816
3,740,041		3,461,699	3,242,828
10,263,447		9,017,969	8,829,018
26,508		22,966	20,600
21		_	_
512,231		554,851	640,208
64,740		78,564	71,404
		. 0,00	,
127,733		130,293	130,139
127,700		100,200	100,100
129,048		134,018	137,476
129,040		104,010	137,470
56 042		182 080	180 064
 56,942 21,596,844	_	182,989 20,796,834	 189,064 20,016,767
 21,000,044		20,100,004	 20,010,101
 1,660,380		(110,635)	 (1,506,005)
 (23,259)		(29,855)	 (54,994)
\$ 1,637,121	\$	(140,490)	\$ (1,560,999)
\$ 4,295,777	\$	(1,223,721)	\$ (11,873,363)

(concluded)

Schedule of Fund Balances - Governmental Funds

For the Past Seven Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

	 2002	_	2003	 2004	 2005
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
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.

2006		2007		2008
1,999,953	\$	2,596,537	\$	2,113,149
672,862		(4,504,075)		(6,282,018)
2,672,815	\$	(1,907,538)	\$	(4,168,869)
16,198,481	\$	21,955,300	\$	19,512,083
(806,558)		(914,843)		(1,817,290)
(882,550)		(1,128,608)	-	(837,349)
14,509,373	\$	19,911,849	\$	16,857,444
	1,999,953 672,862 2,672,815 16,198,481 (806,558) (882,550)	1,999,953 \$ 672,862 2,672,815 \$ 16,198,481 \$ (806,558) (882,550)	1,999,953 \$ 2,596,537 672,862 (4,504,075) 2,672,815 \$ (1,907,538) 16,198,481 \$ 21,955,300 (806,558) (914,843) (882,550) (1,128,608)	1,999,953 \$ 2,596,537 \$ 672,862 (4,504,075) \$ \$ 16,198,481 \$ 21,955,300 \$ (806,558) (882,550) (1,128,608)

Schedule of Changes in Fund Balances - Governmental Funds

For the Past Ten Fiscal Years

(modified accrual basis of accounting, amounts in thousands)

		1999		2000		2001		2002
Revenues								
Personal income taxes	\$	30,862,872	\$	39,516,018	\$	44,629,742	\$	32,874,734
Sales and use taxes		22,878,316		25,398,317		26,385,224		25,907,118
Corporation taxes		5,421,742		6,569,805		6,580,178		4,553,105
Insurance taxes		1,272,953		1,301,346		1,502,250		1,599,064
Other taxes		2,626,849		2,805,536		2,925,693		3,038,111
Intergovernmental		29,667,982		31,543,220		34,136,903		36,827,930
Licenses and permits		3,334,863		3,245,851		3,276,612		2,903,858
Charges for services		812,336		848,352		831,988		853,874
Fees and penalties		1,857,098		1,998,676		2,239,817		5,023,910
Investment and interest		692,738		938,897		1,366,104		1,179,775
Escheat 1		_		_		_		_
Other		423,039		1,201,723		1,344,044		2,958,572
Total revenues		99,850,788		115,367,741		125,218,555		117,720,051
Expenditures								
General government		5,256,688		6,011,645		6,061,660		7,767,621
Education		31,048,022		36,905,181		40,854,070		45,324,021
Health and human services		41,197,842		44,702,748		49,361,053		53,142,973
Resources		2,351,796		2,678,453		3,516,139		3,721,729
State and consumer services		797,127		850,322		941,884		1,091,008
Business and transportation		6,752,759		7,320,420		8,288,123		8,493,157
Correctional programs		4,382,129		4,601,199		5,125,032		5,593,033
Tax relief		599,004		2,173,459		3,686,373		3,672,030
Capital outlay		939,749		709,698		905,116		1,654,494
Debt service:		000,0		. 55,555		333,		.,00 ., .0 .
Bond and commercial paper retirement		3,295,530		3,857,694		5,031,347		3,618,284
Interest and fiscal charges		1,123,596		1,126,030		1,185,363		1,418,880
Total expenditures		97,744,242		110,936,849		124,956,160		135,497,230
Excess (deficiency) of revenues		07,7 11,2 12		110,000,010		121,000,100		100,101,200
over (under) expenditures		2,106,546		4,430,892		262,395		(17,777,179)
		_,,		., .00,002		_0_,000		(,,)
Other financing sources (uses) General obligation bonds and								
-		3,898,770		5,766,475		3,684,115		5,292,034
commercial paper issued		5,090,770		59,045		3,004,113		5,292,054
Refunding/remarketing debt issued		357,420		33,043		4,419,665		1,105,025
Payment to refund/remarket long-term debt		(357,420)				(619,665)		(1,105,025)
Premium on bonds issued 5		(557,420)				(019,003)		(1,105,025)
Capital leases ²								274,955
Transfers in		3,922,416		4,563,443		9,144,852		5,948,918
Transfers out		(3,996,505)		(4,533,817)		(9,691,975)		(5,954,783)
		1 1						(5,554,766)
Transfers to component units ³ Total other financing sources		(2,822,988) 1,001,693	_	(3,550,372) 2,304,774		(3,659,516) 3,277,476	_	5,561,124
· ·	•	3,108,239	\$	6,735,666	\$	3,539,871	\$	(12,216,055)
Net change in fund balances	<u>φ</u>	3,100,239	-	0,735,000	Ψ	3,333,071	-	(12,210,000)
Debt service as a percentage of		****						
noncapital expenditures 4		N/A		N/A		N/A		3.8%

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.

⁵ Prior to fiscal year 2008, premiums on bonds issued were net against debt service interest and fiscal charges.

