SUPPLEMENT DATED SEPTEMBER 11, 2012 TO
PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 6, 2012

RELATING TO

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA

**$115,790,000*
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series D
(Various California State University Projects)**

**$51,830,000*
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series E
(California State University: Various Buildings)**

**$92,675,000*
Lease Revenue Refunding Bonds
(The Regents of the University of California)
2012 Series F
(UCLA Replacement Hospitals)**

The Preliminary Official Statement referenced above is hereby supplemented as follows:

Attached hereto and incorporated into the caption "FINANCIAL STATEMENTS" in APPENDIX A of the Preliminary Official Statement is the State Controller's Report of Cash Receipts and Disbursements for the Period July 1-August 31, 2012 (Unaudited), which will be included in the final Official Statement as Exhibit 2 to Appendix A.

The third paragraph under the caption "RECENT DEVELOPMENTS – *Recent Tax Receipts*" in APPENDIX A of the Preliminary Official Statement is deleted, and replaced with the following paragraphs:

> "On September 11, 2012, the State Controller's Office issued its Report of Cash Receipts and Disbursements for the Period July 1-August 31, 2012 (Unaudited). As shown in the report, for the month of August, personal income tax revenues in the month of August were $222.5 million above the amount projected in the 2012 Budget Act; sales taxes were $187.3 million above projections; and corporate tax revenues were $102.2 million below projections. On a fiscal year-to-date basis personal income tax revenues ($6.95 billion) were $234.7 million higher than 2012 Budget Act projections; sales taxes ($3.09 billion) were $107.7 million below projections; corporate tax revenues ($305.8 million) were $45.2 million below projections; and other revenues ($534.9 million) were $122.8 million below projections.
>
> The Department of Finance plans to release in the middle of the month its monthly bulletin containing its report of August revenues. The monthly bulletin will be available on the Department of Finance website."

**ANA J. MATOSANTOS, CHAIR,
STATE PUBLIC WORKS BOARD OF
THE STATE OF CALIFORNIA**

* Preliminary, subject to change.

STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

August 2012

JOHN CHIANG
California State Controller

JOHN CHIANG
California State Controller

September 11, 2012

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2012 through August 31, 2012. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates prepared by the Department of Finance for the 2012 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2012 Budget Act.

These statements are also available on the Internet at the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to George Lolas, Division Chief of Accounting and Reporting, at (916) 322-7407.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2012 Budget Act
(Amounts in thousands)

	July 1 through August 31				
	2012				2011
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	10,887,765	10,928,765	(41,000)	(0.4)	11,741,294
Nonrevenues	555,345	775,259	(219,914)	(28.4)	1,031,773
Total Receipts	11,443,110	11,704,024	(260,914)	(2.2)	12,773,067
Less Disbursements:					
State Operations	3,200,455	3,554,260	(353,805)	(10.0)	3,920,478
Local Assistance	19,891,101	16,668,672	3,222,429	19.3	14,466,674
Capital Outlay	88,591	80,122	8,469	10.6	169,244
Nongovernmental	69,739	(1,339)	71,078	-	(414,217)
Total Disbursements	23,249,886	20,301,715	2,948,171	14.5	18,142,179
Receipts Over / (Under) Disbursements	(11,806,776)	(8,597,691)	(3,209,085)	-	(5,369,112)
Net Increase / (Decrease) in Temporary Loans	11,806,776	8,597,691	3,209,085	37.3	5,369,112
GENERAL FUND ENDING CASH BALANCE	-	-	-		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -		$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 33,014,570	$ 29,396,957	$ 3,617,613	12.3	$ 23,250,699
Outstanding Loans (b)	21,400,067	18,191,000	3,209,067	17.6	13,533,576
Unused Borrowable Resources	$ 11,614,503	$ 11,205,957	$ 408,546	3.6	$ 9,717,123

General Note:

This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:

(a) A Statement of Estimated Cash Flow for the 2012-13 fiscal year was prepared by the Department of Finance for the 2012 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.

(b) Outstanding loan balance of $21.4 billion is comprised of $11.4 of internal borrowing and $10 billion of external borrowing. Current balance is comprised of $9.6 billion carried forward from June 30, 2012 plus current year Net Increase/(Decrease) in Temporary Loans of $11.8 billion.

(c) Negative amounts are the result of repayments received that are greater than disbursements made.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of August		July 1 through August 31				
			2012				2011
					Actual Over or (Under) Estimate		
	2012	2011	Actual	Estimate (a)	Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 32,985	$ 24,190	$ 41,471	$ 60,000	$ (18,529)	(30.9)	$ 59,043
Corporation Tax	40,766	137,734	305,832	351,000	(45,168)	(12.9)	429,230
Cigarette Tax	7,771	14,771	9,492	16,000	(6,508)	(40.7)	22,493
Estate, Inheritance, and Gift Tax	427	194	1,359	-	1,359	-	507
Insurance Companies Tax	207,300	155,881	202,441	127,000	75,441	59.4	166,066
Personal Income Tax	3,643,538	3,265,416	6,954,740	6,720,000	234,740	3.5	6,420,404
Retail Sales and Use Taxes	2,505,296	3,138,556	3,092,258	3,200,000	(107,742)	(3.4)	4,116,180
Vehicle License Fees	1,298	29,290	2,167	2,000	167	8.4	52,305
Pooled Money Investment Interest	4,428	970	5,401	4,000	1,401	35.0	1,494
Not Otherwise Classified	200,982	262,490	272,604	448,765	(176,161)	-	473,572
Total Revenues	**6,644,791**	**7,029,492**	**10,887,765**	**10,928,765**	**(41,000)**	**(0.4)**	**11,741,294**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	183,002	204,500	435,631	673,375	(237,744)	(35.3)	940,004
Miscellaneous	97,856	60,600	119,714	101,884	17,830	17.5	91,769
Total Nonrevenues	**280,858**	**265,100**	**555,345**	**775,259**	**(219,914)**	**(28.4)**	**1,031,773**
Total Receipts	**$ 6,925,649**	**$ 7,294,592**	**$ 11,443,110**	**$ 11,704,024**	**$ (260,914)**	**(2.2)**	**$ 12,773,067**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of August		July 1 through August 31				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 174,341	$ 140,179	$ 342,397	$ 293,062	$ 49,335	16.8	$ 304,967
State and Consumer Services	75,913	39,874	122,754	114,906	7,848	6.8	83,433
Business, Transportation and Housing	228	11,439	369	238	131	-	15,745
Resources	123,084	34,227	245,812	190,787	55,025	28.8	157,745
Environmental Protection Agency	3,334	1,305	4,022	6,876	(2,854)	(41.5)	2,428
Health and Human Services:							
Health Services	32,931	52,613	77,285	106,220	(28,935)	(27.2)	99,418
Mental Health	73,402	135,139	178,597	170,000	8,597	5.1	224,727
Other Health and Human Services	93,489	101,268	105,401	168,602	(63,201)	(37.5)	195,047
Education:							
University of California	17,208	21,114	19,769	74,567	(54,798)	(73.5)	76,993
State Universities and Colleges	137,433	187,107	274,734	380,364	(105,630)	(27.8)	360,107
Other Education	12,415	19,179	33,871	30,304	3,567	11.8	38,838
Dept. of Corrections and Rehabilitation	696,736	791,827	1,105,295	1,361,675	(256,380)	(18.8)	1,596,008
General Government	186,984	174,437	356,631	256,410	100,221	39.1	328,156
Public Employees Retirement System	(150,221)	(140,543)	126,703	129,455	(2,752)	(2.1)	138,497
Debt Service	353,491	333,149	322,081	261,794	60,287	23.0	257,334
Interest on Loans	(122,100)	30,584	(115,266)	9,000	(124,266)	-	41,035
Total State Operations	**1,708,668**	**1,932,898**	**3,200,455**	**3,554,260**	**(353,805)**	**(10.0)**	**3,920,478**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	4,326,744	4,484,575	11,636,274	10,476,642	1,159,632	11.1	6,745,311
Community Colleges	299,634	288,943	1,178,447	1,181,145	(2,698)	(0.2)	1,208,523
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	-	-	224,968	224,967	1	0.0	193,685
Other Education	812,311	216,980	1,095,685	297,750	797,935	268.0	982,904
School Facilities Aid	-	-	-	-	-	-	-
Dept. of Corrections and Rehabilitation	225	34,180	11,205	28,429	(17,224)	(60.6)	58,850
Dept. of Alcohol and Drug Program	33,900	23,004	45,756	17,633	28,123	159.5	29,243
Dept. of Health Services:							
Medical Assistance Program	1,543,778	1,220,378	2,767,458	2,250,987	516,471	22.9	2,145,284
Other Health Services	23,833	(2,616)	49,234	64,567	(15,333)	(23.7)	20,515
Dept. of Developmental Services	573,730	335,516	1,159,912	461,842	698,070	151.1	727,568
Dept. of Mental Health	4,411	162,210	5,007	3,400	1,607	47.3	175,079
Dept. of Social Services:							
SSI/SSP/IHSS	320,058	372,173	1,063,646	1,078,626	(14,980)	(1.4)	1,046,156
CalWORKs	162,491	178,095	210,293	274,157	(63,864)	(23.3)	509,541
Other Social Services	102,654	217,090	62,958	83,673	(20,715)	(24.8)	184,513
Tax Relief	-	(1,377)	-	1,173	(1,173)	(100.0)	(1,377)
Other Local Assistance	233,929	255,279	380,258	223,681	156,577	70.0	440,879
Total Local Assistance	**8,437,698**	**7,784,430**	**19,891,101**	**16,668,672**	**3,222,429**	**19.3**	**14,466,674**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of August		July 1 through August 31				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**88,287**	**1,249**	**88,591**	**80,122**	**8,469**	**10.6**	**169,244**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	-	-	284,702	290,548	(5,846)	(2.0)	136,007
Transfer to Revolving Fund	33,981	35,941	9,011	-	9,011	-	17,396
Advance:						-	
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax Administration Program	-	(13,987)	27,715	-	27,715	-	11,477
Social Welfare Federal Fund	-	-	(35,957)	-	(35,957)	-	(37,952)
Local Governmental Entities	-	-	60,000	-	60,000	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	-	-	(275,732)	(291,887)	16,155	-	(541,145)
Total Nongovernmental	**33,981**	**21,954**	**69,739**	**(1,339)**	**71,078**	**-**	**(414,217)**
Total Disbursements	**$ 10,268,634**	**$ 9,740,531**	**$ 23,249,886**	**$ 20,301,715**	**$ 2,948,171**	**14.5**	**$ 18,142,179**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ -	$ -	$ -	-	$ -
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(6,657,015)	2,445,939	1,806,776	(1,402,309)	3,209,085	-	(30,888)
Revenue Anticipation Notes	10,000,000	-	10,000,000	10,000,000	-	-	5,400,000
Net Increase / (Decrease) Loans	**3,342,985**	**$ 2,445,939**	**$ 11,806,776**	**$ 8,597,691**	**$ 3,209,085**	**37.3**	**$ 5,369,112**

See notes on page 1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through August 31			
	General Fund		Special Funds	
	2012	2011	2012	2011
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 41,471	$ 59,043	$ -	$ -
Corporation Tax	305,832	429,230	(1)	-
Cigarette Tax	9,492	22,493	80,247	186,435
Estate, Inheritance, and Gift Tax	1,359	507	843	-
Insurance Companies Tax	202,441	166,066	1,684	782
Motor Vehicle Fuel Tax:				
Gasoline Tax		-	876,292	876,486
Diesel & Liquid Petroleum Gas		-	62,140	88,083
Jet Fuel Tax		-	441	432
Vehicle License Fees	2,167	52,305	345,557	400,070
Motor Vehicle Registration and Other Fees	-	-	695,424	744,992
Personal Income Tax	6,954,740	6,420,404	125,706	122,063
Retail Sales and Use Taxes	3,092,258	4,116,180	1,928,960	984,022
Pooled Money Investment Interest	5,401	1,494	(4)	16
Total Major Taxes, Licenses, and Investment Income	**10,615,161**	**11,267,722**	**4,117,289**	**3,403,381**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	509	758	10,579	11,435
Electrical Energy Tax	-	-	88,408	161,863
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	-	7,096
Health Care Receipts	3,046	1,515	-	-
Revenues from State Lands	75,862	91,964	-	-
Abandoned Property	(1,851)	(150,368)	-	-
Trial Court Revenues	9,105	9,787	204,588	231,096
Horse Racing Fees	190	180	616	3,585
Miscellaneous	185,743	519,736	1,822,329	1,070,917
Not Otherwise Classified	**272,604**	**473,572**	**2,126,520**	**1,485,992**
Total Revenues, All Governmental Cost Funds	**$ 10,887,765**	**$ 11,741,294**	**$ 6,243,809**	**$ 4,889,373**

See notes on page 1.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 6, 2012

NEW ISSUES — BOOK-ENTRY ONLY **RATINGS: (See "RATINGS" herein)**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA

$115,790,000*
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series D
(Various California State University Projects)

$51,830,000*
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series E
(California State University: Various Buildings)

$92,675,000*
Lease Revenue Refunding Bonds
(The Regents of the University of California)
2012 Series F
(UCLA Replacement Hospitals)

Dated: Date of Delivery **Due: As shown on the inside front cover**

This Official Statement describes the State Public Works Board of the State of California (the "Board") and its lease revenue bonds captioned above (collectively, the "Bonds"). The Board's Lease Revenue Bonds (Trustees of the California State University) 2012 Series D (Various California State University Projects) (the "2012D Bonds"), the Board's Lease Revenue Bonds (Trustees of the California State University) 2012 Series E (California State University: Various Buildings) (the "2012E Bonds"), and the Board's Lease Revenue Refunding Bonds (The Regents of the University of California) 2012 Series F (UCLA Replacement Hospitals) (the "2012F Bonds") are each referred to herein as a "Series" of Bonds. Capitalized terms used but not defined on the front cover of this Official Statement have the meanings ascribed herein.

Interest on the 2012D Bonds and the 2012E Bonds is payable on September 1 and March 1 of each year, commencing on March 1, 2013. Interest on the 2012F Bonds is payable on October 1 and April 1 of each year, commencing on April 1, 2013. The Bonds may be purchased in the principal amount of $5,000 and any integral multiple thereof in book-entry form only. See APPENDIX F — "DTC AND THE BOOK-ENTRY SYSTEM." The Bonds may be redeemed prior to their respective stated maturities as described herein. See "TERMS OF THE 2012D BONDS — Redemption Provisions of 2012D Bonds," "TERMS OF THE 2012E BONDS — Redemption Provisions of 2012E Bonds" and "TERMS OF THE 2012F BONDS — Redemption Provisions of 2012F Bonds."

The Bonds of each Series are special obligations of the Board, payable solely from certain revenues and other moneys pledged under the Indenture for such Series. The Holders of a Series of Bonds will have no claim on the revenues or funds securing the other Series of Bonds or any other lease revenue bonds of the Board, except to the extent described herein. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Bonds are Limited Obligations."

THE BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE STATE OF CALIFORNIA, ANY POLITICAL SUBDIVISION THEREOF, THE BOARD OR ANY PARTICIPATING AGENCY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF. THE OWNERS OF THE BONDS SHALL HAVE NO RIGHT TO HAVE EXCISES OR TAXES LEVIED FOR THE PAYMENT OF AMOUNTS DUE ON THE BONDS. NEITHER THE BOARD NOR ANY PARTICIPATING AGENCY HAS ANY POWER TO PLEDGE THE CREDIT OR TAXING POWER OF THE STATE OF CALIFORNIA.

This cover page contains information for general reference only. It is not a summary of terms of this issue of Bonds. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS
(See Inside Front Cover)

The Bonds are offered when, as and if issued and received by the Underwriters, subject to certain conditions, including the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, by counsel to the Board, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Board. Certain legal matters will be passed upon for the Participating Agencies by their respective counsel, and for the Underwriters by Sidley Austin LLP, San Francisco, California. In connection with the issuance of the Bonds, KNN Public Finance, a Division of Zions First National Bank, Oakland, California, is serving as Financial Advisor to the State Treasurer. Nixon Peabody LLP is serving as Disclosure Counsel to the Board. Orrick, Herrington & Sutcliffe LLP, and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State of California regarding Appendix A. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September__, 2012.

Honorable Bill Lockyer
Treasurer of the State of California

BofA Merrill Lynch
(Senior Manager)

Prager & Co., LLC
(Co-Senior Manager)

BNY Mellon Capital Markets, LLC
Fidelity Capital Markets
Loop Capital Markets
Roberts & Ryan Investments Inc.

City National Securities, Inc.
Great Pacific Securities
O'Connor & Company Securities

Edward D. Jones & Co., LP
J.P. Morgan
RH Investment Corporation
Seattle-Northwest Securities Corp.

Date of this Official Statement: September ___, 2012

* Preliminary, subject to change.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

$_______ 2012 Serial D Bonds

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†	*Maturity Date (September 1)*	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†

$_______ ______% 2012 Series D Term Bonds due September 1, 20__, Yield: _____%, CUSIP†: _______

$_________ 2012E Serial Bonds

Maturity Date (September 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†	*Maturity Date (September 1)*	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†

$_______ ______% 2012 Series E Term Bonds due September 1, 20__, Yield: _____%, CUSIP†: _______

$_________ 2012F Serial Bonds

Maturity Date (October 1)	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†	*Maturity Date (October 1)*	*Principal Amount*	*Interest Rate*	*Yield*	*CUSIP*†

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the State Treasurer, the Board or the Underwriters and are included solely for the convenience of the registered owners of the applicable Bonds. None of the State Treasurer, the Board or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

The information set forth herein has been obtained from the state, the Board, the Participating Agencies, and from other sources which are believed to be reliable but such information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the state, the Board or the Participating Agencies, since the date hereof.