	2003	2004	2005	_	2006	_	2007	_	2008
\$	32,661,274	\$ 37,722,839	\$ 42,595,352	\$	50,798,418	\$	53,289,524	\$	55,197,062
	26,945,705	28,685,600	32,201,242	·	34,300,402	·	35,451,311		34,764,651
	6,861,200	8,379,316	11,191,937		10,709,792		11,210,267		11,201,468
	1,886,312	2,119,315	2,231,060		2,212,916		2,165,567		2,190,870
	2,745,987	2,422,326	2,482,335		2,367,670		5,800,027		5,675,894
	41,934,230	42,918,982	42,933,381		45,466,185		46,442,519		48,969,006
	2,995,740	3,469,741	4,954,025		5,125,223		5,266,142		5,326,854
	907,481	919,280	949,147		1,002,410		911,387		1,025,569
	4,184,896	4,662,893	5,388,332		6,008,306		6,093,948		6,800,633
	614,240	377,694	576,097		1,058,119		1,555,202		1,591,025
	_	598,681	525,897		291,549		334,002		282,287
	3,043,575	2,999,820	3,755,426	_	4,518,621		3,732,591		4,265,010
	124,780,640	135,276,487	149,784,231		163,859,611		172,252,487		177,290,329
	0.042.440	9 029 200	0 511 400		0 504 070		12 104 016		11 700 670
	8,043,449	8,028,399	8,511,482		8,584,072		13,104,916		11,788,670
	50,744,179	49,526,563	52,242,779		59,768,677		61,103,008		64,367,612
	58,996,212	59,820,274 3,686,083	62,015,628		65,968,433		70,157,806		74,102,708
	3,368,473		4,077,102		4,296,715		5,191,078		6,123,609
	940,665 8,917,181	935,427 9,119,237	973,466 8,556,618		1,111,128		1,214,752		1,239,397
	5,841,103	6,236,725	6,658,614		10,370,589 7,552,790		11,485,069 9,030,299		14,747,506 9,972,507
	3,897,106	2,983,818	2,136,258		810,236		958,004		957,190
	1,666,932	1,245,871	1,534,150		2,128,050		1,345,021		1,724,074
	1,000,302	1,243,071	1,554,150		2,120,030		1,043,021		1,724,074
	4,068,685	1,384,595	3,672,119		6,375,607		5,691,791		8,970,533
	1,803,378	1,686,776	2,243,764		3,135,763		2,881,849		3,394,433
	148,287,363	144,653,768	152,621,980		170,102,060		182,163,593		197,388,239
	(23,506,723)	(9,377,281)	(2,837,749)		(6,242,449)		(9,911,106)		(20,097,910)
	9,062,000	18,385,480	5,058,339		7,750,500		9,040,500		14,193,760
	3,000,000	4,347,570	99,250		- ,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				- 1,100,100
	275,000	1,183,875	1,937,430		5,086,944		9,098,376		1,798,685
	(275,000)	(1,183,875)	(1,937,430)		(4,561,944)		(7,840,621)		(1,844,006)
					_				295,439
	515,996	85,390	414,738		748,037		178,936		268,686
	8,253,164	18,475,032	4,580,201		5,137,895		9,311,462		11,414,132
	(8,070,387)	(18,428,564)	(4,546,792)		(5,113,107)		(9,242,771)		(11,336,764)
•	12,760,773	22,864,908	5,605,736	<u>_</u>	9,048,325	•	10,545,882	<u>_</u>	14,789,932
\$	(10,745,950)	\$ 13,487,627	\$ 2,767,987	\$	2,805,876	\$	634,776	\$	(5,307,978)
	4.0%	2.2%	3.9%		5.7%		4.8%		6.3%



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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)

		1998		1999		2000		2001
Personal Income by Industry								
Farm earnings	\$	8,259,762	\$	9,162,971	\$	8,088,563	\$	7,167,545
Forestry, fishing, and other natural resources		4,753,590		4,965,573		5,260,871		5,410,185
Mining		2,127,857		2,078,359		2,377,528		2,642,910
Construction and utilities		45,694,768		51,747,677		57,779,134		62,724,622
Manufacturing		101,914,351		112,058,691		130,175,679		118,420,332
Wholesale trade		35,115,800		37,271,078		40,801,983		42,309,691
Retail trade		49,468,297		53,519,782		58,255,765		61,363,150
Transportation and warehousing		21,556,474		22,827,125		25,073,185		26,013,211
Information, finance, and insurance		80,781,342		93,152,738		109,045,010		113,383,250
Real estate		18,864,435		19,259,547		19,309,071		25,192,062
Services		241,074,809		261,658,240		294,424,391		292,076,247
Federal, civilian		17,861,217		18,164,400		19,008,148		18,595,668
Military		8,806,833		8,876,585		9,315,046		9,994,601
State and local government		83,176,888		87,348,684		95,207,893		105,229,758
Other ²	_	216,552,238	_	217,136,733		229,719,645		244,780,828
Total personal income	\$	936,008,661	\$	999,228,183	\$	1,103,841,912	\$	1,135,304,060
Average effective rate ³		4.4%		4.3%		4.8%		5.9%

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

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.

	1998	1999	2000		2001
Taxable Sales by Industry					
Retail					
Apparel\$	11,730,772	\$ 11,458,278	\$	12,847,372	\$ 13,388,444
General merchandise	38,777,403	42,547,887		45,829,364	47,191,016
Specialty	36,175,924	40,848,458		45,845,021	43,976,514
Food	16,114,103	17,177,888		18,374,398	18,823,587
Restaurant and Bars	30,046,028	32,456,606		35,461,731	36,849,193
Household	10,535,061	11,976,832		13,592,904	13,332,175
Building materials	17,168,811	19,924,798		22,488,577	24,208,900
Automotive	59,751,806	69,377,586		81,937,244	85,400,884
Other	9,106,561	9,821,053		10,691,086	10,785,808
Business and Personal Service	18,816,348	20,331,101		22,185,850	22,240,823
All Other	110,635,561	118,815,758		132,600,865	125,320,216
Total taxable sales	358,858,378	\$ 394,736,245	\$	441,854,412	\$ 441,517,560
Direct sales tax rate 1	5.00%	5.00%		5.00%	4.75%

Source: California State Board of Equalization

¹ 2004-2006 information updated.

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

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.

_	2002		2003		2004 ¹		2005 ¹	_	2006 ¹	_	2007		
\$	7,778,068	\$	8,964,050	\$	9,828,725	\$	9,012,862	\$	7,537,562	\$	9,146,319		
	5,410,649		5,675,370		5,833,860		6,157,764		6,450,722		6,830,742		
	2,402,962		2,754,718		3,293,951		3,517,082		4,198,157		4,624,163		
	63,900,542		68,043,951		76,288,569		84,049,756		90,561,354		87,618,547		
	113,263,518		114,111,266		120,799,118		124,614,323		132,321,883		133,810,244		
	42,965,708		44,708,331		47,486,311		51,630,867		55,976,742		59,581,655		
	62,928,800		64,616,590		66,710,032		70,339,877		72,143,721		73,994,431		
	26,000,139		26,286,097		29,340,774		29,856,376		31,215,727		32,148,737		
	112,419,788		115,161,637		124,184,211		130,714,714		136,102,569		138,078,619		
	26,668,286		30,064,709		32,274,686		34,912,430		34,697,727		32,396,700		
	296,714,117		306,800,598		328,673,636		349,074,493		373,910,578		396,918,073		
	19,804,777		20,317,662		21,779,705		22,656,214		23,113,784		23,852,336		
	11,002,415		12,684,992		14,004,021		14,640,629		15,301,296		16,288,065		
	113,289,511		120,403,379		126,308,074		132,621,577		139,861,524		150,150,802		
	243,166,424		246,446,794		259,164,682		279,033,432		321,922,790		354,435,313		
\$	1,147,715,704	\$	1,187,040,144	\$	1,265,970,355	\$	1,342,832,396	\$	1,445,316,136	\$	1,519,874,746		
	4.5%		4.3%		4.5%		4.6%		5.1%		5.0%		

 2002		2003		2004	_	2005	_	2006	_	2007
\$ 14,029,200	\$	15,179,710	\$	16,957,137	\$	18,712,125	\$	19,829,416	\$	20,855,890
48,486,891		50,550,818		53,939,532		56,787,153		59,264,894		59,897,350
43,539,120		45,191,191		48,961,996		52,376,758		54,695,680		34,122,471
18,951,412		19,407,823		19,825,771		21,128,469		21,864,179		22,461,059
38,079,830		40,049,699		43,275,038		46,412,847		49,229,418		51,658,575
13,983,287		15,104,217		16,405,347		17,388,704		17,383,449		16,720,852
25,816,009		28,200,869		34,154,543		36,152,218		36,163,326		32,656,324
87,749,497		94,766,776		103,528,856		112,167,922	115,154,535			117,864,918
10,977,060		11,765,951		13,124,468		14,681,929		15,481,675		30,787,663
21,812,699		21,648,470		22,306,787		23,090,910		23,650,322		23,355,672
117,525,089		118,230,944		127,597,308		138,005,393		146,935,543		150,669,375
\$ 440,950,094	\$	460,096,468	\$	500,076,783	\$	536,904,428	\$	559,652,437	\$	561,050,149
5.00%		5.00%		5.25% ²		² 5.25%		5.25%		5.25%

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 1998 and 2006

Personal Income Tax Filers and Liability by Income Level ¹

			1	998			2006							
		Number	Percent		Tax	Percent		Number	Percent		Tax	Percent		
		of Filers	of Total			of Total	_	of Filers	of Total			of Total		
Under \$	5,000	1,131,258	8.8 %	\$	8,537	0.0 %		1,016,464	7.1 %	\$	7,755	0.0 %		
5,000 to	9,999	1,280,215	10.0		14,728	0.1		1,075,394	7.5		9,688	0.0		
10,000 to	14,999	1,324,361	10.4		38,113	0.2		1,139,429	7.9		18,937	0.1		
15,000 to	19,999	1,156,480	9.0		101,564	0.4		1,155,979	8.0		50,282	0.1		
20,000 to	24,999	986,532	7.7		169,000	0.6		1,028,821	7.2		104,411	0.2		
25,000 to	29,999	895,890	7.0		288,041	1.1		951,467	6.6		167,271	0.4		
30,000 to	39,999	1,398,204	10.9		796,047	3.0		1,529,769	10.7		544,796	1.2		
40,000 to	49,999	1,072,338	8.4		1,029,055	3.9		1,257,024	8.7		832,500	1.8		
50,000 to	99,999	2,464,790	19.3		5,435,537	20.8		3,124,859	21.7		5,485,178	12.0		
\$ 100,000 and	over	1,086,536	8.5	1	8,322,951	69.9		2,103,471	14.6	;	38,495,088	84.2		
Total		12,796,604	100.00 %	\$ 2	6,203,573	100.00 %		14,382,677	100.00 %	\$ 4	45,715,906	100.00 %		