A wide variety of other information, including financial information, concerning the state and the Participating Agencies is available from publications and websites of the state and the Participating Agencies. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access website of the MSRB, currently located at http://emma.msrb.org.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performances or achievements described to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet such forecasts in any way, regardless of the level of optimism communicated in the information. Except as set forth in the Continuing Disclosure Agreements (described in Appendix E hereto), none of the Board, the Participating Agencies, or any other department or agency thereof plans to issue any updates or revisions to such forward-looking statements if or when its expectations are (or are not) realized, or if or when events, conditions or circumstances on which such statements are based occur (or do not occur).

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT YIELDS HIGHER THAN THOSE STATED ON THE INSIDE FRONT COVER HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, AND THE FOREGOING AUTHORITIES HAVE NEITHER REVIEWED NOR CONFIRMED THE ACCURACY OF THIS DOCUMENT.

Copies of this Official Statement may be obtained from:
HONORABLE BILL LOCKYER
Treasurer of the State of California
P.O. Box 942809
Sacramento, California 94209-0001
(800) 900-3873

This Preliminary Official Statement is available as public information on the State Treasurer's Internet site at http://www.treasurer.ca.gov.

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OFFICIAL STATEMENT

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA

$115,790,000*	**$51,830,000***	**$92,675,000***
Lease Revenue Bonds	**Lease Revenue Bonds**	**Lease Revenue Refunding Bonds**
(Trustees of the California State University)	**(Trustees of the California State University)**	**(The Regents of the University of California)**
2012 Series D	**2012 Series E**	**2012 Series F**
(Various California State University Projects)	**(California State University: Various Buildings)**	**(UCLA Replacement Hospitals)**

INTRODUCTION

This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including the cover page and the Appendices. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of provisions of, the Constitution and laws of the State of California (the "state") or any other documents referred to herein do not purport to be complete, and such references are qualified in their entirety by reference to the complete provisions.

This Official Statement describes the State Public Works Board of the State of California (the "Board") and the following three series of bonds to be issued by the Board:

- Lease Revenue Bonds (Trustees of the California State University) 2012 Series D (Various California State University Projects) (the "2012D Bonds");
- Lease Revenue Bonds (Trustees of the California State University) 2012 Series E (California State University: Various Buildings) (the "2012E Bonds"); and
- Lease Revenue Refunding Bonds (The Regents of the University of California) 2012 Series F (UCLA Replacement Hospitals) (the "2012F Bonds").

The 2012D Bonds, the 2012E Bonds and the 2012F Bonds are each referred to as a "Series" and are together referred to as the "Bonds."

Definitions

Listed below are certain defined terms used in this Official Statement. Capitalized terms not defined herein shall have the meanings set forth in Appendix D hereto. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Definitions," " — THE 2012E INDENTURE — Definitions" and " — THE 2012F INDENTURE — Definitions."

"Act" means the State Building Construction Act of 1955, being Part 10b of Division 3 of Title 2 of the California Government Code, as amended (commencing at Section 15800).

"Additional Bonds" means all lease revenue bonds of the Board authorized by and at any time Outstanding under the 2012E Indenture or the 2012F Indenture.

"Additional Rental" means amounts payable by a Participating Agency in each year as additional rental payments to or upon the order of the Board to pay all administrative costs and other expenses of the Board under the respective Facility Leases and taxes and assessments of any type charged to the Board or the State Treasurer under the respective Facility Leases.

"Annual Report" means the report to be filed not later than April 1 of each year containing the information required under the Continuing Disclosure Agreements.

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* Preliminary, subject to change.

"Base Rental" means all amounts received by the Board as base rental payments payable by a Participating Agency to the Board pursuant to a Facility Lease.

"Beneficial Owner" means any person who has the power, directly or indirectly, to make investment decisions concerning the ownership of, any Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries).

"Dated Date" means the date of delivery of the Bonds.

"DTC" means The Depository Trust Company, New York, New York.

"Facility" means, in connection with the 2012D Facilities (defined herein), the Sites and the 2012D Projects (defined herein) located on the respective Sites, in connection with the 2012E Bonds, the 2012E Leased Properties (defined herein), and in connection with the 2012F Bonds, the 2012F Leased Properties (defined herein).

"Holder" means any person who is the registered owner of any outstanding Bonds.

"Indenture" means the 2012D Indenture, the 2012E Indenture or 2012F Indenture, as applicable, and "Indentures" means, collectively, the 2012D Indenture, the 2012E Indenture and the 2012F Indenture.

"Interest Payment Date" means, with respect to the 2012D Bonds and the 2012E Bonds, September 1 and March 1, commencing on March 1, 2013, and, with respect to the 2012F Bonds, October 1 and April 1, commencing on April 1, 2013.

"Law" means, in connection with the 2012D Bonds and the 2012E Bonds the legislative authorization for the 2012D Projects and the 2012E Project (defined herein) set forth in Appendix B-1 hereto.

"Master Indenture" means the indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, by the Forty-Second Supplemental Indenture, dated as of October 1, 2002, by the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and by the Ninety-Third Supplemental Indenture, dated as of October 12, 2009, by and between the Board and the State Treasurer, as trustee.

"Master Indenture Reserve Fund" means the pooled reserve fund established under the Master Indenture, which secures all bonds issued under the Master Indenture and Incorporated Bonds (defined herein).

"Participating Agencies" means, with respect to the 2012D Bonds and the 2012E Bonds, the Trustees of the California State University (the "Trustees"), and, with respect to the 2012F Bonds, The Regents of the University of California ("The Regents"). The term "Participating Agency" refers to one of the Participating Agencies.

"Rental" means Base Rental and Additional Rental.

"Related Series of Bonds" means two or more series of bonds issued under the Master Indenture which finance the same facility, such that the Base Rental payments generated pursuant to the facility lease concerning such facility are the source of repayment of the several related series of bonds, and which are designated as related series of bonds pursuant to a supplemental indenture.

"Sites" means, in connection with the 2012D Bonds, the real property on which the 2012D Projects are located, in connection with the 2012E Bonds, the 2012E Leased Properties, and in connection with the 2012F Bonds, the 2012F Leased Properties. The term "Site" refers to one of the Sites.

"Site Lease" means the lease of a Site, by and between a Participating Agency, as lessor, and the Board, as lessee, relating to a Site.

"2012D Facility Lease" means a facility lease dated as of September 15, 2012, by and between the Board and the Trustees relating to a 2012D Facility.

"2012D Indenture" means the Master Indenture, as supplemented by the One Hundred Eleventh Supplemental Indenture, dated as of September 15, 2012, by and between the Board and the State Treasurer, as trustee.

"2012E Facility Lease" means the facility lease dated as of September 15, 2012, by and between the Board and the Trustees.

"2012E Indenture" means the Indenture, as supplemented by the First Supplemental Indenture, dated as of September 15, 2012, by and between the Board and the State Treasurer, as trustee.

"2012F Facility Lease" means the Original 2002A Facility Lease (defined herein) as amended by the First Amendment to Facility Lease dated as of September 15, 2012, by and between the Board and The Regents.

"2012F Indenture" means the indenture dated as of October 1, 2002, as supplemented by the First Supplemental Indenture dated as of October 1, 2002, and the Second Supplemental Indenture dated as of September 15, 2012, each between the Board and the State Treasurer, as trustee.

"2012F Site Lease" means the Original 2002A Site Lease (defined herein) as amended by the First Amendment to Site Lease dated as of September 15, 2012, by and between the Board and The Regents.

General Authorization; Purpose

The Bonds of each Series are being sold by the State Treasurer as agent for sale pursuant to the Act and the Law (as applicable) and are being issued pursuant to the terms of the related Indenture. See APPENDIX D for a summary of the Indentures.

2012D Bonds. The 2012D Bonds are being issued by the Board for the benefit of the Trustees to provide funds (i) to pay the costs of the construction of the 2012D Projects, including construction reserves, (ii) to pay capitalized interest on the 2012D Bonds, and (iii) to pay the costs of issuance of the 2012D Bonds.

See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012D Projects" and APPENDIX B-1 — "THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES — The California State University and The 2012D Projects" for more detailed information concerning the 2012D Projects, the portion of the 2012D Bonds expected to be used to finance each 2012D Project and the estimated dates the 2012D Projects will be available for occupancy.

2012E Bonds. The 2012E Bonds are being issued by the Board for the benefit of the Trustees to provide funds (i) to finance the costs of the design and construction of the 2012E Project (defined herein), and (ii) to pay the costs of issuance of the 2012E Bonds.

The 2012E Project is not being leased pursuant to the 2012E Facility Lease, and the holders of 2012E Bonds will have no interest in or remedies with respect to the 2012E Project. The Base Rental under the 2012E Facility Lease is paid for the occupancy of the 2012E Leased Properties (defined herein) only and the remedies under the 2012E Facility Lease apply only to the 2012E Leased Properties. See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012E Project and the 2012E Leased Properties" and APPENDIX B-1 — "THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES — The California State University, the 2012E Leased Properties and the 2012E Project" for more detailed information concerning the 2012E Project and the 2012E Leased Properties.

2012F Bonds. The 2012F Bonds are being issued by the Board to provide funds (i) to establish an irrevocable escrow to refund and defease all or any portion of the Board's Lease Revenue Bonds (The Regents of the University of California) 2002 Series A (UCLA Replacement Hospitals) (the "2002A Bonds"), which were issued to finance the 2002A Project (defined herein), and (ii) to pay the costs of issuance of the 2012F Bonds.

The 2002A Project is not being leased pursuant to the 2012F Facility Lease, and the holders of 2012F Bonds will have no interest in or remedies with respect to the 2002A Project. The Base Rental under the 2012F Facility Lease is paid for the occupancy of the 2012F Leased Properties (defined herein) only and the remedies under the 2012F Facility Lease apply only to the 2012F Leased Properties. Depending on the pricing results of the 2012F Bonds, there may be 2002A Bonds that will remain outstanding under the indenture dated as of October 1, 2002 (the "Remaining 2002A

Bonds") and, if so, they will also be secured by the Base Rental due under the 2012F Facility Lease. If there are Remaining 2002A Bonds after the issuance of the 2012F Bonds, the 2012F Bonds will be secured under the 2012F Indenture on parity with such Remaining 2002A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS" and "TERMS OF THE 2012F BONDS." See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012F Leased Properties" and APPENDIX B-2 — "THE UNIVERSITY OF CALIFORNIA AND THE 2012F LEASED PROPERTIES — The 2012F Leased Properties" for more detailed information concerning the 2012F Leased Properties.

The 2012D Bonds, the 2012E Bonds and the 2012F Bonds are separately issued and secured. The 2012D Bonds are secured under the 2012D Indenture which pertains exclusively to such Series of Bonds. The 2012E Bonds are secured under the 2012E Indenture which pertains exclusively to such Series of Bonds. The 2012F Bonds are secured under the 2012F Indenture, which pertains exclusively to the 2012F Bonds and the Remaining 2002A Bonds, if any. A Holder of the 2012D Bonds will have no claim on the revenues or funds securing any other series of bonds issued by the Board; a Holder of the 2012E Bonds will have no claim on the revenues or funds securing any other series of bonds issued by the Board; and a Holder of the 2012F Bonds will have no claim on the revenues or funds securing any other series of bonds (other than the Remaining 2002A Bonds, if any), except, in each case, to the limited extent described under "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS – Master Indenture Reserve Fund" below.

Security and General Terms of the Bonds

The Bonds of each Series will be secured under the Indenture related to such Series by a first pledge of Revenues (as defined in APPENDIX D hereto), which consist primarily of the Base Rental to be paid by the Participating Agency in such Series, and under the terms of the Facility Lease or Facility Leases executed with respect to such Series.

The Bonds of each Series are also secured by a first pledge of the amounts on deposit in the funds and accounts (except for the Rebate Fund) related to such Series of Bonds that are established by the related Indenture for such Series.

The Bonds will be secured by the Master Indenture Reserve Fund, which will be drawn upon in the event that the Revenues available under the Indenture for a Series of Bonds are not sufficient to pay the principal of and interest on such Series of Bonds when due.

See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Pledges under the Indentures" and "— Master Indenture Reserve Fund."

Each Series of Bonds is being issued in the aggregate principal amount shown on the front cover hereof, and will mature on the dates and in the amounts shown on the inside front cover hereof, and is authorized to be issued in denominations of $5,000 and any integral multiple thereof. The Bonds will be dated the Dated Date. Interest on the Bonds is payable from the Dated Date at the rates set forth on the inside front cover hereof, semiannually on each Interest Payment Date. Interest on the Bonds is calculated on the basis of a 360-day year composed of twelve 30-day months. The record date for interest payments is the close of business on the fifteenth day of the calendar month (whether or not a Business Day) next preceding each Interest Payment Date.

Book-Entry Only Form

Each Series of Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in each Series of Bonds may be purchased in book-entry form only, in denominations as set forth above. The principal of and interest on each Series of Bonds will be paid as described in APPENDIX F.

State Financial Pressures

The following paragraphs present an abbreviated summary of certain fiscal challenges facing the state, all of which are described in more detail in APPENDIX A. Capitalized terms used in the following paragraphs and not defined herein are defined in APPENDIX A. All cross-references are to sections of APPENDIX A. Investors should review all of APPENDIX A in addition to all other sections of this Official Statement to obtain information essential to making an informed investment decision.

The economic downturn of the last few years adversely affected the state's budget situation. Despite the economy's gradual recovery, the state faced estimated annual gaps between spending and revenues of roughly $20 billion as of January 2011. The state's fiscal challenges were exacerbated by unprecedented levels of debts, deferrals, and budgetary obligations accumulated over the prior decade. The 2011 Budget Act and the 2012 Budget Act have rejected the past approach of over-relying on one-time solutions. The last two budgets addressed this deficit through three dollars of ongoing spending reductions for every dollar of tax increases. Specifically, 76 percent of the structural deficit has been addressed through spending cuts in health and human services, corrections, education, and other areas. Under current projections, and assuming voter approval and implementation of the Governor's Initiative, the Administration projects that the General Fund budget will be balanced in an ongoing manner for at least the next four fiscal years, which would represent the first time in over a decade that future spending is expected to stay within available revenues. See "CURRENT STATE BUDGET."

Even with this plan, risks to the budget remain. Potential cost increases associated with actions to reduce the federal deficit, federal government actions, court decisions, the pace of the economic recovery, an aging population, and rising health care and pension costs all threaten the ability of the state to achieve and maintain a balanced budget over the long term. In addition, the exact level of capital gains and income growth for top earners remains uncertain, which will have a major impact on personal income tax receipts. See "CURRENT STATE BUDGET — Budget Risks."

The 2012-13 budget package includes a backup plan – the 2012-13 Trigger Mechanism – totaling $6 billion, that would go into effect on January 1, 2013 if the Governor's Initiative is not approved by voters in November or if its new tax rates do not become operative. These trigger cuts would offset about 70 percent of the new revenues which are projected to be received if the tax rate provisions of the Governor's Initiative were to become effective. To balance the budget in an ongoing manner, the deep reductions enacted over the past two years must be maintained. Without additional revenues, deeper cuts will be required to balance the budget. See "CURRENT STATE BUDGET — Trigger Mechanisms If Governor's Initiative Not Approved or Not Operative."

Certain Information Related to this Official Statement

The descriptions herein of the Indentures, the Site Leases, the Facility Leases and other agreements relating to the Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Bonds are qualified in their entirety by the forms thereof and the information with respect thereto included in the aforesaid documents. See APPENDIX D for a summary of the rights and duties of the Board, the rights and remedies of the State Treasurer and the Holders upon an event of default, provisions relating to any amendment of the Indentures, the Site Leases and the Facility Leases and procedures for defeasance of the Bonds.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the state, the Board or the Participating Agencies since the date hereof.

All financial and other information presented in this Official Statement has been provided by various agencies within the state, including the Participating Agencies from their records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the state or the Participating Agencies. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

A wide variety of other information, including financial information, concerning the state, the Board and the Participating Agencies is available from publications and websites of the state and the Participating Agencies. No such information is a part of or incorporated into this Official Statement, except as expressly stated otherwise herein. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Additional Information

Questions regarding this Official Statement and the issuance of the Bonds may be addressed to the office of the Honorable Bill Lockyer, Treasurer of the State of California, Public Finance Division, P.O. Box 942809, Sacramento, California 94209-0001, Telephone (800) 900-3873.

THE PROJECTS AND THE LEASED PROPERTIES

The 2012D Projects

The 2012D Bonds are being issued by the Board to provide funds to, among other things, finance, on behalf of the Trustees, the costs of the construction of the 2012D Projects. The three (3) projects to be financed by the 2012D Bonds for the California State University are as follows:

California State University, Bakersfield

- Art Center and Satellite Plant Project

California Maritime Academy

- Physical Education Replacement Building

San Jose State University

- Spartan Complex Renovation

Together, these projects are referred to as the "2012D Projects." See APPENDIX B-1 for more detailed information concerning the 2012D Projects, the portion of the 2012D Bonds expected to be used to finance each 2012D Project and the estimated date of occupancy for each 2012D Project.

For each of the 2012D Projects being financed with proceeds of the 2012D Bonds, the Trustees will enter into a Site Lease with the Board and will lease to the Board the Site on which such 2012D Project will be located (each, a "2012D Site Lease"). Simultaneously with the execution of each 2012D Site Lease, the Trustees and the Board will enter into a Facility Lease (each, a "2012D Facility Lease") pursuant to which the Board will lease the related Facility (each, a "2012D Facility") to the Trustees, and the Trustees will agree to make Rental payments to the Board.

Construction has not commenced on the 2012D Projects being financed with the proceeds of the 2012D Bonds and interest on the 2012D Bonds is being capitalized to cover the period from the date of issuance of the 2012D Bonds to a date that is six months after the expected construction completion date for each 2012D Project. See "– Construction and Completion Risks for the 2012D Projects" below. The scheduled Base Rental payments due under the 2012D Facility Leases, together with capitalized interest on the 2012D Bonds, in the aggregate, are calculated to be sufficient to pay the principal of and interest on the 2012D Bonds.

The Base Rental for each Facility related to the 2012D Bonds will be established based on the expected amount of the costs of the related 2012D Project to be funded with proceeds of the 2012D Bonds. Pursuant to the 2012D Facility Leases, if a lesser amount of proceeds is spent on a 2012D Project than was originally expected, the Base Rental for the related Facility may be reduced in accordance with the terms of the related 2012D Facility Lease and the 2012D Indenture. In such event, and if conditions specified in the 2012D Indenture are met, then, without the consent of the Holders of the 2012D Bonds, the Base Rental on other Facilities related to the 2012D Bonds may be increased or a new project of the Trustees may be added and be financed with proceeds of the 2012D Bonds. See "TERMS OF THE 2012D BONDS—Potential Additional Projects and Covenant Regarding Base Rental Adjustments for 2012D Projects."

The following table includes a brief summary of the information relating to each 2012D Project that can be found in further detail in Appendix B-1.

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2012D PROJECTS TO BE CONSTRUCTED

Project	Estimated Construction Start Date	Estimated Occupancy Date	Estimated Project Costs Financed by the Bonds[(1)]
Art Center and Satellite Plant Project at California State University, Bakersfield	February 2013	August 2014	$17,156,722
Physical Education Replacement Building at California Maritime Academy	February 2013	August 2014	$32,685,000
Spartan Complex Renovation at San Jose State University	April 2013	January 2015	$51,479,000

[(1)] The estimated project costs shown above are the approximate expected costs of the indicated 2012D Project and are based on the most current cost estimates available to the Board. Such estimated project costs do not include capitalized interest amounts, construction reserve amounts, administrative fees and costs allocable to such 2012D Project, if any, payable from certain proceeds of the 2012D Bonds.

Construction and Completion Risks for the 2012D Projects

There are certain construction and completion risks for the 2012D Projects described below. Since the Series 2012E Leased Properties and the Series 2012F Leased Properties described in the following sections are already complete and occupied, Holders of 2012E Bonds and 2012F Bonds have no construction or completion risk.

None of the 2012D Projects will have commenced construction as of the date of delivery of the 2012D Bonds. Certain state administrative, contract and design approvals, typical to all state projects that are required to be obtained in order to commence construction have yet to be obtained for any of the 2012D Projects. All such approvals are expected to be obtained in accordance with the timeline for such 2012D Project. For information regarding the 2012D Projects and the status of the construction contracts, if any, see APPENDIX B-1.

During the respective construction periods, each of the 2012D Projects will be subject to all of the ordinary construction risks and possible delays applicable to similar projects. Such risks include, but are not limited to: (i) submitted construction bids being over budget thereby causing all bids to be rejected or delays in project construction, or both, due to the redesign and rebid of such 2012D Project or the need to obtain an appropriation by the State Legislature of additional funding; (ii) increased materials costs, labor costs or failure of contractors to perform within contract price, potentially resulting in insufficient funding of such 2012D Project; (iii) inclement weather affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (iv) natural disasters (including earthquake), operating risks or hazards or other unexpected conditions or events adversely affecting the progress of work; (v) contractor claims or nonperformance; (vi) work stoppages or slowdowns; (vii) failure of contractors to meet schedule terms; and (viii) the discovery of hazardous materials on the respective Site or other issues regarding compliance with applicable environmental standards, which can arise at any time during the construction of such 2012D Project.

Each 2012D Facility Lease provides that the obligation of the Trustees to make Base Rental payments with respect to the related 2012D Facility is dependent upon substantial completion of construction of such 2012D Project and delivery by the Board to the Trustees of possession of such 2012D Facility for its use and occupancy. Interest on the 2012D Bonds will be capitalized for six months beyond the scheduled construction completion date for each 2012D Project. If the Board cannot deliver possession of a 2012D Facility or any part thereof by the date to which interest has been capitalized for such 2012D Facility, Base Rental payments for such 2012D Facility will be proportionately abated until such time as the Board delivers possession. In such an event, amounts would be withdrawn from the Master Indenture Reserve Fund to the extent available to pay the principal of and interest on the 2012D Bonds when due. There can be no assurance that completion of the construction of any 2012D Project will not be delayed, preventing the Board from delivering possession of such 2012D Facility for use and occupancy by the date to which interest will be capitalized. **An abatement of Base Rental is not an event of default and no remedy is available under any 2012D Facility Lease to the Holders of the 2012D Bonds for nonpayment under such circumstances**. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Abatement of Rental."

The 2012E Project and 2012E Leased Properties

The 2012E Bonds are being issued to finance the cost of the design and construction of an approximately 67,000 gross square foot building to replace Warren Hall on the California State University East Bay Campus (the "2012E Project"). See APPENDIX B-1 for additional details regarding the 2012E Project.

The Trustees and the Board will enter into a Site Lease (the "2012E Site Lease"), pursuant to which the Trustees will lease to the Board two existing university buildings on the California State University East Bay Campus: the Student Services and Administration building, which is a four story, approximately 100,467 square foot building that was constructed in 2009, and the Valley Business and Technology Building, which is a four story, 67,872 square foot building that was constructed in 2006 (collectively, the "2012E Leased Properties"). Simultaneously with the execution of the 2012E Site Lease, the Trustees and the Board will enter into a Facility Lease (the "2012E Facility Lease"), pursuant to which the Board will lease the 2012E Leased Properties to the Trustees, and the Trustees will agree to make Rental payments to the Board. The scheduled Base Rental payments due under the 2012E Facility Lease are calculated to be sufficient to pay the principal of and interest on the 2012E Bonds.

Pursuant to Government Code Section 15817.1, the 2012E Leased Properties that are the subject of the 2012E Facility Lease are not required to be the same facility that will be financed or refinanced with proceeds of the 2012E Bonds. Proceeds of the 2012E Bonds will be expended to finance the 2012E Project, which is an entirely different facility from the 2012E Leased Properties. Neither the Board nor the Holders of 2012E Bonds will have any interest in or remedies with respect to the 2012E Project. All remedies under the 2012E Facility Lease for failure to make payments of 2012E Base Rental or comply with other provisions of the 2012E Facility Lease will apply only to the 2012E Leased Properties. For descriptions of the 2012E Project and the 2012E Leased Properties, respectively, see APPENDIX B-1.

Under the 2012E Facility Lease, the Board and the Trustees jointly, but not separately, reserve the right at any time to substitute another public facility or facilities and real property under the jurisdiction of the Trustees (the "2012E Substituted Property") for all or any portion of the 2012E Leased Properties without 2012E Bonds Bondholder consent. Such substitution is subject to certain provisions, including, but not limited to, the Trustees and the Board finding (and delivering a certificate of the Trustees and the Board to the State Treasurer setting forth such findings) that (i) the 2012E Substituted Property and any remaining portion of the 2012E Leased Properties have the same or greater annual fair rental value than the annual Base Rental payments for the 2012E Leased Properties remaining unpaid pursuant to the 2012E Facility Lease, and (ii) the Base Rental payments for the 2012E Leased Properties being made by the Trustees pursuant to the 2012E Facility Lease will not be reduced as a result of the proposed substitution. Additionally, the Trustees must certify to the Board and the State Treasurer that (A) the 2012E Substituted Property has (1) similar or greater utility to the Trustees in performing its essential governmental functions as does the portion of the 2012E Leased Properties being substituted and (2) a useful life which is equivalent to or greater than the period remaining from the time of such substitution until the last maturity of the 2012E Bonds, (B) it has transferred an appropriate interest in the 2012E Substituted Property (by amendment to the 2012E Site Lease or otherwise) so that the Board may lease such property to the Trustees, and (C) the 2012E Facility Lease has been amended to include the 2012E Substituted Property. Further, not less than fifteen (15) days prior to the date on which the 2012E Substituted Property is substituted pursuant to the 2012E Facility Lease, the Board shall deliver copies of the proposed amendments to the 2012E Site Lease and the 2012E Facility Lease to any rating agency then rating the 2012E Bonds. See APPENDIX D— "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012E FACILITY LEASE — Substitution."

The 2012F Leased Properties

The 2012F Bonds will be issued under and secured by the 2012F Indenture to provide funds which will be used, together with other lawfully available moneys, to (i) establish an irrevocable escrow to refund and defease all or any portion of the 2002A Bonds (such refunded maturities being referred to herein as the "Refunded 2002A Bonds") previously issued to finance the 2002A Project (defined below), and (ii) to pay certain of the costs of issuance of the 2012F Bonds. Depending on the pricing results of the 2012F Bonds, there may be Remaining 2002A Bonds which will be secured on a parity with the 2012F Bonds by Base Rental paid pursuant to the 2012F Facility Lease. The Remaining 2002A Bonds, if any, will be insured by a bond insurance policy originally issued in connection with the issuance of the 2002A Bonds by Assured Guaranty Corp. (as successor to Financial Security Assurance Inc.) (the "Remaining 2002A Bonds Bond Insurer").

The 2002A Bonds were originally issued to finance certain improvements to the Westwood Replacement Hospital and the Santa Monica Orthopedic Hospital (the "2002A Project"). The 2002A Project was not leased under the site lease and the facility lease that were entered into between the Board and The Regents when the 2002A Bonds were originally issued (respectively, the "Original 2002A Site Lease" and the "Original 2002A Facility Lease"). Pursuant to Government Code Section 15820.86, the properties that were the subject of the Original 2002A Site Lease and the Original 2002A Facility Lease and will be the subject to the 2012F Site Lease and the 2012F Facility Lease were not and are not required to be the same facilities that were financed or refinanced with the proceeds of the 2002A Bonds or the 2012F Bonds. The leased properties are known as the Doris Stein Research Center, the Fowler Museum, the Gonda Molecular Neuroscience Research Center, the MacDonald Medical Research Laboratory and the Southern Regional Library Phase 2 all of which are located on the University of California, Los Angeles campus (collectively, the "2012F Leased Properties"), as described further in Appendix B-2. The Holders of 2012F Bonds will have no interest in or remedies with respect to the 2002A Project, and all remedies under the 2012F Facility Lease for failure to make payments of Base Rental or comply with provisions of the 2012F Facility Lease will apply only to the 2012F Leased Properties. For descriptions of the 2012F Leased Properties, see APPENDIX B-2.

The Base Rental under the 2012F Facility Lease will be paid for the occupancy of the 2012F Leased Properties only, and the remedies under the 2012F Facility Lease apply only to the 2012F Leased Properties. Upon the issuance of the 2012F Bonds, the 2012F Facility Lease will provide for The Regents to make, subject to the beneficial use and occupancy or possession of the 2012F Leased Properties, Base Rental payments calculated to be sufficient in the aggregate to pay principal of, and interest on, the 2012F Bonds and the Remaining 2002A Bonds, if any. Following the issuance of the 2012F Bonds, the principal of and interest on the Refunded 2002A Bonds will be payable only from the escrow fund established with the proceeds of the 2012F Bonds and any other funds deposited into such escrow fund. "TERMS OF THE 2012F Bonds — Plan of Refunding for the 2012F Bonds."

Under the 2012F Facility Lease, the Board and The Regents jointly, but not separately, reserve the right at any time to substitute another public facility or facilities and real property under the jurisdiction of The Regents (the "2012F Substituted Property") for all or any portion of the 2012F Leased Properties with the prior written consent of the Remaining 2002A Bonds Bond Insurer, if applicable, but without 2012F Bondholder consent. Such substitution is subject to certain provisions, including, but not limited to, The Regents and the Board finding (and delivering a certificate of The Regents and the Board to the State Treasurer setting forth such findings) that (i) the 2012F Substituted Property and any remaining portion of the 2012F Leased Properties have the same or greater annual fair rental value than the annual Base Rental payments for the 2012F Leased Properties remaining unpaid pursuant to the 2012F Facility Lease, and (ii) the Base Rental payments for the 2012F Leased Property being made by The Regents pursuant to the 2012F Facility Lease will not be reduced as a result of the proposed substitution. Additionally, The Regents must certify to the Board and the State Treasurer that (A) the 2012F Substituted Property has (1) similar or greater utility to The Regents in performing its essential governmental functions as does the portion of the 2012F Leased Property being substituted and (2) equivalent or greater economic useful life than the period remaining from the time of such substitution until the last maturity of the Remaining 2002A Bonds, if any, the 2012F Bonds and any Additional Bonds, (B) it has transferred an appropriate interest in the 2012F Substituted Property (by amendment to the 2012F Site Lease or otherwise) to the Board so that the Board may lease such property to The Regents, and (C) the 2012F Facility Lease has been amended to include the 2012F Substituted Property. Further, The Regents must deliver copies of the proposed amendments to the 2012F Site Lease and the 2012F Facility Lease to any rating agency then rating the 2012F Bonds, the Remaining 2002A Bonds, if any, and any Additional Bonds. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012F FACILITY LEASE — Substitution and Release."

SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS

Bonds are Limited Obligations

Each Series of Bonds is separately issued and separately secured under the Indenture that pertains to such Series of Bonds. The 2012D Bonds are secured under the 2012D Indenture which pertains exclusively to such Series of Bonds. The 2012E Bonds are secured under the 2012E Indenture which pertains exclusively to such Series of Bonds. The 2012F Bonds are secured under the 2012F Indenture, which pertains exclusively to the 2012F Bonds and any Remaining 2002A Bonds. A Holder of the 2012D Bonds will have no claim on the revenues or funds securing any other series of bonds issued by the Board; a Holder of the 2012E Bonds will have no claim on the revenues or funds securing any other series of bonds issued by the Board; and a Holder of the 2012F Bonds will have no claim on the revenues or funds securing any other series of bonds (other than the Remaining 2002A Bonds, if any), except, in each case, to the limited extent described in " — Master Indenture Reserve Fund" below. Nothing within this Official Statement is intended to imply that there exists any cross-application or cross-collateralization, including, without limitation, any cross-defaults between the respective Indentures or any other indenture related to bonds issued by the Board.

The Bonds do not represent or constitute a debt of the state, any political subdivision thereof, the Board or any Participating Agency within the meaning of any constitutional or statutory limitation or a pledge of the faith and credit of the state or any political subdivision thereof.

The full faith and credit of the state is not pledged, and the General Fund of the state is not liable, for the payment of the principal of, redemption premium, if any, or interest on the Bonds, and no tax shall ever be levied or collected to pay the principal of, redemption premium, if any, or interest on the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Board or the state or any of its income or receipts except the Revenues and the related funds and accounts as provided in the Indenture for each Series. Neither the payment of the principal nor any part of the principal, nor any interest on the principal, nor redemption premium, if any, constitutes a debt, liability or general obligation of the state. Neither the Board nor any Participating Agency has the power at any time or in any manner to pledge the credit or taxing power of the state.

Pledges under the Indentures

Revenues. The Bonds of each Series are special obligations of the Board issued under and pursuant to the Indenture for such Series, payable solely from and secured by a first pledge of Revenues under the related Indenture which consist of: (i) all Base Rental payments received by the Board pursuant to each related Facility Lease for such Series; (ii) amounts deposited in the Interest Account established under the Indenture of such Series; and (iii) all other benefits, charges, income, proceeds, profits, receipts, rents, proceeds of insurance and revenues derived by the Board from the ownership, operation or use of the Facility or Facilities applicable to such Series, including interest or profits from the investment of money in any account or fund for such Series of Bonds (other than the Rebate Fund and the Master Indenture Reserve Fund) established pursuant to the related Indenture. Except as expressly permitted in the related Indenture, Revenues pledged to a Series shall not be used for any other purpose while any of the Bonds of such Series remain Outstanding.

Funds and Accounts. The Bonds of each Series are also secured by a first pledge of the amounts on deposit in the funds and accounts (except for the Rebate Fund) related to such Series of Bonds that are established by the Indenture for such Series.

Master Indenture Reserve Fund. The Bonds are also secured by an equal pledge on the Master Indenture Reserve Fund, along with all other Master Indenture Bonds and Incorporated Bonds (each as defined herein) Outstanding, for the payment of the principal of, redemption premium, if any, and interest on such Bonds in accordance with the related Indenture.

Rental Payments

Base Rental and Additional Rental. Pursuant to each Facility Lease, the related Participating Agency will lease from the Board the related Facility and will agree to make the Base Rental payments due thereunder. Under the Facility Leases, the Participating Agencies also will agree to make Additional Rental payments sufficient to pay administrative expenses of the Board and certain other costs, including premiums for insurance required thereunder. Each Participating Agency is responsible only for the Base Rental payments due under the Facility Lease executed by it and is not responsible for the Base Rental due from any other Participating Agency. The Base Rental applicable to a Series of

Bonds, if paid as scheduled, together with capitalized interest in the case of the 2012D Bonds, will be sufficient to pay the principal of and interest on such Series of Bonds, and, also, in the case of the 2012F Bonds, the Remaining 2002A Bonds, if any.

Budgeting for Rental Payments. Each Participating Agency will covenant in each Facility Lease executed by it to take such action as may be necessary to include, or cause to be included, in that portion of the budget of the state related to such Participating Agency, and, in the case of The Regents, in its annual budget sufficient funds to pay to the Board all Rental payments due under such Facility Lease, and to make or cause to be made the necessary annual allocations for such Rental payments. Additionally, The Regents will covenant to furnish to the Board and the State Treasurer copies of each annual budget of The Regents within 10 days after its adoption. The Indenture for each Series provides that, as soon as practical after the beginning of the state's fiscal year, the related Participating Agency, the Board and the State Treasurer shall coordinate and each shall determine whether each Participating Agency has made, or caused to be made, adequate provision in the annual budget of the state for such fiscal year for the payment of all Rental due under its Facility Lease in such fiscal year.

Under the State Constitution, money can be drawn from the State Treasury only through an appropriation made by law. An appropriation may be made in the Budget Act (as defined in Appendix A hereof) or in other legislation, each of which must be approved by the State Legislature and signed by the Governor. The annual Budget Act is subject to the power of the Governor to veto specific line items. Budget Act appropriations are generally limited to a one-year period of availability. See APPENDIX A — "THE STATE OF CALIFORNIA — THE BUDGET PROCESS" for additional information concerning the budget process.