Source: California Franchise Tax Board

For Calendar Years 1998 and 2007

Sales Tax Permits and Tax Liability by Industry

		1	998		2007							
	Number	Percent	Tax	Percent	Number	Percent	Tax	Percent				
	of Permits 1	of Total	Liability ²	of Total	of Permits 1	of Total	Liability ²	of Total				
Retail												
Apparel	. 26,314	2.8 %	\$ 586,539	3.3 %	48,563	4.7 %	\$ 1,094,934	3.7 %				
General merchandise	. 11,430	1.2	1,938,870	10.8	21,016	2.0	3,144,611	10.7				
Specialty	. 128,410	13.5	1,808,796	10.1	71,686	6.9	1,791,430	6.1				
Food	. 24,452	2.6	805,705	4.5	24,259	2.4	1,179,206	4.0				
Restaurant and Bars	. 72,909	7.6	1,502,302	8.4	89,036	8.6	2,712,075	9.2				
Household	. 23,249	2.4	526,753	2.9	32,410	3.1	877,845	3.0				
Building materials	. 8,932	0.9	858,441	4.8	12,006	1.2	1,714,457	5.8				
Automotive	. 30,663	3.2	2,987,590	16.7	43,040	4.2	6,187,908	21.0				
Other	. 19,250	2.0	455,328	2.5	140,150	13.6	1,616,352	5.5				
Business and Personal												
Service	103,223	10.8	940,817	5.2	102,018	9.9	1,226,173	4.2				
All Other	. 505,256	53.0	5,531,778	30.8	448,736	43.4	7,910,142	26.8				
Total	. 954,088	100.00 %	\$ 17,942,919	100.00 %	1,032,920	100.00 %	\$ 29,455,133	100.00 %				

Source: State Board of Equalization

¹ For California resident tax returns. Calendar year 2006 is the most recent year for which data is available.

² Amounts in thousands.

¹ As of July 1.

² Calculated by multiplying the taxable sales by industry shown on pages 248 and 249 by the direct sales tax rate. Amounts in thousands.

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Schedule of Personal Income Tax Rates

Calendar Years 1998 - 2007

	Married Filing Jointly and Surviving Spouse													
Tax Rate	1998 Income Level	1999 Income Level	2000 Income Level	2001 Income Level										
1.0	Up to \$10,262	Up to \$10,528	Up to \$10,918	Up to \$11,496										
2.0	10,262 – 24,322	10,528 – 24,954	10,918 – 25,878	11,496 – 27,250										
4.0	24,322 - 38,386	24,954 – 39,384	25,878 – 40,842	27,250 - 43,006										
6.0	38,386 - 53,288	39,384 - 54,674	40,842 - 56,696	43,006 - 59,700										
8.0	53,288 - 67,346	54,674 - 69,096	56,696 - 71,652	59,700 - 75,450										
9.3	\$67,346 and over	\$69,096 and over	\$71,652 and over	\$75,450 and over										

	Single and Marrie	d Filing Separately		
Tax Rate	1998 Income Level	1999 Income Level	2000 Income Level	2001 Income Level
1.0	Up to \$5,131	Up to \$5,264	Up to \$5,459	Up to \$5,748
2.0	5,131 – 12,161	5,264 - 12,477	5,459 - 12,939	5,748 - 13,625
4.0	12,161 – 19,193	12,477 – 19,692	12,939 – 20,421	13,625 – 21,503
6.0	19,193 – 26,644	19,692 – 27,337	20,421 - 28,348	21,503 – 29,850
8.0	26,644 - 33,673	27,337 – 34,548	28,348 - 35,826	29,850 - 37,725
9.3	\$33,673 and over	\$34,548 and over	\$35,826 and over	\$37,725 and over

	Head of Household													
Tax Rate	1998 Income Level	1999 Income Level	2000 Income Level	2001 Income Level										
1.0	Up to \$10,264	Up to \$10,531	Up to \$10,921	Up to \$11,500										
2.0	10,264 - 24,323	10,531 – 24,955	10,921 – 25,878	11,500 – 27,250										
4.0	24,323 - 31,353	24,955 – 32,168	25,878 – 33,358	27,250 – 35,126										
6.0	31,353 – 38,803	32,168 - 39,812	33,358 – 41,285	35,126 - 43,473										
8.0	38,803 - 45,833	39,812 - 47,025	41,285 – 48,765	43,473 – 51,350										
9.3	\$45,833 and over	\$47,025 and over	\$48,765 and over	\$51,350 and over										

Source: California Franchise Tax Board

Average Effective Rate

(amounts in thousands)

	1998	1999	2000	2001
Personal income tax revenue 1	27,858,619	30,862,872	39,516,018	44,629,742
Adjusted gross income (in thousands) 2	627,433,733	721,662,168	829,547,001	754,140,238
Average effective rate 3	4.4%	4.3%	4.8%	5.9%

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

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

² Source: California Franchise Tax Board. 2006 updated with most current information. 2007 information reflects returns processed as of December 2008.

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

2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level	2006 ¹ Income Level	2007 ¹ Income Level			
Up to \$11,668	Up to \$11,924	Up to \$12,294	Up to \$12,638	Up to \$13,244	Up to \$13,654			
11,668 – 27,658	11,924 – 28,266	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	3 13,654 – 32,370			
27,658 – 43,652	28,266 – 44,612	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 - 51,088			
43,652 - 60,596	44,612 - 61,930	45,994 – 63,850	47,282 - 65,638	49,552 – 68,788	51,088 – 70,920			
60,596 - 76,582	61,930 - 78,266	63,850 - 80,692	65,638 - 82,952	68,788 - 86,934	70,920 - 89,628			
\$76,582 and over	\$78,266 and over	\$80,692 and over	\$82,952 and over	\$86,934 and over	\$89,628 and ove			
		Single and Married	d Filing Separately					
2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level	2006 ¹ Income Level	2007 ¹ Income Level			
Up to \$5,834	Up to \$5,962	Up to \$6,147	Up to \$6,319	Up to \$6,622	Up to \$6,827			
5,834 – 13,829	5,962 - 14,133	6,147 – 14,571	6,319 – 14,979	6,622 - 15,698	6,827 – 16,185			
13,829 – 21,826	14,133 – 22,306	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544			
21,826 – 30,298	22,306 - 30,965	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460			
30,298 - 38,291	30,965 - 39,133	31,925 - 40,346	32,819 – 41,476	34,394 - 43,467	35,460 – 44,814			
\$38,291 and over	\$39,133 and over	\$40,346 and over	\$41,476 and over	\$43,467 and over	\$44,814 and ove			
		Head of H	ousehold					
2002 Income Level	2003 Income Level	2004 Income Level	2005 ¹ Income Level	2006 ¹ Income Level	2007 ¹ Income Level			
Up to \$11,673	Up to \$11,930	Up to \$12,300	Up to \$12,644	Up to \$13,251	Up to \$13,662			
11,673 – 27,659	11,930 – 28,267	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370			
27,659 – 35,653	28,267 - 36,347	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728			
35,653 – 44,125	36,347 - 45,096	37,567 – 46,494	38,619 - 47,796	40,473 - 50,090	41,728 – 51,643			
44,125 – 52,120	45,096 - 53,267	46,494 – 54,918	47,796 – 56,456	50,090 - 59,166	51,643 - 61,000			
\$52,120 and over	\$53,267 and over	\$54,918 and over	\$56,456 and over	\$59,166 and over	\$61,000 and ove			
2002	2003	2004	2005	2006	2007			
32,874,734 731,160,385	32,661,274 762,491,998	37,722,839 841,229,496	42,595,352 932,142,017	50,798,418 990,695,484	53,289,52 1,059,967,50			



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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 Seven Fiscal Years

(amounts in thousands, except per capita)

	 2002	 2003	2004	2005
Governmental Activities	_	_	_	
General obligation bonds 3	\$ 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	27,032,465	36,272,536	56,621,261	58,280,970
Business-type activities				
General obligation bonds 3	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	16,059,208	24,468,711	24,551,995	25,084,734
Total primary government	\$ 43,091,673	\$ 60,741,247	\$ 81,173,256	\$ 83,365,704
Debt as a percentage of				
personal income ¹	3.8%	5.3%	6.8%	6.6%
Amount of debt per capita ²	\$ 1,239	\$ 1,718	\$ 2,258	\$ 2,287

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 266 and 267 for the prior calendar year.

 $^{^{\}rm 2}$ Amount calculated using population data shown on pages 266 and 267 for the prior calendar year.

³ In fiscal year 2008, unamortized bond premium was added to the general obligation bonds payable.

2006		2007	2008				
		_					
47,003,817	\$	50,269,442	\$	56,424,532			
7,300,638		8,009,784		7,811,832			
923,890		1,358,051		1,736,089			
4,466,828		4,346,179		4,376,410			
59,695,173		63,983,456		70,348,863			
1,963,305		1,954,220		1,907,243			
22,812,509		22,934,094		23,003,097			
231,121		179,782		67,204			
25,006,935		25,068,096		24,977,544			
84,702,108	\$	89,051,552	\$	95,326,407			
6.3%		6.2%		6.3%			
2,296	\$	2,388	\$	2,528			
	47,003,817 7,300,638 923,890 4,466,828 59,695,173 1,963,305 22,812,509 231,121 25,006,935 84,702,108	47,003,817 7,300,638 923,890 4,466,828 59,695,173 1,963,305 22,812,509 231,121 25,006,935 84,702,108 \$	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	47,003,817 \$ 50,269,442 \$ 7,300,638 8,009,784			

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Seven Fiscal Years

(amounts in thousands, except per capita)

	2002	2003	2004	2005
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	\$ 25,332,132	\$ 29,566,646	\$ 46,140,436	\$ 47,631,522
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	\$ 729	\$ 836	\$ 1,284	\$ 1,307

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 266 and 267 for the prior calendar year.

 $^{^{2}}$ Amount calculated using population data shown on pages 266 and 267 for the prior calendar year.

³ Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.

2006	 2007	 2008 ³
\$ 39,034,092	\$ 43,234,702	\$ 47,828,805
9,933,030	8,988,960	10,502,970
212,883	792,841	552,326
9,720,147	8,196,119	9,950,644
\$ 48,754,239	\$ 51,430,821	\$ 57,779,449
3.6%	3.6%	3.8%
\$ 1,321	\$ 1,379	\$ 1,532

Schedule of General Obligation Bonds Outstanding

June 30, 2008

(amounts in thousands)

Governmental activity	
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	\$ 1,074,745
California Library Construction and Renovation	226,990
California Park and Recreational Facilities	53,365
California Parklands	10,440
California Safe Drinking Water	108,520
California Stem Cell Research and Cures	250,000
California Wildlife, Coastal, and Park Land Conservation	260,745
Children's Hospital	247,145
Class–size Reduction Public Education Facilities	7,793,985
Clean Air and Transportation Improvement	1,116,195
Clean Water	42,140
Clean Water and Water Conservation	11,715
	37,255
Clean Water and Water Reclamation	18,505
Community Parklands	101,455
County Correctional Facility Capital Expenditure	208,505
County Correctional Facility Capital Expenditure and Youth Facility	10,300
County Jail Capital Expenditure	*
Disaster Preparedness and Flood Prevention	17,925
Earthquake Safety and Public Building Rehabilitation	200,415
Economic Recovery	10,041,690
Fish and Wildlife Habitat Enhancement	13,195
Higher Education Facilities	885,310
Highway Safety, Traffic Reduction, Air Quality and Port Security	1,082,550
Housing Emergency Shelter	675,520
Housing and Homeless	4,660
Kindergarten-University Public Education Facilities	18,942,945
Lake Tahoe Acquisitions	10,070
New Prison Construction	433,850
Passenger Rail and Clean Air	379,670
Public Education Facilities	2,149,445
Safe, Clean, Reliable Water Supply	669,060
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection	1,218,825
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection	45,520
Safe Neighborhood Parks	1,515,690
School Building and Earthquake	23,980
School Facilities	2,516,996
Seismic Retrofit	1,576,785
State School Building Lease-Purchase	107,400
State, Urban, and Coastal Park	8,370
Veterans' Homes	12,915
Voting Modernization	83,260
Water Conservation	33,120
Water Conservation and Water Quality	51,645
Water Security, Clean Drinking Water, Coastal and Beach Protection	1,237,465
Total governmental activity	55,510,281
Business-type activity	
California Water Resources Development	584,395
Veterans Farm and Home Building	1,324,595
Total business-type activity	1,908,990
Total general obligation bonds	57,419,271
Unamortized bond premium/discount/other	912,504
Total general obligation bonds payable	\$ 58,331,775