Under the state's budget process, an appropriation for Rental payments will be included in the operating budget of each Participating Agency. Section 15849.2 of the Act requires any state agency that has leased or otherwise contracted with the Board for a public building financed by revenue bonds issued by the Board to allocate from the "first lawfully available funds" appropriated to such state agency in each fiscal year that amount necessary to pay in full all amounts which are anticipated to become due and payable during such fiscal year under such lease, including Rental payments. These provisions of the Act are applicable to each Participating Agency and the Rental payments due with respect to each Series of Bonds. The statutory provisions of the Act regarding priority with respect to allocation of funds have not been interpreted by any court.

Additionally, Section 15848 of the Act provides a continuing appropriation of moneys from the fund in the State Treasury from which each state agency derives its appropriation for support, when Rental payments are due during a period that the state is operating without funds appropriated by a budget or when the required rental payment amounts have not been included in the budget adopted by the state, provided that the Department of Finance certifies to the State Controller that sufficient funds are available for the support of such state agency for that portion of each facility that has been provided for its use and the facility, or portion thereof, is available for the use and occupancy of the state agency. Each Participating Agency will further covenant in each Facility Lease executed by it to take all actions necessary and appropriate to assist in implementing the procedure contained in Section 15848 of the Act for making Rental payments under each Facility Lease if the required Rental payments have not been included in the annual budget adopted by the state or if the state is operating without a budget. The statutory provisions of the Act regarding continuing appropriations have not been interpreted by any court.

The table below sets forth the following information for each of the Participating Agencies: (1) their respective fiscal year 2012-2013 total state operating budget (which is only one component of its respective total operating budget); (2) the approximate amount of base rental payments to be made under all currently existing facility leases securing lease revenue bonds issued by the Board and under the Facility Leases herein described, following the issuance of the Bonds; and (3) the aggregate amount of such base rental payments stated as an approximate percentage of its fiscal year 2012-2013 state operating budget.

	The Regents of the University of California	Trustees of the California State University
2012-2013 state operating budget *(Dollars in Millions)*	$2,378	$2,011
Aggregate annual base rental *(Dollars in Millions)*	$210.0*	$80.6*
Aggregate annual base rental as a percentage of 2012-2013 state operating budget	8.8%*	4.0%*

For more information regarding the state's budgetary process and finances, see APPENDIX A — "THE STATE OF CALIFORNIA — STATE FINANCES" and "— THE BUDGET PROCESS." For more information regarding The Regents' budgetary process and finances, see APPENDIX C. See also APPENDIX B-1 and APPENDIX B-2.

Abatement of Rental

The Rental payments due with respect to a Facility shall be abated proportionately during any period in which (i) by reason of any damage, destruction, partial condemnation or title defect, there is substantial interference with the use and occupancy of such Facility or any portion thereof, or (ii) in the case of a 2012D Facility, in the event that the Board shall not have delivered possession of such 2012D Facility by the date specified in the related 2012D Facility Lease. See "THE PROJECTS AND THE LEASED PROPERTIES — Construction and Completion Risks for the 2012D Projects," and APPENDIX B-1 — "THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES — The California State University and The 2012D Projects" for the projected date of beneficial use and occupancy for the 2012D Facilities.

In the event of abatement of Rental payments due to damage, destruction, partial condemnation, title defect or the nondelivery of a 2012D Facility, only Rental payments with respect to the portion of a Facility that is damaged, destroyed, condemned, subject to title defect or with respect to a 2012D Facility, not delivered, will be abated. Rental payments securing the 2012F Bonds shall be abated proportionately and equally and ratably with the Rental payments securing the Remaining 2002A Bonds, if any. Such abatement shall continue from the period commencing with such damage, destruction, partial condemnation, title defect or nondelivery with respect to a 2012D Facility and ending with respect to damage, destruction, partial condemnation and title defect when use and occupancy is restored and with respect to nondelivery when a 2012D Facility, or portion thereof, is delivered to the Trustees for use and occupancy.

Each Facility Lease provides that if less than the entire Facility is taken by eminent domain proceedings or sold to a governmental entity threatening to exercise the power of eminent domain and the remainder not taken by eminent domain or sold is usable for purposes substantially similar to those for which it was constructed, then the Facility Lease shall continue in full force and effect as to the remainder of the Facility and (i) if the portion taken is replaced by a facility of equal or greater utility as described in the related Facility Lease, the State Treasurer shall disburse the proceeds of such eminent domain proceedings to the party that incurred the expense of making such replacement and there shall not be any abatement of Rental payments under the Facility Lease; or (ii) failing such replacement, there shall be a partial abatement of Rental payments under the Facility Lease and the State Treasurer shall apply such proceeds to redeem or pay the applicable Series of Bonds as described below. If less than the entire Facility shall have been so taken by eminent domain proceedings and the remainder is not usable for purposes substantially similar to the purpose for which it was constructed, or if the entire Facility shall have been so taken, then the term of the Facility Lease shall cease as of the day that possession shall be so taken; and the State Treasurer shall apply the proceeds of the eminent domain proceedings, together with any other money then available to it for such purpose, for the payment of the principal amount of the Series of Bonds applicable to such Facility together with the interest thereon, either by redemption or at maturity. If the eminent domain proceeds, together with any other money then lawfully available to the State Treasurer for such purpose, are insufficient to redeem or pay the principal amount of the Series of Bonds at maturity and the interest thereon, then the State Treasurer shall apply such proceeds in accordance with the provisions of the related Indenture to redeem or pay a portion of such Series of Bonds.

* Preliminary, subject to change.

The remaining Base Rental payments due following an abatement, if any, together with moneys from insurance (in the event of any insured loss due to damage or destruction), including rental interruption insurance, condemnation proceeds and moneys available in the Master Indenture Reserve Fund may be insufficient to make all payments of principal of and interest on the related Series of Bonds during the period that a Facility is being replaced, repaired or reconstructed or is not delivered. **In such circumstances, then all or a portion of such payments of principal and interest on the Series of Bonds with respect to which an abatement has occurred may not be made. An abatement is not an event of default and no remedy is available under any Facility Lease or the Indentures to the Holders of the Bonds for nonpayment under such circumstances**. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012D FACILITY LEASES — Rental," "— THE 2012E FACILITY LEASE — Rental" and "— THE 2012F FACILITY LEASE — Rental."

Insurance Proceeds

Property Insurance. Each Facility Lease requires the applicable Participating Agency, and the related Indenture requires the Board, to maintain or cause to be maintained, (i) not later than the start of construction of a 2012D Project, and (ii) throughout the term of the 2012E Facility Lease and the 2012F Facility Lease, (A) fire, lightning and extended coverage insurance on the related Facility, which with respect to a 2012D Facility, may initially be in the form of a builder's risk policy providing coverage in an amount not less than the construction costs expended for the related 2012D Project and, if no builder's risk policy is in effect, shall be in the form of a commercial property policy in an amount equal to one hundred percent (100%) of the then current replacement cost of the related Facility, excluding the replacement cost of the unimproved real property constituting the Sites (except that such insurance may be subject to a deductible clause of not to exceed $2.5 million, with respect to a 2012D Facility and the 2012E Leased Properties, and, with respect to the 2012F Leased Properties, an amount equal to the self-insurance coverage which is maintained and fully funded by The Regents (such self-insurance coverage is currently in the amount of $7.5 million), for any one loss), and (B) earthquake insurance if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost on any structure comprising part of the related Facility, in an amount equal to the full insurable value of such structure or the principal amount of the Outstanding Series of Bonds (and any Related Series of Bonds under the 2012D Indenture or Additional Bonds under the 2012E Indenture or the 2012F Indenture), whichever is less (except that such insurance may be subject to a deductible clause not to exceed for any one loss $2.5 million with respect to a 2012D Facility or the 2012E Leased Properties, and, with respect to the 2012F Leased Properties, in the self-insurance coverage maintained by The Regents described above).

Neither the Board nor any Participating Agency expects to maintain earthquake insurance on any 2012D Facility or on any of the 2012E Leased Properties or the 2012F Leased Properties. The Board is unable to predict when or if such insurance will be available on the open market from reputable insurance companies at a reasonable cost. See Appendices B-1 and B-2 for a general discussion of seismicity and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012D FACILITY LEASES — Insurance," "— THE 2012E FACILITY LEASE — Insurance" and "— THE 2012F FACILITY LEASE — Insurance."

Use of Insurance Proceeds. In the event of any damage to or destruction of a Facility caused by the perils covered by the property insurance required under the related Indenture and each related Facility Lease or, in the event of a loss of use of all or a portion of a 2012D Facility or the 2012E Leased Properties due to a title defect for which the Board or the applicable Participating Agency has obtained any title insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem outstanding Bonds of the applicable Series (and any Related Series of Bonds under the 2012D Indenture or Additional Bonds under the 2012E Indenture or the 2012F Indenture), to the extent possible and in accordance with the provisions of the related Indenture, but only if the Base Rental payments due after such redemption together with the other Revenues to be received under the related Indenture would be sufficient to retire such Bonds (and any Related Series of Bonds under the 2012D Indenture or Additional Bonds under the 2012E Indenture or the 2012F Indenture) then outstanding in accordance with their terms, or (ii) to repair, reconstruct or replace such Facility to the end that such Facility shall be restored to at least the same condition that it was in prior to such damage, destruction or loss of use. If the Board so elects to repair, reconstruct, or replace such Facility, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the related Indenture. If earthquake insurance is not acquired, there can be no assurance that the state would repair or replace any such Facility damaged or destroyed by earthquake. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL

DOCUMENTS — THE 2012D FACILITY LEASES — Insurance," "— THE 2012E FACILITY LEASE — Insurance" and "— THE 2012F FACILITY LEASE — Insurance."

Rental Interruption Insurance. Each Facility Lease requires the applicable Participating Agency, and the related Indenture requires the Board, to maintain or cause to be maintained, with respect to a 2012D Facility, from and after the later of (i) the date any portion of a 2012D Facility is available for use and occupancy, and (ii) the last date on which the related Base Rental is fully paid from capitalized interest on the 2012D Bonds, and, with respect to the 2012E Leased Properties and the 2012F Leased Properties, throughout the term of the 2012E Facility Lease and the 2012F Facility Lease, rental interruption insurance or use and occupancy insurance to cover loss, total or partial, of the use of the related Facility as a result of any of those certain hazards covered by the fire, lightning and extended coverage insurance and by any earthquake insurance (only if acquired) required by the Indenture and such Facility Lease in an amount to cover not less than the succeeding two consecutive years' Base Rental under such Facility Lease.

In the event any Facility is substantially damaged by (i) an event not covered by property insurance, or (ii) by earthquake, if earthquake insurance is not acquired, the applicable Participating Agency's obligation to make Rental payments would be proportionately abated to the extent of the lost use of the Facility, and there would be no rental interruption insurance proceeds with which to make Rental payments.

Use of Rental Interruption Insurance Proceeds. Any rental interruption or use and occupancy insurance policy shall be in a form satisfactory to the Board and shall contain a loss payable clause making any loss thereunder payable to the State Treasurer. The Indenture for each Series and each related Facility Lease require that the State Treasurer use any proceeds of such insurance to reimburse the applicable Participating Agency for any Rental theretofor paid by such Participating Agency under such Facility Lease for the period of time during which the payment of Rental under such Facility Lease is abated, and that any proceeds of such insurance not so used shall be applied, as provided in the related Indenture, to the extent required, to pay annual debt service on the related Series of Bonds or to pay administrative costs of the Board in connection with the related Facility. See "Abatement of Rental" above, and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012D FACILITY LEASES — Insurance," "— THE 2012E FACILITY LEASE — Insurance" and "— THE 2012F FACILITY LEASE — Insurance."

Master Indenture Reserve Fund

The Bonds are secured by an equal pledge on the Master Indenture Reserve Fund, along with all other Master Indenture Bonds and Incorporated Bonds (each defined below) Outstanding, which will be drawn upon in the event that Revenues available under the applicable Indenture are not sufficient to pay the principal of and interest on such Bonds when due.

Pursuant to the Master Indenture, separate series of lease revenue bonds issued by the Board under the Master Indenture (each such series of bonds being referred to herein as a "Series of Master Indenture Bonds" or the "Master Indenture Bonds") and certain Incorporated Bonds (as defined below) are secured by a common, pooled reserve fund established pursuant to the Master Indenture, but otherwise each is separately secured by the revenues related to each respective Series of Master Indenture Bonds or Incorporated Bonds. The Master Indenture allows the Board to incorporate issues of its bonds not issued under the Master Indenture (each such series of bonds being referred to herein as a "Series of Incorporated Bonds" or the "Incorporated Bonds") so that each Series of Incorporated Bonds will be secured by the Master Indenture Reserve Fund as and to the same extent as all bonds issued under the Master Indenture. The 2012D Bonds constitute a Series of Master Indenture Bonds, and the 2012E Bonds and the 2012F Bonds each constitute a Series of Incorporated Bonds under the Master Indenture. The Board at all times reserves the right to determine whether it is in the best interests of the state for any particular series of bonds to be secured under the Master Indenture Reserve Fund or separately. The Master Indenture Reserve Fund is and will be held in trust separate and apart from any other fund or account established under the Master Indenture.

Under the Master Indenture, moneys in the Master Indenture Reserve Fund may only be used (i) to replenish first any interest account and second any principal account for any Series of Master Indenture Bonds secured under the Master Indenture or any Series of Incorporated Bonds in the event of any deficiency at any time in such interest or principal account or (ii) to pay principal of, redemption premium, if any, or interest on any Series of Master Indenture Bonds or any Series of Incorporated Bonds if no other moneys are lawfully available therefor (including upon acceleration of any Series of Master Indenture Bonds or any Series of Incorporated Bonds). Pursuant to the Master Indenture, if aggregate claims against the Master Indenture Reserve Fund payable on any day as described in the previous sentence exceed the amount then on deposit therein, then such amount in the Master Indenture Reserve Fund will be apportioned among each Series of Master Indenture Bonds and Incorporated Bonds making such claim in the proportion that the amount then on deposit in the Master Indenture Reserve Fund bears to the aggregate amount of all such claims for all such Series of Master Indenture Bonds and Incorporated Bonds. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Reserve Fund."

A payment default on any Series of Master Indenture Bonds or any Series of Incorporated Bonds will not cause a default on any other Series of Master Indenture Bonds or any other Series of Incorporated Bonds. A default for reasons other than nonpayment on any Series of Master Indenture Bonds will constitute a default on all Master Indenture Bonds. A default for reasons other than nonpayment on any Series of Incorporated Bonds could be a default on any Series of Master Indenture Bonds, or any other Series of Incorporated Bonds. The Master Indenture Reserve Fund could be drawn upon and depleted without any of the amounts on deposit in the Master Indenture Reserve Fund being applied to pay the Bonds. For example, a payment default (which may or may not result in an acceleration) on any Series of Master Indenture Bonds or Series of Incorporated Bonds secured by the Master Indenture Reserve Fund could result in a partial or complete depletion of the amounts then on deposit in the Master Indenture Reserve Fund. Although the Board has covenanted in the Master Indenture to use its best efforts, upon written notification, to take such action as may be necessary or appropriate in order to increase the amount on deposit in the Master Indenture Reserve Fund to the Master Indenture Reserve Fund Requirement as described below, the Master Indenture provides that the State Legislature is not required to make any appropriation for this purpose. Therefore, if no appropriation or other funds are available to replenish the Master Indenture Reserve Fund after a withdrawal, there would be fewer funds on deposit therein available to pay the Holders. **No assurance can be given that the Board will be successful in its efforts to replenish the Master Indenture Reserve Fund to the Master Indenture Reserve Fund Requirement or that at any time amounts in the Master Indenture Reserve Fund will be sufficient to pay the principal of and interest on the Bonds when due.**

The Master Indenture Reserve Fund Requirement is defined in the Master Indenture as an amount equal to the sum of:

(A) the greatest of:

(i) the sum of the largest single payments of Semi-Annual Debt Service relating to the two facilities covered by the Master Indenture Reserve Fund with the largest single payment of Semi-Annual Debt Service remaining;

(ii) the sum of the largest single remaining payments of Semi-Annual Debt Service attributable to all facilities covered by the Master Indenture Reserve Fund situated within that Locality in the state for which such sum is the largest;

(iii) ten percent (10%) of the Maximum Aggregate Semi-Annual Debt Service; or

(iv) the largest payment(s) of Semi-Annual Debt Service remaining for any interest payment date(s) for bonds secured by the Master Indenture Reserve Fund coming due in any calendar month, plus

(B) an amount not to exceed one percent (1%) of the amount calculated under part (A) above, as determined by the State Treasurer at the time of issuance of any Series of Master Indenture Bonds.

Under the Master Indenture, the State Treasurer shall, on or before December 1 of each year (or whenever any moneys are withdrawn from the Master Indenture Reserve Fund or any Master Indenture Bonds or Incorporated Bonds have been defeased), calculate whether the balance in the Master Indenture Reserve Fund is equal to the Master Indenture Reserve Fund Requirement. If there is a shortfall, the State Treasurer shall promptly provide a written notification to the Board, and the Board will use its best efforts to take such actions as may be necessary or appropriate in order to increase the amount on deposit in the Master Indenture Reserve Fund not later than December 1 in the year following the year of receipt of such written notification either through the deposit of a Reserve Fund Credit Facility or a portion of the proceeds of an additional series of bonds or from the application of other lawfully available funds of the Board, or any combination of the foregoing. If on any calculation date there are excess funds in the Master Indenture Reserve Fund, the Board in its discretion may (but is not required to) allocate such surplus to the revenue fund or construction fund for one or more Series of Master Indenture Bonds or any fund or account for any Series of

Incorporated Bonds or otherwise disburse such moneys as directed by the Board, including, if agreed to by the Board, to reimburse any department of the state whose bonds are covered by the Master Indenture Reserve Fund for any rentals paid under any lease for a period while such lease was abated and for which no other money (including insurance proceeds) is available. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Reserve Fund."

As of August 1, 2012, the Master Indenture Reserve Fund Requirement (based on test (A)(iv) above) was $164,546,621.52 and the Master Indenture Reserve Fund balance was $164,546,621.52. As of August 1, 2012, the aggregate principal amount of lease revenue bonds secured by the Master Indenture Reserve Fund was $10,028,535,000. After the issuance of the Bonds, the Master Indenture Reserve Fund Requirement (based on test (A)(iv) above) will be $164,546,621.52* and the aggregate principal amount of outstanding lease revenue bonds secured by the Master Indenture Reserve Fund will be $10,182,470,000* (including the Bonds).

The following table sets forth the Board's outstanding lease revenue bonds secured by the Master Indenture Reserve Fund, as of August 1, 2012:

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA
OUTSTANDING LEASE REVENUE BONDS SECURED BY THE
MASTER INDENTURE RESERVE FUND[(1)]
as of August 1, 2012

California Community Colleges[(2)]	$342,945,000
Department of Corrections and Rehabilitation[(3)]	2,845,745,000
The Regents of the University of California[(4)]	2,144,220,000
The Trustees of the California State University[(5)]	708,145,000
Various Other Leased Projects	3,987,480,000
Total	$10,028,535,000

(1) As of August 1, 2012, the Master Indenture Reserve Fund secured 108 series of bonds, the Master Indenture Reserve Fund Requirement under the provisions of the Master Indenture was $164,546,621.52 and the Master Indenture Reserve balance was $164,546,621.52.
(2) Includes one series of Incorporated Bonds totaling $19,270,000.
(3) Includes five series of Incorporated Bonds totaling $352,235,000.
(4) Includes seven series of Incorporated Bonds totaling $266,320,000.
(5) Includes one series of Incorporated Bonds totaling $61,475,000.
Source: State Treasurer's Office.

In lieu of making a Master Indenture Reserve Fund deposit or replenishment, or in replacement of moneys then on deposit in the Master Indenture Reserve Fund, the Board may deliver to the State Treasurer a letter of credit, insurance policy or surety bond or a combination thereof (as described in the Master Indenture) securing an amount (together with moneys and Permitted Investments on deposit in the Master Indenture Reserve Fund) equal to the Master Indenture Reserve Fund Requirement. Currently, the Master Indenture Reserve Fund is invested in Permitted Investments and not any letters of credit, insurance policies or surety bonds. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Reserve Fund."

Remedies Upon Default

If a Participating Agency defaults under a Facility Lease, the Board may enforce its remedies thereunder. In general, remedies under each Facility Lease include the right (i) to maintain such Facility Lease in full force and effect and receive all rent from the Participating Agency as it becomes due or (ii) to terminate such Facility Lease and the Participating Agency's right of possession to the related Facility and to re-let the Facility and recover damages recoverable at law as a result of the Participating Agency's default. Each Indenture provides that any Holder may by legal action compel the Board to carry out its duties under the Act and such Indenture, including maintaining and enforcing its rights under each of the Facility Leases. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Other Remedies of Holders," "—THE 2012E INDENTURE — Other Remedies of Holders" and "—THE 2012F INDENTURE — Other Remedies of Holders."

* Preliminary, subject to change.

While each Facility Lease provides that the related Facility may be re-let following a default, achieving such a remedy may not be practical due to the lack of a replacement lessee, the specialized nature, in some cases, of the Facility to be re-let, or other reasons. For more information regarding the Facilities, see APPENDIX B-1 and APPENDIX B-2.

Although acceleration is a remedy provided in each Indenture, the Base Rental payable pursuant to the Facility Leases may not be accelerated. Therefore, the circumstances under which the State Treasurer might declare the principal of and accrued interest on a Series of Bonds due and payable immediately are limited. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE— Acceleration of Maturities," " — THE 2012E INDENTURE — Acceleration of Maturities," " — THE 2012F INDENTURE — Acceleration of Maturities," " — THE 2012D FACILITY LEASES — Breach," " — THE 2012E FACILITY LEASE — Breach" and " — THE 2012F FACILITY LEASE — Breach."

TERMS OF THE 2012D BONDS

General

The 2012D Bonds are being issued by the Board for the benefit of the Trustees to provide funds (i) to pay the costs of the construction of the 2012D Projects, including construction reserves, (ii) to pay capitalized interest on the 2012D Bonds, and (iii) to pay the costs of issuance of the 2012D Bonds. See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012D Projects," " — Estimated Sources and Uses of Funds" below and APPENDIX B-1.

Redemption Provisions of 2012D Bonds*

Optional Redemption. The 2012D Bonds maturing on or before September 1, 20__ are not subject to optional redemption prior to their maturity dates. The 2012D Bonds maturing on and after September 1, 20__ are subject to redemption prior to their respective maturity dates, at the option of the Board, from any available funds, in whole or in part on any date on and after September 1, 20__, at the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Extraordinary Redemption. The 2012D Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Board, on any date, in whole or in part, from proceeds of insurance or eminent domain proceedings received in connection with the 2012D Facility, at the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Insurance Proceeds" and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE ONE HUNDRED ELEVENTH SUPPLEMENTAL INDENTURE — Insurance" and "THE 2012D FACILITY LEASES — Eminent Domain."

Mandatory Sinking Account Redemption. The 2012D Bonds maturing on September 1, 20__ (the "2012D Term Bonds") are subject to redemption prior to their stated maturity date, in part, at the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, and shall be paid at maturity from mandatory sinking account payments in the amounts and on the dates set forth in the following table:

2012D Term Bonds Maturing September 1, 20__

Mandatory Sinking Account Payment Dates (September 1)	Principal Amount Redeemed
†	

† Maturity Date.

* Preliminary, subject to change.

In the event of optional redemption of less than all of the 2012D Term Bonds, mandatory sinking account payments for such 2012D Term Bonds are to be reduced at the direction of the Board; provided, however, that the Board shall first have received an Opinion of Counsel stating that partial redemption of such 2012D Term Bonds and the method of reduction directed by the Board is legally permitted. In the absence of such direction with respect to an optional redemption, and, in the case of a partial extraordinary redemption of the 2012D Term Bonds the mandatory sinking account payments for such 2012D Term Bonds will be reduced ratably.

Selection of 2012D Bonds for Redemption. If less than all of the 2012D Bonds are to be redeemed at any one time from the proceeds of insurance or eminent domain proceedings, the State Treasurer shall select such 2012D Bonds to be redeemed from each maturity on a proportionate basis; provided that within each maturity such 2012D Bonds shall be selected by lot. If less than all Outstanding Bonds are to be redeemed at any one time, other than from the proceeds of insurance or eminent domain proceedings, the State Treasurer shall select such 2012D Bonds to be redeemed from each maturity at his discretion; provided that within each maturity such 2012D Bonds shall be selected by lot.

Notice of Redemption of 2012D Bonds. So long as DTC is acting as securities depository for the 2012D Bonds, notice of redemption will be given by sending copies of such notice to DTC (and not to the Beneficial Owners of the 2012D Bonds designated for redemption) not less than 30 nor more than 60 days before the redemption date. Failure by the State Treasurer to give notice pursuant to the 2012D Indenture to any one or more of the information services or securities depositories who are not Holders, including to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access portal, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for redemption. The 2012D Indenture provides that if notice of redemption has been duly given and money for payment of the redemption price of the 2012D Bonds called for redemption is held by the State Treasurer, then on the date fixed for redemption designated in such notice, the 2012D Bonds so called for redemption will become due and payable, and from and after the date fixed for redemption, interest on the 2012D Bonds so called for redemption will cease to accrue, and the holders of such 2012D Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. See APPENDIX F concerning DTC's redemption procedures.

Purchase of 2012D Term Bonds in Lieu of Redemption. The 2012D Indenture provides that, at any time prior to giving notice of mandatory sinking account redemption of any 2012D Term Bonds, the State Treasurer may apply moneys on deposit in the sinking account relating to such 2012D Term Bonds to the purchase of such 2012D Term Bonds at a public or private sale, as and when and at such prices as shall be determined by the State Treasurer, except that such purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such 2012D Term Bonds upon redemption by application of such mandatory sinking account payments, as described above. If, during the twelve-month period immediately preceding each mandatory sinking account payment date, the State Treasurer has purchased such 2012D Term Bonds with moneys in such sinking account, such 2012D Term Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce the next succeeding mandatory sinking account payment, as applicable.

Potential Additional Projects and Covenant Regarding Base Rental Adjustments for 2012D Projects

The Base Rental payments for each 2012D Facility are based on the expected amount of proceeds of the 2012D Bonds to be expended on the related 2012D Project. If at any time the Board determines that a lesser amount of proceeds of the 2012D Bonds will be spent on a 2012D Project (the "Cost Reduction"), the Base Rental payments for the related 2012D Facility may be reduced in accordance with the terms of the related 2012D Facility Lease and the 2012D Indenture. In connection with, and as a precondition to, any such reduction, the Board covenants to do one or more of the following, provided that there shall first be delivered to the Board and the State Treasurer an Opinion of Counsel to the effect that the option or options selected by the Board pursuant to this paragraph are permitted under the terms of the 2012D Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2012D Bonds: (i) apply excess proceeds related to the Cost Reduction to effect an optional redemption of 2012D Bonds as described in the 2012D Indenture; (ii) apply excess proceeds related to the Cost Reduction to effect a defeasance of 2012D Bonds pursuant to the 2012D Indenture; (iii) increase and/or decrease the annual Base Rental payments due under one or more of the 2012D Facility Leases, in accordance with applicable law; or (iv) add one or more new projects of the Trustees to be financed with the proceeds of the 2012D Bonds made available as a result of the Cost Reduction upon satisfaction of the requirements described in the 2012D Indenture.

Any adjustment to the Base Rental for a 2012D Facility related to the actions described in (i), (ii), (iii) and (iv) above may be made only if prior to such adjustment taking effect, the Board shall have satisfied the requirements therefor set forth in the 2012D Indenture. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE ONE HUNDRED ELEVENTH SUPPLEMENTAL INDENTURE — Adjustment of Base Rental Payments for Projects." Under the 2012D Indenture, the Board covenants and agrees that, as a condition to selecting any of the options (i) through (iv) above, the Base Rental payments payable under the 2012D Facility Leases shall at all times, together with amounts on deposit in the Series 2012D Capitalized Interest Account, be sufficient to pay the principal of and interest on the 2012D Bonds when due.

So long as the applicable provisions of the 2012D Indenture have been satisfied, any adjustment of the Base Rental payments due under a 2012D Facility Lease relating to a 2012D Project or the addition of a project may be made without the consent of the Holders of any the 2012D Bonds and shall be deemed not to result in any material impairment of the security given or intended to be given to the Holders of the 2012D Bonds.

Additional Bonds

The Board may issue one or more Related Series of Bonds under the Master Indenture secured on parity with the 2012D Bonds for the purposes of (i) financing or refinancing the completion of and/or acquisition, installation and construction of additions, betterments, extensions or improvements to any 2012D Facility, including payment of all costs incidental to or connected with such financing, (ii) refunding any Outstanding 2012D Bonds under the 2012D Indenture, including payment of all costs incidental to or connected with such refunding and (iii) making deposits into the Master Indenture Reserve Fund. In connection with the issuance of a Related Series of Bonds, the 2012D Facility Leases would be amended to provide for Base Rental thereunder sufficient, in both time and amount, to pay when due the annual principal of and interest on the 2012D Bonds and any such Related Series of Bonds. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE MASTER INDENTURE — Additional Bonds."

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Annual Fiscal Year Debt Service Requirements

Set forth below are the principal, interest and total debt service requirements for the 2012D Bonds, assuming no redemptions other than scheduled mandatory sinking account redemptions:

Payment Date	***2012D Bonds Principal***	***2012D Bonds Interest***	***Total 2012D Bonds Debt Service***	***Annual Fiscal Year Debt Service***

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the 2012D Bonds are expected to be applied as set forth below:

Estimated Sources
Principal Amount of 2012D Bonds
[*Plus*/*Less*] Net Original Issue [Premium/Discount]
Total Estimated Sources

Estimated Uses
Project Account
Capitalized Interest [(1)]
Costs of Issuance [(2)]
Underwriters' Discount
Total Estimated Uses

[(1)] *Funded to pay interest on the 2012D Bonds to the date which is six months after the expected construction completion date for the 2012D Projects.*
[(2)] *Includes the State Treasurer's fees for serving as trustee, legal and rating agencies' fees, and other costs of issuance, including Board administration fees.*

TERMS OF THE 2012E BONDS

General

The 2012E Bonds will be issued under and secured by the 2012E Indenture for the benefit of the Trustees to provide funds (i) to finance the costs of the design and construction of the 2012E Project, and (ii) to pay the costs of issuance of the 2012E Bonds. See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012E Project and 2012E Leased Properties," " — Estimated Sources and Uses of Funds" below and APPENDIX B-1.

The 2012E Leased Properties, not the 2012E Project, are being leased pursuant to the 2012E Facility Lease. Neither the Board nor the Holders of 2012E Bonds will have any interest in or have the rights to exercise any remedies with respect to the 2012E Project. All remedies under the 2012E Facility Lease for failure to make Rental payments or comply with the provisions of the 2012E Facility Lease apply only to the 2012E Leased Properties. For a description of the 2012E Leased Properties, see "THE PROJECTS AND THE LEASED PROPERTIES — The 2012E Project and the 2012E Leased Properties" and APPENDIX B-1 — "THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES — The California State University, The 2012E Leased Properties and the 2012E Project."

Redemption Provisions of 2012E Bonds*

Optional Redemption. The 2012E Bonds maturing on or before September 1, 20__ are not subject to optional redemption prior to their maturity dates. The 2012E Bonds maturing on and after September 1, 20__ are subject to redemption prior to their respective maturity dates, at the option of the Board, from any available funds, in whole or in part on any date on and after September 1, 20__, at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

Extraordinary Redemption. The 2012E Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Board, on any date, in whole or in part, from proceeds of insurance or eminent domain proceedings received in connection with any of the 2012E Leased Properties, at the principal amount of the 2012E Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Insurance Proceeds" and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012E INDENTURE — Insurance" and "THE 2012E FACILITY LEASE — Eminent Domain."

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* Preliminary, subject to change.

Mandatory Sinking Account Redemption. The 2012E Bonds maturing on September 1, 20__ (the "2012E 20__ Term Bonds") are subject to redemption prior to their stated maturity date, in part, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption, without premium, and shall be paid at maturity from mandatory sinking account payments in the amounts and on the dates set forth in the following table:

2012E 20__ Term Bonds Maturing September 1, 20__

Mandatory Sinking Account Payment Dates (September 1)	Principal Amount Redeemed
†	

† Maturity Date.

In the event of optional redemption of less than all of the 2012E Term Bonds of a maturity, mandatory sinking account payments for such 2012E Term Bonds are to be reduced at the direction of the Board; provided, however, that the Board shall first have received an Opinion of Counsel stating that partial redemption of such 2012E Term Bonds and the method of reduction directed by the Board is legally permitted. In the absence of such direction with respect to an optional redemption, and, in the case of a partial extraordinary redemption of the 2012E Term Bonds of a maturity, the mandatory sinking account payments for such 2012E Term Bonds will be reduced ratably.

Selection of 2012E Bonds for Redemption. If less than all of the 2012E Bonds are to be redeemed at any one time from the proceeds of insurance or eminent domain proceedings, the State Treasurer shall select such 2012E Bonds to be redeemed from each maturity on a proportionate basis; provided that within each maturity such 2012E Bonds shall be selected by lot. If less than all Outstanding Bonds are to be redeemed at any one time, other than from the proceeds of insurance or eminent domain proceedings, the State Treasurer shall select such 2012E Bonds to be redeemed from each maturity at his discretion; provided that within each maturity such 2012E Bonds shall be selected by lot.

Notice of Redemption of 2012E Bonds. So long as DTC is acting as securities depository for the 2012E Bonds, notice of redemption will be given by sending copies of such notice to DTC (and not to the Beneficial Owners of the 2012E Bonds designated for redemption) not less than 30 nor more than 60 days before the redemption date. Failure by the State Treasurer to give notice pursuant to the 2012E Indenture to any one or more of the information services or securities depositories who are not Holders, including to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access portal, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for redemption. The 2012E Indenture provides that if notice of redemption has been duly given and money for payment of the redemption price of the 2012E Bonds called for redemption is held by the State Treasurer, then on the date fixed for redemption designated in such notice the 2012E Bonds so called for redemption will become due and payable, and from and after the date fixed for redemption, interest on the 2012E Bonds so called for redemption will cease to accrue, and the Holders of such 2012E Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. See APPENDIX F concerning DTC's redemption procedures.

Purchase of 2012E Term Bonds in Lieu of Redemption. The 2012E Indenture provides that, at any time prior to giving notice of mandatory sinking account redemption of any 2012E Term Bonds, the State Treasurer may apply moneys on deposit in the sinking account relating to such 2012E Term Bonds to the purchase of such 2012E Term Bonds at a public or private sale, as and when and at such prices as shall be determined by the State Treasurer, except that such purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such 2012E Term Bonds upon redemption by application of such mandatory sinking account payments, as described above. If, during the twelve-month period immediately preceding each mandatory sinking account payment date, the State Treasurer has purchased such 2012E Term Bonds with moneys in such sinking account, such 2012E Term Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce the next succeeding mandatory sinking account payment, as applicable.