Source: California State Treasurer's Office

Schedule of Pledged Revenue Coverage

For the Past Ten Fiscal Years

(amounts in thousands)

				Net Revenue	Debt Service Requirements ³			
		Gross	Operating	Available for				
	June 30	Revenue 1	Expenses 2	Debt Service	Principal	Interest	Total	Coverage
Housing Loans	1999	224,359	30,381	193,978	111,095	26,231	137,326	1.41
Treatming	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
	2008	130,139	21,263	108,876	56,225	33,333	89,558	1.22
Water Resources	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
	2008	989,275	773,362	215,913	100,945	114,213	215,158	1.00
Water Pollution	2003	54,201	5,032	49,169	_	9,830	9,830	5.00
Control	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
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
								(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 All revenue bonds have been redeemed.

⁵ 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)

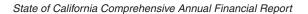
For the Past Ten Fiscal Years

(amounts in thousands)

				Net Revenue	Debt Service Requirements ³			
		Gross	Operating	Available for			_	
	June 30	Revenue ¹	Expenses ²	Debt Service	Principal	Interest	Total	Coverage
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
	2008	5,362,000	4,323,000	1,039,000	470,000	447,000	917,000	1.13
Public Buildings	1999	350,276	47,646	302,630	194,006	278,807	472,813	0.64
Construction	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
	2008	384,816	33,566	351,250	342,582	331,355	673,937	0.52
High Technology	1999	47,505	2,190	45,315	33,245	40,511	73,756	0.61
Education	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
	2008	20,600	3,511	17,089	22,265	13,344	35,609	0.48
New Prison	1999	3,521	2,831	690	9,550	2,140	11,690	0.06
Construction ⁴	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)
California State	1999	305,732	237,587	68,145	9,380	30,328	39,708	1.72
University	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)
	2008	640,209	630,190	10,019	105,229	115,928	221,157	0.05

				Net Revenue	Debt Service Requirement		ents 3	
		Gross	Operating	Available for				
	June 30	Revenue 1	Expenses 2	Debt Service	Principal	Interest	Total	Coverage
CSU Channel	2003	5,844	_	5,844	_	4,058	4,058	1.44
Island Financing	2004	5,449	_	5,449	_	4,205	4,205	1.30
Authority	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
	2008	245	13	232	_	556	556	0.42
Building Authorities	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
	2008	79,077	68	79,009	47,475	27,260	74,735	1.06
Golden State	2003	4,947	_	4,947	_	59,369	59,369	0.08
Tobacco	2004	427,159	367	426,792	60,427	298,708	359,135	1.19
Securitization	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
Corporation	2006	396,987	_	396,987	61,320	307,824	369,144	1.08
	2007	413,246	_	413,246	133,555	276,965	410,520	1.01
	2008	445,097	_	445,097	129,120	326,631	455,751	0.98
Toll Bridge Seismic	2004	139,366	119,141	20,225	_	28,615	28,615	0.71
Retrofit ⁴	2005	131,791	97,386	34,405	_	28,615	28,615	1.20
Grant Anticipation	2004	13,150	_	13,150	_	13,150	13,150	1.00
Revenue Vehicles ⁵	2005	65,134	_	65,134	41,545	23,589	65,134	1.00
	2006	72,338	_	72,338	47,845	24,493	72,338	1.00
	2007	72,149	_	72,149	49,190	22,959	72,149	1.00
	2008	71,945	_	71,945	50,985	20,960	71,945	1.00

(concluded)



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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

	 1998	1999			2000	 2001	
Population (in thousands)	 _		_		_	_	
California ¹	32,863		33,419		34,095	34,767	
% Change	1.3%		1.7%		2.0%	2.0%	
United States	275,854		279,040		282,172	285,040	
% Change	1.2%		1.2%		1.1%	1.0%	
Total personal income (in millions)							
California ¹	\$ 936,009	\$	999,228	\$	1,103,842	\$ 1,135,304	
% Change	8.8%		6.8%		10.5%	2.9%	
United States ¹	\$ 7,415,709	\$	7,796,137	\$	8,422,074	\$ 8,716,992	
% Change	7.4%		5.1%		8.0%	3.5%	
Per capita personal income							
California ²	\$ 28,482	\$	29,900	\$	32,375	\$ 32,655	
% Change	7.4%		5.0%		8.3%	0.9%	
United States ²	\$ 26,883	\$	27,939	\$	29,847	\$ 30,582	
% Change	6.1%		3.9%		6.8%	2.5%	
Labor force and employment (in thousands)							
California							
Civilian labor force ¹	16,167		16,431		16,858	17,152	
Employed ¹	15,204		15,567		16,024	16,220	
Unemployed ¹	963		864		833	932	
Unemployment rate	6.0%		5.3%		4.9%	5.4%	
United States unemployment rate	4.5%		4.2%		4.0%	4.7%	

Sources: Economic Research Unit, California Department of Finance; Bureau of Economic Analysis, United States Department of Commerce; Labor Market Information Division, Employment Development Department; Bureau of Labor Statistics, United States Department of Labor.

¹ Some prior years were updated based on more current information.

 $^{^{2}\,}$ Calculated by dividing total personal income by population.