Additional Bonds

The Board may issue one or more series of Additional Bonds under the 2012E Indenture secured on parity with the 2012E Bonds for the purposes of (i) financing or refinancing the design and/or construction of the 2012E Project, (ii) refunding any Outstanding 2012E Bonds under the 2012E Indenture, including payment of all costs incidental to or connected with such refunding, (iii) payment of all costs incidental to or connected with any Additional Bonds issued under (i) or (ii) above, and (iv) making deposits into the Master Indenture Reserve Fund or a separate reserve account securing the Additional Bonds. In connection with the issuance of any such Additional Bonds, the 2012E Facility Lease would be amended to provide for Base Rental thereunder sufficient, in both time and amount, to pay when due the annual principal of and interest on the 2012E Bonds and any such Series of Additional Bonds. See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012E Project and the 2012E Leased Properties," APPENDIX B-1 and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012E INDENTURE — Additional Bonds."

Annual Fiscal Year Debt Service Requirements

Set forth below are the principal, interest and total debt service requirements for the 2012E Bonds, assuming no redemptions other than scheduled mandatory sinking account redemptions:

Payment Date	*2012E Bonds Principal*	*2012E Bonds Interest*	*Total 2012E Bonds Debt Service*	*Annual Fiscal Year Debt Service*

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the 2012E Bonds are expected to be applied as set forth below:

Estimated Sources
Principal Amount of 2012E Bonds
[*Plus*/*Less*] Net Original Issue [Premium/Discount]
Total Estimated Sources

Estimated Uses
Project Account
Costs of Issuance [(1)]
Underwriters' Discount
Total Estimated Uses

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(1) *Includes the State Treasurer's fees for serving as trustee, legal and rating agencies' fees, and other costs of issuance, including Board administration fees.*

TERMS OF THE 2012F BONDS

General

The 2012F Bonds are being issued by the Board to provide funds (i) to establish an irrevocable escrow to refund and defease all or any portion of the 2002A Bonds, and (ii) to pay the costs of issuance of the 2012F Bonds. If there are Remaining 2002A Bonds after the issuance of the 2012F Bonds, the 2012F Bonds will be secured under the 2012F Indenture on parity with the Remaining 2002A Bonds. See "THE PROJECTS AND THE LEASED PROPERTIES — The 2012F Leased Properties," "— Estimated Sources and Uses of Funds" below and APPENDIX B-2.

The 2012F Leased Properties, not the 2002A Project, are being leased pursuant to the 2012F Facility Lease. Neither the Board nor the Holders of 2012F Bonds will have any interest in or have the rights to exercise any remedies with respect to the 2012F Project. All remedies under the 2012F Facility Lease for failure to make Rental payments or comply with the provisions of the 2012F Facility Lease apply only to the 2012F Leased Properties. For a description of the 2012F Leased Properties, see "THE PROJECTS AND THE LEASED PROPERTIES — The 2012F Leased Properties" and APPENDIX B-2 — "THE UNIVERSITY OF CALIFORNIA AND THE 2012F LEASED PROPERTIES — The 2012F Leased Properties."

Redemption Provisions of 2012F Bonds

Optional Redemption. The 2012F Bonds are not subject to optional redemption prior to maturity.

Extraordinary Redemption. The 2012F Bonds are subject to redemption prior to their respective stated maturity dates, at the option of the Board, on any date, in whole or in part, from proceeds of insurance or eminent domain proceedings received in connection with any of the 2012F Leased Properties, at the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Insurance Proceeds" and APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012F INDENTURE — Insurance" and "THE 2012F FACILITY LEASE — Eminent Domain."

Selection of 2012F Bonds for Redemption. If less than all of the 2012F Bonds are to be redeemed at any one time from the proceeds of insurance or eminent domain proceedings, the State Treasurer shall select such 2012F Bonds to be redeemed from each maturity on a proportionate basis; provided that within each maturity such 2012F Bonds shall be selected by lot.

Notice of Redemption of 2012F Bonds. So long as DTC is acting as securities depository for the 2012F Bonds, notice of redemption will be given by sending copies of such notice to DTC (and not to the Beneficial Owners of the 2012F Bonds designated for redemption) not less than 30 nor more than 60 days before the redemption date. Failure by the State Treasurer to give notice pursuant to the 2012F Indenture to any one or more of the information services or securities depositories who are not Holders, including to the Municipal Securities Rulemaking Board's Electronic

Municipal Market Access portal, or the insufficiency of any such notice, will not affect the sufficiency of the proceedings for redemption. The 2012F Indenture provides that if notice of redemption has been duly given and money for payment of the redemption price of the 2012F Bonds called for redemption is held by the State Treasurer, then on the date fixed for redemption designated in such notice the 2012F Bonds so called for redemption will become due and payable, and from and after the date fixed for redemption, interest on the 2012F Bonds so called for redemption will cease to accrue, and the Holders of such 2012F Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. See APPENDIX F concerning DTC's redemption procedures.

Additional Bonds

The Board may issue one or more series of Additional Bonds under the 2012F Indenture secured on parity with the 2012F Bonds and the Remaining 2002A Bonds, if any, for the purposes of (i) refunding any Outstanding 2012F Bonds or the Remaining 2002A Bonds, if any, under the 2012F Indenture, including payment of all costs incidental to or connected with such refunding, (ii) payment of all costs incidental to or connected with any Additional Bonds issued under (i) above, and (iii) making deposits into the Master Indenture Reserve Fund or a separate reserve account securing the Additional Bonds. In connection with the issuance of any such Additional Bonds, the 2012F Facility Lease would be amended to provide for Base Rental thereunder sufficient, in both time and amount, to pay when due the annual principal of and interest on the 2012F Bonds, the Remaining 2002A Bonds, if any, and any such Series of Additional Bonds. See APPENDIX D — "SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS — THE 2012E INDENTURE — Additional Bonds."

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Annual Fiscal Year Debt Service Requirements

Set forth below are the principal, interest and total debt service requirements for the 2012F Bonds and the Remaining 2002A Bonds, if any:

Payment Date	***2012F Bonds Principal***	***2012F Bonds Interest***	***Total 2012F Bonds Debt Service***	***Total Remaining 2002A Bonds Debt Service*** [(1)]	***Annual Fiscal Year Debt Service***

[(1)] *Depending on the pricing results of the 2012F Bonds, there may be Remaining 2002A Bonds that will remain outstanding and secured on parity with the 2012F Bonds.*

Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the 2012F Bonds are expected to be applied as set forth below:

Estimated Sources
Principal Amount of 2012F Bonds
Transfers from Moneys on Hand
[*Plus*/*Less*] Net Original Issue [Premium/Discount]
Total Estimated Sources

Estimated Uses
2002A Escrow Fund [(1)]
Costs of Issuance [(2)]
Underwriters' Discount
Total Estimated Uses

[(1)] Defined below.
[(2)] Includes the State Treasurer's fees for serving as trustee, legal and rating agencies' fees, and other costs of issuance, including Board administration fees.

Plan of Refunding for the 2012F Bonds

The Board will apply a portion of the proceeds of the sale of the 2012F Bonds, together with other lawfully available funds, to establish an irrevocable escrow to defease the 2002A Bonds described below.

State Public Works Board of the State of California
Lease Revenue Bonds (The Regents of the University of California)
2002 Series A (UCLA Replacement Hospitals),
to be redeemed on November 1, 2012

Maturity Date* (October 1)	Amount ($)	Interest Rate (%)
2012**	6,615,000	4.100
2012**	1,375,000	5.000
2013	500,000	4.125
2013	7,830,000	5.375
2014	480,000	4.250
2014	8,290,000	5.375
2015	185,000	4.300
2015	9,050,000	5.375
2016	100,000	4.400
2016	9,630,000	5.375
2017	1,050,000	4.500
2017	9,200,000	5.375
2018	225,000	4.625
2018	10,570,000	5.375
2019	11,375,000	5.375
2020	11,985,000	5.375
2022	25,890,000	5.000

Upon the issuance and delivery of the 2012F Bonds, a portion of the proceeds thereof, together with other lawfully available funds, will be applied to purchase direct obligations of the United States of America. These direct obligations will be deposited in an escrow fund (the "2002A Escrow Fund") and held by the State Treasurer, as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement, dated as of September 15, 2012 (the "2012F Escrow

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* Preliminary, subject to change. Depending on the pricing results of the 2012F Bonds, there may be Remaining 2002A Bonds that will remain outstanding and secured on parity with the 2012F Bonds.
** Paid at maturity.

Agreement"), between the Board and the Escrow Agent. The Escrow Agent will apply the principal of and interest on all such obligations, together with other moneys held by it as Escrow Agent, to redeem the Refunded 2002A Bonds on November 1, 2012. The securities and moneys held in the 2002A Escrow Fund will not secure the 2012F Bonds and will not pay debt service on the 2012F Bonds.

The obligations of the United States of America to be deposited with the Escrow Agent will bear interest at such rates and will be scheduled to mature at such times and in such amounts that, when paid in accordance with their terms, together with any other funds held in the 2002A Escrow Fund, sufficient moneys will be available to pay the interest due to and including the redemption date and the redemption price of the Refunded 2002A Bonds on such redemption date. For information on mathematical verification of the adequacy of such obligations and other funds held in the 2002A Escrow Fund to make such payments, see "VERIFICATION." Upon such irrevocable deposit with the Escrow Agent and execution of the 2012F Escrow Agreement, the Refunded 2002A Bonds will be defeased and will no longer be entitled to the benefits of the 2012F Indenture.

THE STATE PUBLIC WORKS BOARD

General

The Board was created in 1946 as an entity of state government upon enactment by the State Legislature in its 1946 First Extraordinary Session of Chapter 145 of the Statutes of 1946, commencing at section 15752 of the Government Code. The Board is empowered to, among other things, acquire, construct, improve, equip, maintain, operate and lease public buildings and related facilities for the use of state agencies. The acquisition and construction of public buildings by the Board is subject to authorization by the State Legislature through a separate act or appropriation. Pursuant to the Act, the Board is empowered to issue revenue obligations to finance and refinance the cost of its projects which have been authorized by the State Legislature. **The Board has no power at any time or in any manner to pledge the credit or taxing power of the state or any of its agencies for the payment of principal of, redemption premium, if any, or interest on its obligations.**

The Board consists of the Director of the Department of Finance, the Director of the Department of Transportation and the Director of the Department of General Services. In addition, for the purpose of hearing and deciding upon matters relating to the issuance of revenue obligations pursuant to the Act, the State Treasurer and the State Controller are members of the Board.

The Board, pursuant to statute, is the principal entity for the approval and oversight of most major capital outlay projects of the state, other than state highway projects. The Board has responsibility for approval of the preliminary plans for state public works projects, including hospitals, prisons, office buildings and university and community college facilities, for the purpose of ensuring that the plans reflect both the legislatively approved scope of the project and the statutory limitation on authorized construction costs.

Indebtedness of the Board

In addition to the Bonds, the Board has issued other lease revenue bonds under the Act to finance a wide variety of capital projects, including buildings and equipment for many state agencies. See APPENDIX A — "THE STATE OF CALIFORNIA — STATE INDEBTEDNESS AND OTHER OBLIGATIONS — Capital Facilities Financing — *Lease-Revenue Obligations*."

As of August 1, 2012, the State Legislature had authorized the issuance of $7,813,947,457 aggregate principal amount of lease revenue bonds by the Board that are currently unissued.

Prior to the issuance of its long-term bonds, the Board may obtain interim loans from the state's Pooled Money Investment Account or the state's General Fund to commence projects that have been approved by the State Legislature and the Board. As of August 1, 2012, the Pooled Money Investment Board had approved interim loans for the Board from the Pooled Money Investment Account totaling $263,049,000.

CERTAIN RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered in evaluating the purchase of the Bonds. The following does not purport to be an exhaustive list of the risks associated with an investment in the Bonds. The order in which this information is presented does not reflect the relative importance of the various issues. Any one or more of the risk factors discussed below could lead to a decrease in the market value or liquidity of the Bonds. There can be no assurance that other risk factors not discussed here will not become material in the future.

Limited Obligations of the Board

The Bonds of each Series will be special obligations of the Board payable solely from the Revenues and amounts in certain funds and accounts pledged under the related Indenture. **The full faith and credit of the state is not pledged, and the General Fund of the state is not liable, for the payment of the principal of, redemption premium, if any, or interest on the Bonds, and no tax shall ever be levied or collected to pay the principal of, redemption premium, if any, or interest on the Bonds.** See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Bonds are Limited Obligations."

Construction Risks of the 2012D Projects

During the construction period, the 2012D Projects will be subject to the ordinary construction risks and possible delays applicable to similar projects. Such risks include, but are not limited to: (i) construction bids being over budget; (ii) increased materials costs, labor costs or failure of contractors to perform within contract price; (iii) inclement weather affecting contractor performance and timeliness of completion; (iv) natural disasters, operating risks or hazards or other unexpected conditions or events; (v) contractor claims or nonperformance; (vi) work stoppages or slowdowns; (vii) failure of contractors to meet schedule terms; and (viii) the discovery of hazardous materials on a site or other compliance issues with applicable environmental standards. See "THE PROJECTS AND THE LEASED PROPERTIES — Construction and Completion Risks for the 2012D Projects."

Interest on the 2012D Bonds will be capitalized for six months beyond the scheduled construction completion date for each 2012D Project. There can be no assurance that completion of the construction of a 2012D Project will not be delayed, preventing the Board from delivering possession of a 2012D Project for use and occupancy by the date to which interest will be capitalized. **If a 2012D Project is not delivered by the date to which capitalized interest is provided, Base Rental payments will be abated until possession is delivered.** In such an event, amounts would be withdrawn from the Master Indenture Reserve Fund to the extent available to pay the principal of and interest on the 2012D Bonds when due. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Abatement of Rental."

No Earthquake Insurance

Generally, within the state, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity. Each Facility Lease requires earthquake insurance only if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost. **Neither the Board nor any Participating Agency expects to maintain earthquake insurance on any 2012D Facility or on any of the 2012E Leased Properties or the 2012F Leased Properties. The Board is unable to predict when or if such insurance will be available on the open market from reputable insurance companies at a reasonable cost.** See **"SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Insurance Proceeds,"** APPENDIX B-1 — "THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES — Seismicity" and APPENDIX B-2 — "THE UNIVERSITY OF CALIFORNIA AND THE 2012F LEASED PROPERTIES — Seismicity."

Abatement

Damage, destruction, title defect or eminent domain proceedings with respect to a Facility or nondelivery of a 2012D Facility, or any portion thereof, may result in abatement of all or a portion of the Base Rental payments with respect to such Facility. The remaining Base Rental payments not subject to abatement, if any, moneys from insurance (in the event of any insured loss due to damage or destruction), including rental interruption insurance, condemnation proceeds and moneys available in the Master Indenture Reserve Fund may be insufficient to make all payments of principal of and interest on the Bonds during the period that such Facility is being replaced, repaired or reconstructed or, with in the case of a 2012D Facility, is not delivered. **In such circumstances all or a portion of the payments of principal and interest on the Bonds may not be made. Abatement is not an event of default and no remedy is available under any Facility Lease or the Indentures to the Holders of the Bonds for nonpayment under such circumstances**. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Abatement of Rental."

Common Reserve Fund

The Bonds are secured by an equal pledge on the Master Indenture Reserve Fund, along with all other Master Indenture Bonds and Incorporated Bonds Outstanding. A payment default on any Series of Master Indenture Bonds or any Series of Incorporated Bonds will not cause a default on any other Series of Master Indenture Bonds or any other Series of Incorporated Bonds. The Master Indenture Reserve Fund could be drawn upon and depleted without any of the amounts on deposit in the Master Indenture Reserve Fund being applied to pay the Bonds. Although the Board has covenanted in the Master Indenture to use its best efforts to increase the amount on deposit in the Master Indenture Reserve Fund to the Master Indenture Reserve Fund Requirement through a variety of means set forth in the Master Indenture, the State Legislature is not required to make any appropriation for this purpose. **No assurance can be given that the Board will be successful in its efforts to replenish the Master Indenture Reserve Fund to the Master Indenture Reserve Fund Requirement or that at any time amounts in the Master Indenture Reserve Fund will be sufficient to pay the principal of and interest on the Bonds when due.** See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Master Indenture Reserve Fund."

No Limitation on Related Series of Bonds or Additional Bonds

The Indentures do not contain any limitation on the principal amount of bonds that the Board may issue as a Related Series of Bonds in the case of the 2012D Bonds or Additional Bonds in the case of the 2012E Bonds and 2012F Bonds payable from Base Rental payments with respect to one or more of the applicable Facilities on parity with the applicable Series of Bonds. In connection with the issuance of a Related Series of Bonds or Additional Bonds, each related Facility Lease would be amended to provide for Base Rental sufficient, in both time and amount, to pay when due the annual principal of and interest on the Bonds and any such Related Series of Bonds or Additional Bonds. See "TERMS OF THE 2012D BONDS — Additional Bonds," "TERMS OF THE 2012E BONDS — Additional Bonds" and "TERMS OF THE 2012F BONDS — Additional Bonds."

Limited Recourse on Default

While each Facility Lease provides that the related Facility may be re-let following a default, achieving such a remedy may not be practical due to the lack of a replacement lessee, the specialized nature, in some cases, of the Facility to be re-let, or other reasons. Although acceleration is a remedy provided in the Indentures, the Base Rental payable pursuant to the Facility Leases may not be accelerated. Therefore, the circumstances under which the State Treasurer might declare the principal of and accrued interest on the Bonds due and payable immediately are limited. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Remedies Upon Default."

Enforcement of Remedies

The enforcement of any remedies provided in the Facility Leases and the Indentures could prove both expensive and time consuming. The rights and remedies provided in each Facility Lease and each Indenture may be limited by and are subject to the limitations on legal remedies against the state, including state constitutional limits on expenditures, limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; equity principles which may limit the specific enforcement under state law of certain remedies; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the state in the interest of serving a significant and legitimate public purpose.

Risk Management and Insurance

Each Facility Lease requires each Participating Agency to maintain and keep in force various forms of insurance, subject to deductibles, on the Facilities for repair or replacement in the event of damage or destruction to the Facilities caused by certain hazards. Each Participating Agency is also required to maintain use and occupancy insurance. The Board makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy required under the Facility Leases and no assurance can be given as to adequacy of any such insurance to fund necessary repair or replacement or to pay principal and interest with respect to the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Insurance Proceeds."

State Financial Condition

As described in Appendix A, the state is facing significant financial stress, which may result in future reductions or deferrals in amounts available to the Participating Agencies. See "INTRODUCTION — State Financial Pressures" and APPENDIX A."

Other Risks

There may be other risk factors inherent in ownership of the Bonds in addition to those described in this section.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond (to the extent the redemption price at maturity is greater than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of the Bond is excluded from gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the Board and the Participating Agencies and others and is subject to the condition that the Board and the Participating Agencies comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Board and the Participating Agencies will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner.

Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indentures and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of a bond counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such action is taken or omitted based upon the advice of counsel other than Bond Counsel.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the Board and the Participating Agencies continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. Recently, proposed legislative changes have been introduced in Congress, which, if enacted, could result in additional federal income or state tax being imposed on owners of tax-exempt state or local obligations, such as the Bonds. The introduction or enactment of any of such changes could adversely affect the market value or liquidity of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes (or other changes) will not be introduced or enacted or interpretations will not occur. Before purchasing any of the Bonds, all potential purchasers should consult their tax advisors regarding possible statutory changes or judicial or regulatory changes or interpretations, and their collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel with respect to the Bonds is attached hereto in Appendix G.

CERTAIN LEGAL MATTERS

The validity of the Bonds is subject to the approval of the Honorable Kamala D. Harris, Attorney General of the State of California (the "Attorney General"), counsel to the Board, and Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel to the Board. Certain other legal matters, including without limitation, certain tax matters, are subject to the approval of Bond Counsel. The approving opinions of the Attorney General, counsel to the Board, and Bond Counsel will be delivered with the Bonds in substantially the forms set forth in Appendix G. Copies of such approving opinions will be available at the time of delivery of the Bonds. Certain legal matters will be passed upon by Nixon Peabody LLP, as Disclosure Counsel to the Board, by Orrick, Herrington & Sutcliffe LLP, and Stradling Yocca Carlson & Rauth, a Professional Corporation, respectively, as Co-Disclosure Counsel to the state regarding Appendix A, for the Participating Agencies by their respective counsel, and for the Underwriters by their counsel, Sidley Austin LLP, San Francisco, California. The Attorney General, Stradling Yocca Carlson & Rauth, a Professional Corporation, Orrick, Herrington & Sutcliffe LLP, Nixon Peabody LLP, counsel for the Participating Agencies, counsel for the Board, and Sidley Austin LLP, respectively, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

There is not now pending (with service of process on the state having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds, the Indentures, the Site Leases, the Facility Leases or any proceeding of the Board or any Participating Agency taken with respect to the foregoing.

At any given time, including the present, there are numerous civil actions pending against the state, that could, if determined adversely to the state, affect the state's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate outcome and fiscal impact of such litigation, the Board believes that it is unlikely that the outcome of any such litigation could adversely affect the ability of the Board to pay the principal of and interest on the Bonds when due. See APPENDIX A — "THE STATE OF CALIFORNIA — LITIGATION."

VERIFICATION

Upon delivery of the 2012F Bonds, The Arbitrage Group, Inc. will verify from the information provided to it the mathematical accuracy as of the date of the closing of the 2012F Bonds of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the Underwriters' schedules, to be held in escrow, will be sufficient to pay, when due, the principal and interest requirements of the Refunded 2002A Bonds, and (2) the computations of yield on both the securities and the Bonds contained in the provided schedules relied upon by Bond Counsel in its determination that the interest on the Bonds is excluded from gross income for federal tax purposes. See "TAX MATTERS" herein.

UNDERWRITING

The Bonds are being purchased by an underwriting syndicate consisting of Merrill Lynch, Pierce, Fenner & Smith Incorporated, acting as representative, and the other underwriters named on the cover page hereto (collectively, the "Underwriters"), from the State Treasurer, who is authorized pursuant to the Act to sell the Bonds on behalf of the Board. The Underwriters have agreed to purchase (a) the 2012D Bonds at a purchase price of $_________ (which represents the principal amount of the 2012D Bonds, less an underwriters' discount of $____________, plus/less a net original issue premium/discount of $___________); (b) the 2012E Bonds at a purchase price of $_________ (which represents the principal amount of the 2012E Bonds, less an underwriters' discount of $_________, plus/less a net original issue premium/discount of $________); and (c) the 2012F Bonds at a purchase price of $_________ (which represents the principal amount of the 2012F Bonds, less an underwriters' discount of $_________, plus/less a net original issue premium/discount of $________).

The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase all of the Bonds, if any Bonds are purchased, and the obligation to make such purchase is subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at yields higher than the yields stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

Certain of the Underwriters, J.P. Morgan Securities LLC, Prager & Co., LLC and SNW Securities Corp., have provided letters to the State Treasurer and the Board, which letters are attached hereto as Appendix H, relating to their respective retail distribution practices or other affiliations for inclusion in this Official Statement. Neither the state nor the Board guarantees the accuracy or completeness of the information contained in such letters and the information set forth in each letter is not to be construed as a representation of the state, the Board or any Underwriter other than the Underwriter named therein.

RATINGS

The 2012D Bonds and the 2012E Bonds have received the ratings of "Aa3" by Moody's, "BBB+" by Fitch and "BBB+" by S&P. The 2012F Bonds have received the ratings of "Aa2" by Moody's, "AA" by Fitch and "AA-" by S&P.

An explanation of the significance and status of such ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any of such rating agencies, if in their respective judgments, circumstances so warrant. A revision or withdrawal of any rating for a Series of Bonds could have an effect on the market prices and marketability of the Bonds of such Series. The state cannot predict the timing or impact of future actions by the rating agencies.

FINANCIAL STATEMENTS

Capitalized terms used in the following paragraphs and not defined herein are defined in APPENDIX A.

Audited Basic Financial Statements of the State of California (the "Financial Statements") for the fiscal year ended June 30, 2011 are included as Appendix I to this Official Statement. These statements have been examined by the State Auditor to the extent indicated in her report. See "APPENDIX A – THE STATE OF CALIFORNIA – FINANCIAL STATEMENTS."

Certain unaudited financial information for the twelve months ended June 30, 2012 is included as Exhibit 1 to Appendix A. Certain unaudited financial information for July 1, 2012 – July 31, 2012 is included as Exhibit 2 to Appendix A. The State Controller's unaudited statement of Cash Receipts and Disbursements for the period of July 1, 2012 – August 31, 2012 is expected to be released on or about September 10, 2012 and will be incorporated into this Preliminary Official Statement by means of an electronic supplement, as well as included in the Final Official Statement. It will also be available on the State Controller's website.

The audited Financial Report of the University of California for the Fiscal Year Ended June 30, 2011 is contained in Appendix C.

FINANCIAL ADVISOR

KNN Public Finance, a Division of Zions First National Bank, is serving as financial advisor to the State Treasurer in connection with the issuance of the Bonds.

CONTINUING DISCLOSURE

Pursuant to the continuing disclosure agreements, the State Treasurer on behalf of the Board agrees to provide annually in the Annual Report to be filed with respect to the Bonds certain financial information and operating data relating to the state by not later than April 1 of each year in which the Bonds are outstanding, commencing with the report to be filed on or before April 1, 2013 containing 2011-2012 fiscal year financial information, and to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of certain events and certain other terms of the continuing disclosure obligation are summarized in APPENDIX E.

In the past five years, neither the Board nor either of the Participating Agencies has ever failed to comply in all material respects with any "previous undertakings" as that term is used in Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the "Rule").

In the past five years, the State Treasurer has always filed its annual reports on a timely basis as required by its continuing disclosure undertakings. The State Treasurer has also, to its knowledge, complied with its undertakings to report on certain events, with the exception that it recently discovered that it had failed to file notices relating to downgrades of seven maturities of state general obligation bonds when a bond insurer's rating was downgraded. The State Treasurer was not aware of these occurrences at the time, since the rating agencies did not notify the state of their actions on the state's bonds. Reports for the actions have been filed with the Electronic Municipal Market Access website. The state has thousands of individual maturities of its general obligation bonds outstanding, and has procedures in place to monitor events which may affect them, including rating changes.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof which do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

Any statements in this Official Statement involving estimates, forecasts or matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Board (or any Participating Agency or the state) and the purchasers or holders of any of the Bonds.

The delivery of this Official Statement has been duly authorized by the Board.

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA

Ana J. Matosantos
Chair, State Public Works Board of the State of California

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APPENDIX A

THE STATE OF CALIFORNIA

September 6, 2012

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INTRODUCTION TO
THE STATE OF CALIFORNIA AND APPENDIX A

APPENDIX A is the part of the Official Statement that provides investors with information concerning the State of California. This Introduction is intended to give readers a very brief overview of the main topics covered in APPENDIX A. Investors are advised to read the entire Official Statement, including APPENDIX A, to obtain information essential to making an informed investment decision. See "Certain Defined Terms" at the end of this section for certain defined terms used in this APPENDIX A.

Financial Stress

During the recent recession, which officially ended in 2009, the state experienced the most significant economic downturn since the Great Depression of the 1930s. As a result of continuing weakness in the state economy, state tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls.

The 2012 Budget Act projects continued steady growth of the state's major tax revenue sources. Even though the state continues to face budget risks and pressures, the Administration believes that the fiscal year 2012-13 budget puts California on its most stable financial footing in years. Under current projections and assuming implementation of the Governor's Initiative (described herein), the Administration projects that the state General Fund budget would be balanced on an ongoing basis for the first time in over a decade. Further information is set forth under "STATE FINANCIAL PRESSURE" and "CURRENT STATE BUDGET." See also EXHIBIT 2 for the most recent State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements.

There can be no assurances that the state will not continue to face fiscal stress and cash pressures and that such circumstances will not become more difficult, or that other impacts of the current economic situation will not further materially adversely affect the financial condition of the state.

State Revenues, Expenditures and Cash Management

The state receives revenues from taxes, fees and other sources, the most significant of which are the personal income tax, sales and use tax, and corporation tax (which collectively constitute over 90 percent of total General Fund revenues and transfers). The state expends money on a variety of programs and services. Significant elements of state expenditures include education (both kindergarten through twelfth grade ("K-12") and higher education), health and human services, and correctional programs. For a discussion of the sources and uses of state funds, see "STATE FINANCES."

The 2012 Budget Act closed a projected budget gap of $15.7 billion over the two fiscal years 2011-12 and 2012-13, and projects a $948 million reserve by June 30, 2013, by enacting a total of $16.6 billion in solutions (including $8.1 billion in expenditure reductions and $6.0 billion in additional General Fund revenues, which is net of a $2.9 billion increase in Proposition 98 funding, assuming passage of the Governor's Initiative, defined below and $2.5 billion in other solutions). See Table 2 for the major reductions and solutions. The 2012 Budget Act recognized the potential risk to the state's General Fund condition if the Governor's Initiative does not pass in the November 2012 elections, or does not become operative, by including a "2012-13 Trigger Mechanism" to provide certain automatic expenditure reductions. The trigger reductions, totaling $6 billion, would go into effect on January 1, 2013, but would only offset approximately 70 percent of the $8.5 billion of total gross new revenues projected to be generated if the new tax rates in Governor's Initiative had become effective. (The balance of the shortfall would have to be addressed in the fiscal year 2013-14 budget.) The trigger reductions would be made from the expenditure level currently appropriated in the 2012-13 budget. See “CURRENT STATE BUDGET.”

The state manages its cash flow requirements during the fiscal year primarily with a combination of external borrowing and internal borrowing by the General Fund from over 700 special funds. Since June 2008, the General Fund has typically ended each fiscal year with a net borrowing from these special funds. As of June 30, 2012, the General Fund owed $9.593 billion to these special funds and other state funds from internal borrowing for cash management purposes (compared to almost $8.165 billion at June 30, 2011 and $9.922 billion at June 30, 2010). See “STATE FINANCES – Inter-Fund Borrowings.”

General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and other funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major tax revenue sources of the state. For additional financial data relating to the General Fund, see the financial statements attached to this APPENDIX A, and in APPENDIX F to this Official Statement. See “STATE FINANCES” and “FINANCIAL STATEMENTS.”

The State Constitution specifies that an annual budget shall be proposed by the Governor by January 10 of each year for the next fiscal year (the “Governor’s Budget”). Under state law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected resources for the ensuing fiscal year. State law also requires the Governor to update the Governor’s Budget projections and budgetary proposals by May 14 of each year (the “May Revision”). The May Revision is normally the basis for final negotiations between the Governor and Legislature to reach agreement on appropriations and other legislation to fund state government for the ensuing fiscal year (the “Budget Act”). The Constitution calls for adoption of a balanced Budget Act by a majority vote of each House of the Legislature (the vote requirement had been two-thirds prior to 2011) by June 15 of each year. The Governor has twelve calendar days to either sign or veto the enrolled budget.

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have made it more difficult for the state to raise taxes, restricted the use of the General Fund or special fund revenues, or otherwise limited the Legislature and the Governor’s discretion in enacting budgets and similar laws and amendments are currently under consideration. See “THE BUDGET PROCESS – Constraints on the Budget Process.”

State General Obligation Debt and Other Obligations

As of July 1, 2012, the state had outstanding obligations payable principally from the state’s General Fund or from lease payments paid from the operating budget of the respective lessees, which operating budgets are primarily, but not exclusively, derived from the General Fund, consisting of $73.1 billion principal amount of general obligation bonds, $11.3 billion of lease-revenue bonds and $1.9 billion for repayment of budgetary borrowing from local governments pursuant to Proposition 1A of 2004 (as such term is defined herein). As of July 1, 2012, there was approximately $33.1 billion of authorized and unissued voter-approved general obligation debt payable from the General Fund and approximately $7.82 billion of authorized and unissued lease-revenue bonds. See “STATE INDEBTEDNESS AND OTHER OBLIGATIONS - Future Issuance Plans; General Fund Debt Ratio.”

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by local governments or private users of facilities financed by the revenue bonds.

California has always paid when due the principal of and interest on all its debts, including general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including revenue anticipation notes ("RANs") and revenue anticipation warrants ("RAWs"). Detailed information regarding the state's long-term debt appears in the sections "STATE INDEBTEDNESS AND OTHER OBLIGATIONS" and "STATE DEBT TABLES."

Deferred Obligations

In addition to the bonds and other obligations described in the preceding paragraphs, the state has engaged in budgetary actions which create pressures or repayment obligations from the General Fund in future years. Over a number of years, the state has adopted budget solutions for one fiscal year by deferring certain required payments (including Proposition 98 payments to schools, Medi-Cal reimbursements, state payrolls and payments to the state pension fund) from one fiscal year into the next year; these deferrals end up having to be repeated year after year. In addition, the General Fund is obligated for repayment of deficit bonds ("ERBs"), certain legislatively-approved interfund borrowings, reimbursement of borrowings from state and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, settle-up payments for Proposition 98, obligations to employees for compensated absences, costs for self-insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. (In some cases, the Legislature has the ability to modify, further extend the timing of or even cancel the repayment of some of these obligations.) See "CURRENT STATE BUDGET - Deferred Obligations," including Table 7.

The interfund budgetary borrowings are scheduled to be repaid over a number of years. These longer-term budgetary borrowings from special funds do not include short-term interfund borrowings (also called "special fund borrowings") for cash management purposes. See "CASH MANAGEMENT" for more information on cash deferrals and special fund borrowings. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Indirect, Nonpublic or Contingent Obligations."

By the end of fiscal year 2011-12, the total amount of budgetary borrowing and deferrals is estimated to be $34.2 billion. The Administration projects that if the fiscal year 2012-13 budget package is fully implemented and its policies remain in effect, and revenues continue to increase as projected, most of this outstanding budgetary borrowing and deferrals would be repaid by the end of the 2015-16 fiscal year.

As of the 2012 Budget Act, in addition to the Proposition 98 budgetary deferrals and settle-up payments referred to above, the General Fund is obligated to repay school and community college districts for past underfunding which is permitted under Proposition 98 ("maintenance factor"). The Department of Finance estimates that the total outstanding balance at the end of the 2011-12 fiscal year for the Proposition 98 maintenance factor is $10.6 billion. The outstanding balance projected at the end of the 2012-13 fiscal year will be $8.1 billion (assuming enactment of the Governor's Initiative). The Proposition 98 maintenance factor payments will be repaid pursuant to the constitutional repayment formula in future years when state revenue increases. See "STATE FINANCES - Proposition 98 and K-14 Funding."

State Pension Funds and Retiree Health Care Costs

The two main state pension funds have sustained substantial investment losses in recent years and face large unfunded future liabilities. The most recent actuarial valuation of California Public Employees' Retirement System ("CalPERS"), based on data through June 30, 2010, showed an accrued unfunded liability allocable to state employees (excluding judges and elected officials) of $24.1 billion on an actuarial value of assets basis ("AVA") and $45.2 billion on a market value of assets basis ("MVA"). The California State Teachers' Retirement System ("CalSTRS") reported the unfunded accrued liability of its Defined Benefit Plan at June 30, 2011 at $64.5 billion on an AVA basis (an increase of $8.5 billion from the June 30, 2010 valuation), and $68.4 billion on an MVA basis (a decrease of $10.8 billion from the June 30, 2010 valuation).

General Fund contributions to CalPERS and CalSTRS are estimated to be approximately $2.2 billion and $1.3 billion, respectively, for fiscal year 2012-13. The combined contributions, which include contributions for California State University ("CSU"), represent about 3.9 percent of all General Fund expenditures in fiscal year 2012-13. See "CURRENT STATE BUDGET." There can be no assurances that the state's annual required contributions to CalPERS and CalSTRS will not significantly increase in the future. The actual amount of any increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments, and, in the case of CalSTRS, statutory changes in contributions. Recent action by the Board of CalPERS to lower the assumed rate of return on investments has caused an increase in state contributions. See "PENSION TRUSTS."