 2002	 2003	 2004	2005 200		2006	200		
 	_	_				_		
35,361	35,944	36,454		36,899		37,298		37,713
1.7%	1.6%	1.4%		1.2%		1.1%		1.1%
287,727	290,211	292,892		295,561		298,363		301,290
0.9%	0.9%	0.9%		0.9%		0.9%		1.0%
\$ 1,147,716	\$ 1,187,040	\$ 1,265,970	\$	1,342,832	\$	1,445,316	\$	1,519,875
1.1%	3.4%	6.6%		6.1%		7.6%		5.2%
\$ 8,872,871	\$ 9,150,320	\$ 9,711,400	\$	10,252,800	\$	10,977,300	\$	11,631,600
1.8%	3.1%	6.1%		5.6%		7.1%		6.0%
\$ 32,457	\$ 33,025	\$ 34,728	\$	36,392	\$	38,750	\$	40,301
-0.6%	1.7%	5.2%		4.8%		6.5%		4.0%
\$ 30,838	\$ 31,530	\$ 33,157	\$	34,689	\$	36,792	\$	38,606
0.8%	2.2%	5.2%		4.6%		6.1%		4.9%
17,344	17,391	17,507		17,703		17,907		18,188
16,181	16,200	16,413		16,742		17,030		17,209
1,163	1,191	1,093		961		877		979
6.7%	6.8%	6.2%		5.4%		4.9%		5.4%
5.8%	6.0%	5.5%		5.1%		4.6%		4.6%

Schedule of Employment by Industry

For Calendar Years 1998 and 2007

	19	98	2007					
•		Percentage		Percentage				
		of Total State		of Total State				
	Employees	Employment	Employees	Employment				
Industry								
Services	5,074,800	36.2 %	5,994,300	38.5 %				
Government								
Federal	199,500	1.4	193,100	1.2				
Military	73,000	0.5	53,700	0.3				
State and Local	1,893,500	13.5	2,250,600	14.5				
Retail trade	1,476,700	10.5	1,688,800	10.9				
Manufacturing	1,853,800	13.3	1,463,200	9.4				
Information, finance, and insurance	1,015,200	7.3	1,096,300	7.1				
Construction and utilities	673,300	4.8	950,100	6.1				
Wholesale trade	615,000	4.4	716,900	4.6				
Transportation and warehousing	439,900	3.2	447,400	2.9				
Farming	406,200	2.9	386,400	2.5				
Real estate	254,000	1.8	283,100	1.8				
Natural resources and mining	27,500	0.2	25,900	0.2				
Total	14,002,400	100.0 %	15,549,800	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

			Health and		State and	Business		
	General		Human		Consumer	and	Correctional	
	Government	Education	Services	Resources	Services	Transportation	Programs	Total
Fiscal Year								
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
2008	21,825	134,832	49,330	20,868	15,840	42,139	58,284	343,118

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

	1999	 2000	2001	2002	
General Government					
State Lottery					
Total revenue ¹	\$ 2,498	\$ 2,598	\$ 2,894	\$	2,896
Allocation to Education Fund ¹	\$ 868	\$ 907	\$ 1,032	\$	1,027
Judicial Council of California					
Supreme Court ²					
Cases filed	8,310	9,071	8,891		8,917
Cases disposed	8,608	8,880	9,047		8,802
Courts of Appeal					
Notices of appeal filed ³					
Civil	7,866	7,473	6,843		6,850
Criminal	7,791	7,500	6,776		6,361
Juvenile	2,434	2,842	2,670		2,631
Trial Courts					
Total civil cases 4, 10					
Filings	1,597,473	1,516,835	1,505,122		1,571,351
Dispositions	1,473,549	1,349,296	1,330,144		1,368,923
Department of Food and Agriculture					
Milk production (million lbs) ⁵	30,444	32,245	33,217		35,065
Acres of farm land 5	28,100	28,000	27,800		27,600
Education					
Public Colleges and Universities					
Fall Enrollment ¹⁰					
Community Colleges	1,400,954	1,585,238	1,686,896		1,746,602
California State University	359,179	367,363	387,311		406,615
University of California	178,410	183,355	191,903		201,297
K-12 Schools					
Fall Enrollment					
Public	5,844,111	5,951,612	6,050,895		6,147,375
Private	628,746	640,802	648,564		635,719

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

N/A = not available

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, 2008.

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.

 2003	 2004	 2005	 2006		2007		2008
\$ 2,782	\$ 2,974	\$ 3,334	\$ 3,585	\$	3,318	\$	3,050
\$ 977	\$ 1,044	\$ 1,149	\$ 1,259	\$	1,177	\$	1,069
8,862	8,564	8,990	9,261		8,988		N/A
8,652	8,565	8,535	9,878		9,247		N/A
6,917	6,484	6,142	6,018		6,116		N/A
6,493	6,625	6,312	6,516		6,508		N/A
2,481	2,703	2,626	2,715		2,903		N/A
1,550,243	1,504,438	1,426,917	1,418,888		1,461,111		N/A
1,376,334	1,360,826	1,304,487	1,267,129		1,286,517		N/A
35,437	36,465	37,564	38,830		40,683		N/A
27,100	26,700	26,400	26,300		26,200		N/A
1,635,253	1,584,170	1,606,858	1,637,767		1,723,225		N/A
407,530	395,825	405,282	417,156		433,017		N/A
208,391	207,909	209,080	214,298		220,034		N/A
6,244,403	6,299,015	6,322,217	6,312,103		6,286,943		6,275,469
611,350	599,605	591,056	594,597		583,794		564,734
							(continued)

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	1999	 2000	2001	2002
Health and Human Services				
Department of Public Health				
Vital Statistics				
Live Births ⁵	518,073	531,285	527,371	529,245
Department of Social Services				
Total Food Stamp Households (avg per month) 10	794,645	716,178	663,395	678,294
Employment Development Department				
Number of employed ^{5, 6, 10}	14,712,400	15,196,600	14,911,200	14,907,400
Resources				
Department of Fish and Game				
Sport fishing licenses sold 7, 10	3,142,705	3,178,869	3,141,393	3,105,505
Hunting licenses sold 7, 10	1,430,638	1,530,590	1,553,817	1,491,975
California Energy Commission				
Electrical energy generation (gigawatt hours) 10	275,803	280,496	266,127	273,775
State and Consumer Services				
Franchise Tax Board				
Personal Income Tax ⁵				
Number of tax returns filed	13,126,133	13,440,952	13,602,180	13,575,583
Taxable Income ¹	\$ 609,167	\$ 706,586	\$ 621,512	\$ 601,713
Total Tax Liability ¹	\$ 33,106	\$ 40,370	\$ 31,284	\$ 28,568
Corporation Tax ⁵				
Number of tax returns filed	481,036	497,844	520,056	550,853
Income reported for taxation 1, 10	45,319	\$ 33,860	\$ 17,560	\$ 29,686
Total Tax Liability 1, 10	\$ 5,305	\$ 5,913	\$ 5,122	\$ 5,601
Business and Transportation				
Department of Motor Vehicles				
Motor vehicle registration	28,221,022	22,616,580	30,163,179	30,875,085
License issued by age ^{5,8}				
Under age 18	268,542	266,807	278,440	288,444
Between 18-80	20,389,653	20,756,909	21,288,657	21,848,657
Over age 80	376,495	380,393	410,630	468,709
California Highway Patrol				
Total number of DUI arrests 5	86,357	81,383	80,312	82,375
Department of Transportation				
Highway center-line miles—rural ^{5,9}	11,399	11,385	11,421	11,439
Highway center-line miles—urban ^{5,9}	3,807	3,795	3,780	3,843
Correctional Programs				
Department of Corrections and Rehabilitation				
Division of Adult Institutions				
Institution population at December 31 each year	158,519	158,450	155,365	158,099
Division of Juvenile Justice	-,	-,	-,	-, -
Institution population at June 30 each year	7,761	7,482	6,942	5,954

_	2003	_	2004	_	2005	2006	2007	2008
	540,827		544,685		548,700	562,157	N/A	N/A
	682,202		722,519		792,617	809,782	823,335	892,882
	14,871,400		15,126,100		15,440,600	15,613,300	15,633,300	15,376,200
	2,978,215		2,945,708		2,886,565	2,940,567	3,020,374	2,484,927
	1,520,292		1,546,793		1,574,574	1,603,602	1,664,414	1,565,315
	279,252		289,384		288,681	294,916	302,546	N/A
	13,624,349		13,832,810		14,087,896	14,382,677	N/A	N/A
\$	619,166	\$	695,075	\$	767,877	812,008	N/A	N/A
\$	30,374	\$	36,093	\$	43,131	45,716	N/A	N/A
	589,310		616,805		651,059	684,363	N/A	N/A
\$	50,819	\$	82,328	\$	115,474	140,325	N/A	N/A
\$	6,227	\$	7,123	\$	8,680	9,992	N/A	N/A
	31,017,017		33,289,925		33,363,963	33,882,029	33,539,486	N/A
	283,258		287,800		277,168	268,199	262,415	N/A
	21,937,723		22,073,101		22,155,604	22,450,786	22,804,927	N/A
	466,105		482,340		494,577	518,102	562,518	N/A
	87,496		94,023		89,946	94,251	92,270	N/A
	11,414		11,380		11,090	10,821	10,830	N/A
	3,811		3,829		4,123	4,422	4,439	N/A
	160,362		162,687		166,723	171,310	170,452	170,283
	5,024		4,067		3,348	2,962	2,531	1,877
								(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Seven Fiscal Years

_	2002 ¹	2003 ²	2004 ³	2005
General Government				
Department of Food and Agriculture				
Vehicles ⁷	786	941	929	903
Square footage of structures (in thousands) 8	N/A	467	467	467
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, 7}	N/A	N/A	N/A	N/A
Campuses	23	23	23	23
Square footage of structures (in thousands)	N/A	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: California Department of General Services (DGS)

N/A = not available

¹ DGS 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, DGS 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.

⁷ For fiscal year 2008, DGS was not able to obtain complete set of data from the agency.

⁸ Structures reported this year only include the primary government portion; structures have been restated for all prior years to exclude the non-primary government portion.

⁹ For 2008, the California Highway Patrol purchased numerous vehicles and began to included motorcycles in its physical count that had not been reported for previous years.

2006	2007	2008	
907	915	818	
453	453	453	
968	966	826	
210	182	206	
3,388	3,388	3,387	
3,366	3,300	3,367	
3	3	3	
111	248	251	
1,598	1,598	1,598	
601	3,343	3,994	
23	23	23	
59,921	62,198	63,971	
655	829	839	
7	7	7	
5,181	5,181	5,186	
055	200	0.47	
655 5	669 5	647	
4,673	6,359	5 6,364	
4,070	0,009	0,004	
		(continued)	

Schedule of Capital Asset Statistics by Function (continued)

For the Past Seven 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 ⁹	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, 7}	6,795	7,221	7,189	7,006
Prisons and juvenile facilities ⁶	32	32	32	32
Square footage of structures (in thousands)	N/A	39,591	40,483	40,472

2006	2007	2008	
3,182	3,311	2,868	
1,112	1,120	1,192	
2,572	2,945	3,043	
3,885	3,883	3,869	
2,742	2,988	2,900	
278	276	279	
1,552	1,235	1,248	
6,350	6,350	6,350	
49	51	49	
4,496	4,492	4,491	
1,050	640	726	
6,894	7,330	7,558	
17,350	18,084	18,084	
4,105	4,655	5,228	
1,087	1,110	1,118	
373	458	434	
1,827	1,866	1,848	
11,048	11,130	11,098	
6,632	6,618	6,229	
4,356	6,657	7,908	
32	41	41	
40,622	40,777	40,831	
		(concluded)	

STATE OF CALIFORNIA

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