The state also provides postemployment health care and dental benefits to state employees and their spouses and dependents (when applicable) and utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as "Other Post Employments Benefits" or "OPEB." As reported in the state's OPEB Actuarial Valuation Report, the state has an Unfunded Actuarial Accrued Liability relating to state retirees' other postemployment benefits which was estimated at $62.14 billion as of June 30, 2011 (as compared to $59.9 billion estimated as of June 30, 2010). See "STATE FINANCES – Retiree Health Care Costs."

Financial Statements

APPENDIX F to this Official Statement, which is incorporated into this APPENDIX A, contains the Audited Basic Financial Statements of the state for the year ended June 30, 2011, together with certain information required by governmental accounting and financial reporting standards to be included in the Financial Statements, including a "Management's Discussion and Analysis" that describes and analyzes the financial position of the state and provides an overview of the state's activities for the fiscal year ended June 30, 2011. In addition, EXHIBIT 1 and EXHIBIT 2 to APPENDIX A contain the State Controller's unaudited reports of General Fund cash receipts and disbursements for the periods July 1, 2011 through June 30, 2012 and July 1, 2012 through July 31, 2012, respectively. The Controller's unaudited report of General Fund cash receipts and disbursements for the month of August 2012 will be released on or about September 10, 2012, and will be included in a Supplement to this Preliminary Official Statement and in the final Official Statement. See "FINANCIAL STATEMENTS."

Population and Economy of the State

The State of California is by far the most populous state in the nation, nearly 50 percent larger than the second-ranked state according to the 2010 U.S. Census. The 2011 estimate of California's population is 37.5 million residents which is 12 percent of the total United States population.

California’s economy, the largest among the 50 states and one of the largest and most diverse in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, government, tourism, construction and services. The relative proportion of the various components of the California economy closely resembles the make-up of the national economy.

The California economy continued to recover slowly during the first half of 2012 despite weak residential construction and real estate and fiscally strapped state and local governments. Strong growth in high-technology sectors and international trade likely offset much of the loss in output from home building and local government. The recovery has a solid base and prospects for further improvement are good.

Demographic and economic statistical information and a discussion of economic assumptions are included in this APPENDIX A under “CURRENT STATE BUDGET – Economic Assumptions Underlying the 2012 Budget Act” and “ECONOMY AND POPULATION.”

Certain Defined Terms

The following terms and abbreviations are used in this APPENDIX A:

“Initial 2009 Budget Act” means the Budget Act for the 2009-10 fiscal year adopted on February 19, 2009, together with other related budget legislation.

“Administration” means the Governor’s Office and those individuals, departments, and offices reporting to it (including the Department of Finance).

“Amended 2009 Budget Act” means the budget plan for fiscal year 2009-10 adopted on February 20, 2009 as amended by the revisions enacted on July 28, 2009, together with other related budget legislation.

“2010 Budget Act” means the Budget Act for the 2010-11 fiscal year adopted on October 8, 2010, together with related budget legislation.

“2011 Budget Act” means the Budget Act for the 2011-12 fiscal year adopted on June 30, 2011, together with related budget legislation.

“2012 Budget Act” means the Budget Act for the 2012-13 fiscal year, adopted on June 27, 2012.

“2012-13 budget package” means the 2012 Budget Act plus related legislation to implement the budget.

“2012-13 Governor’s Budget” means the Governor’s Proposed Budget for the 2012-13 fiscal year released on January 5, 2012.

“2012-13 May Revision” means the May Revision of the 2012-13 Governor’s Budget released on May 14, 2012.

“2012-13 Trigger Mechanism” means expenditure reductions that will be automatically implemented effective January 1, 2013 if the Governor’s Initiative is not approved and operative.

“ARRA” means the American Recovery and Reinvestment Act, also known as the federal stimulus bill, enacted on February 17, 2009.

"BSA" means the Budget Stabilization Account created under Proposition 58. See "STATE FINANCES – Budget Reserves."

"ERBs" means Economic Recovery Bonds of the state issued pursuant to Proposition 57. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

"EXHIBIT 1" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2011 through June 30, 2012 as attached to this APPENDIX A as EXHIBIT 1.

"EXHIBIT 2" means the State Controller's Unaudited Statement of General Fund Cash Receipts and Disbursements for the period from July 1, 2012 through July 31, 2012 as attached to this APPENDIX A as EXHIBIT 2.

"Fiscal emergency special session" means a special session of the Legislature called by the Governor to respond to a fiscal emergency as authorized by Proposition 58.

"Governor's Initiative" means The Schools and Local Public Safety Protection Act of 2012, an initiative measure which will appear on the November 2012 statewide general election ballot as Proposition 30. See "STATE FINANCES – Sources of Tax Revenue" and "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on the November 2012 Ballot."

"LAO" means the Legislative Analyst's Office, an entity of the State Legislature.

"SFEU" means the Special Fund for Economic Uncertainties, created pursuant to Government Code Section 16418.

Reference to the "state" as a noun or adjective means the State of California, following the practice of the Department of Finance.

RECENT DEVELOPMENTS

Pension Reform Legislation. The Legislature approved a comprehensive pension reform package affecting state and local government on August 31, 2012. The legislation, AB 340, is on the Governor's desk awaiting further action. See "CURRENT STATE BUDGET – Pension Reform Legislation."

Recent Tax Receipts. The Department of Finance reported that, based on agency cash receipts, tax receipts for the month of June were up $622 million, or 5.6 percent above the amount forecast for such month in the 2012-13 May Revision. Personal income tax receipts were up $548 million for the month, while sales and use tax receipts were down $10 million, and corporation tax receipts were down $33 million. For the entire 2011-12 fiscal year, based on preliminary reports on June agency cash, receipts were $540 million, or 0.6 percent, above the amount forecast in the 2012-13 May Revision. Personal income tax receipts and other tax receipts make up the majority of the amount over projections.

On August 17, 2012, the Department of Finance released its August Finance Bulletin containing its report of July revenues. Total revenues for July were $376 million below forecast of $5.4 billion. About half of the shortage was attributable to personal income tax wage withholding. Most of the rest of the shortage was attributable to minor revenues, which were low because of timing. The August Finance Bulletin is available on the Department of Finance website.

The Controller's unaudited report of General Fund cash receipts and disbursements for the month of August 2012 will be released on or about September 10, 2012, and will be included in a Supplement to this Preliminary Official Statement and in the final Official Statement. See "FINANCIAL STATEMENTS."

Individual monthly cash receipts early in the fiscal year may not be indicative of revenue forecasts for the full fiscal year which will be made later in fiscal year 2012-13.

Initiatives on November 2012 Ballot. A total of eleven measures will appear on the November 6, 2012 general election ballot for voter approval: ten initiative measures and a referendum on a bill setting new electoral districts for the State Senate. The following initiatives deal with fiscal matters:

i) "Governor's Initiative", Proposition 30, which is an integral part of the 2012 Budget Act, and is described in more detail below under "STATE FINANCES - Sources of Tax Revenue" and "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on November 2012 Ballot." This measure would, among other things, temporarily raise personal income tax rates on high-income taxpayers for seven years (commencing in calendar year 2012) and raise the statewide sales tax by one-quarter percent for four years (commencing on January 1, 2013).

ii) Proposition 38, which would raise personal income tax rates for most taxpayers through 2024, with funding largely dedicated to K-12 education and early childhood programs. See "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on November 2012 Ballot." Each of Proposition 30 and Proposition 38 contain language to the effect that, if both are approved, the tax-raising provisions only of the measure with the greater number of votes would become operative law.

iii) Proposition 39, which would repeal certain existing provisions for taxing corporations and require use of the "single sales tax factor," and dedicating a fixed amount of additional revenue which would be derived from this change to support clean energy and energy efficiency programs for five years. See "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on November 2012 Ballot."

iv) Proposition 31, which would significantly change existing state laws on adoption of budgets, including enactment of two-year budgets and granting the Governor power to unilaterally reduce spending under certain circumstances during fiscal emergencies. See "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on November 2012 Ballot."

STATE FINANCIAL PRESSURE

The economic downturn of the last few years adversely affected the state's budget situation. Despite the economy's gradual recovery, the state faced estimated annual gaps between spending and revenues of roughly $20 billion as of January 2011. The state's fiscal challenges were exacerbated by unprecedented levels of debts, deferrals, and budgetary obligations accumulated over the prior decade. The 2011 Budget Act and the 2012 Budget Act have rejected the past approach of over-relying on one-time solutions. The last two budgets addressed this deficit through three dollars of ongoing spending reductions for every dollar of tax increases. Specifically, 76 percent of the structural deficit has been addressed through spending cuts in health and human services, corrections, education, and other areas. Under current projections, and assuming voter approval and implementation of the Governor's Initiative, the Administration projects that the General Fund budget will be balanced in an ongoing manner for at least the next four fiscal years, which would represent the first time in over a decade that future spending is expected to stay within available revenues.

Even with this plan, risks to the budget remain. Potential cost increases associated with actions to reduce the federal deficit, federal government actions, court decisions, the pace of the economic recovery, an aging population, and rising health care and pension costs all threaten the ability of the state to achieve and maintain a balanced budget over the long term. In addition, the exact level of capital gains and income growth for top earners remains uncertain, which will have a major impact on personal income tax receipts.

The 2012-13 budget package includes a backup plan – the 2012-13 Trigger Mechanism – totaling $6 billion, that would go into effect on January 1, 2013 if the Governor's Initiative is not approved by voters in November or if its new tax rates do not become operative. These trigger cuts would offset about 70 percent of the new revenues which are projected to be received if the tax rate provisions of the Governor's Initiative were to become effective. To balance the budget in an ongoing manner, the deep reductions enacted over the past two years must be maintained. Without additional revenues, deeper cuts will be required to balance the budget.

CURRENT STATE BUDGET

The 2012 Budget Act

The 2012-13 budget package closed a projected budget gap of $15.7 billion over the two fiscal years 2011-12 and 2012-13, and projected a $948 million reserve by June 30, 2013, by enacting a total of $16.6 billion in solutions (including a combination of expenditure reductions, additional revenues, and other solutions, and assuming passage of the Governor's Initiative and no trigger cuts). General Fund revenues and transfers for fiscal year 2012-13 were projected at $95.9 billion, an increase of $9.1 billion compared with fiscal year 2011-12. General Fund expenditures for fiscal year 2012-13 were projected at $91.3 billion, an increase of $4.3 billion compared to the prior year. General Fund spending outside of Proposition 98 is projected to decline by $1.5 billion, or 2.8 percent, excluding a required one-time repayment of $2.1 billion the state borrowed from local governments in 2009. In approving the 2012 Budget Act, the Governor exercised his line-item veto power to reduce General Fund expenditures by about $129 million. The 2012 Budget Act also includes special fund expenditures of $39.4 billion and bond fund expenditures of $11.7 billion.

The following charts summarize the principal components of the 2012 Budget Act.

In the chart below showing General Fund Expenditures, the state's expenditures for contributions to the pension funds and for debt service on bonds are not shown separately, but are included within the applicable departmental/functional costs. The state's contributions to CalPERS and CalSTRS in fiscal year 2012-13 are a combined $3.5 billion, or 3.9 percent of total expenditures from the General Fund. The net debt service costs on general obligation bonds and lease-revenue bonds paid by rental payments from the General Fund total $5.1 billion, or 5.6 percent of total expenditures. These debt service costs are net of reimbursement from various special funds (e.g., vehicle weight fees offsetting costs of transportation bonds) and subsidy payments from the federal government for taxable Build America Bonds. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS - Build America Bonds."

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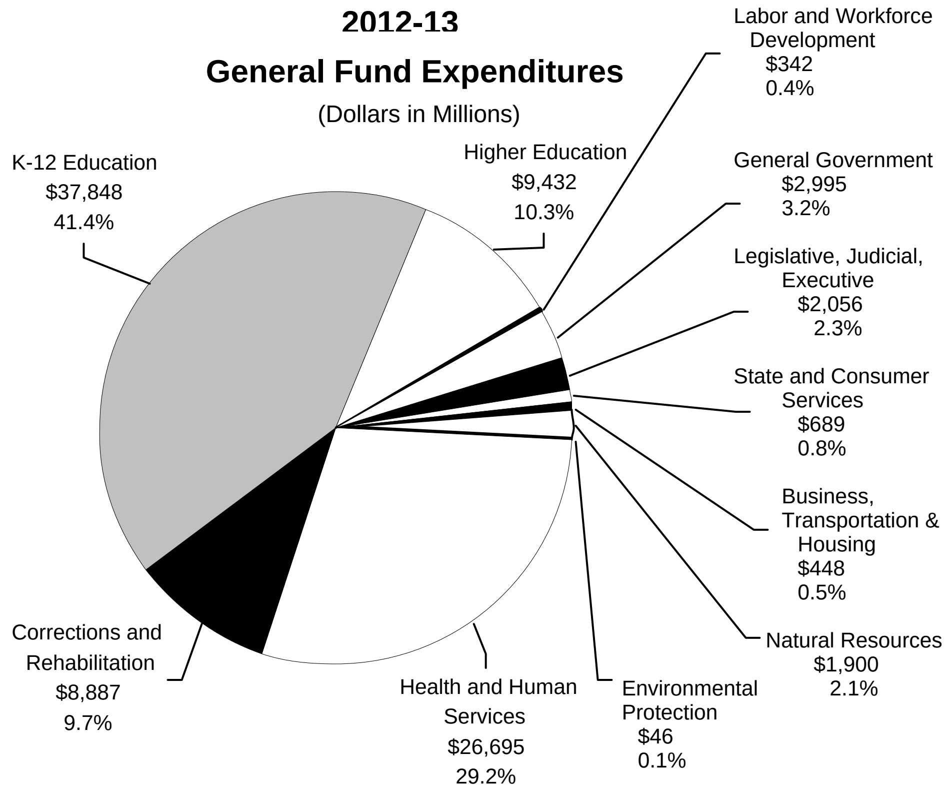
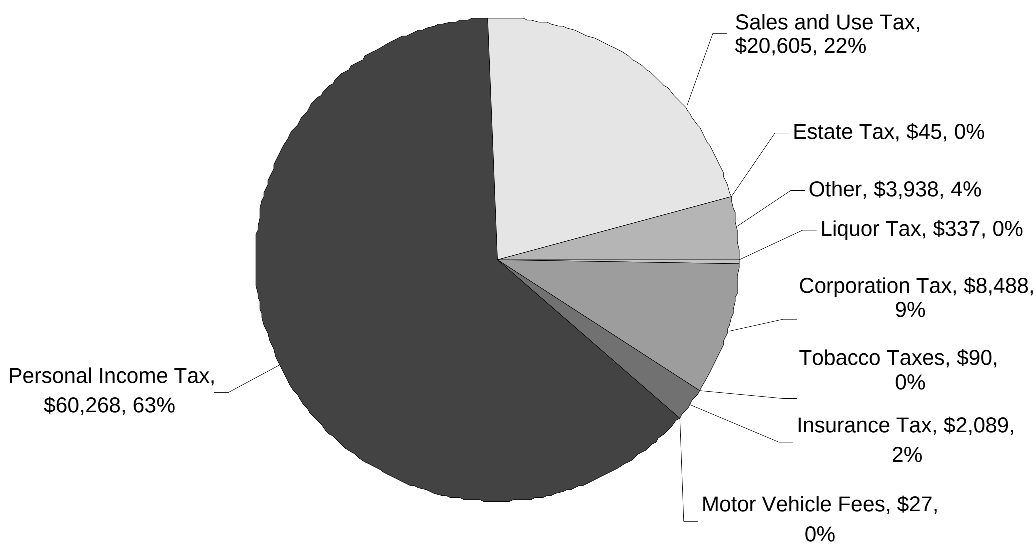
2012-13
General Fund Expenditures
(Dollars in Millions)



2012-13
General Fund Revenues and Transfers
(Dollars in Millions)



The following table contains a summary of revenues, expenditures and fund balance for the 2011-12 and 2012-13 fiscal years, based on the 2012 Budget Act (which assumes voter approval of the Governor's Initiative at the November 2012 election).

TABLE 1
General Fund Budget Summary
(Dollars in Millions)

	As of 2011 Budget Act	As of 2012 Budget Act	
	Fiscal Year 2011-12	**Fiscal Year 2011-12**	**Fiscal Year 2012-13**
Prior Year Balance	$ (1,206)	$ (2,685)	$ (2,882)
Revenues and Transfers	88,456	86,830[(a)]	95,887[(b)]
Total Resources Available	87,250	84,145	93,005
Non-Proposition 98 Expenditures	53,058	53,938	54,534
Proposition 98 Expenditures	32,879	33,089	36,804
Total Expenditures	85,937	87,027	91,338
Fund Balance	1,313	$ (2,882)	1,667
Budget Reserves:			
Reserve for Liquidation of Encumbrances	770	719	719
Special Fund for Economic Uncertainties	543	(3,601)	948

Source: State of California, Department of Finance.

(a) The Governor's Initiative would temporarily raise personal income tax rates on high-income taxpayers beginning with the 2012 tax year. An estimated $3.1 billion of this revenue would accrue to the 2011-12 fiscal year.

(b) Includes one full year of budgeted revenue from the increased personal income tax rates ($4.7 billion), and one–half year of budgeted revenue from an increase in sales tax ($0.6 billion). This temporary 0.25 percent sales tax increase would become effective January 1, 2013 if approved by the voters.

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The 2012-13 budget package contains the following major expenditure reductions and other significant solutions toward solving the General Fund projected budget gap. See the following section of text for further description of some of these solutions.

TABLE 2
Budget Balancing Solutions
(Dollars in Millions)

Expenditure Reductions (49% of total) [(a)]	
Health and Human Services	
Medi-Cal [(b)]	$1,234.0
CalWORKs [(c)]	469.1
In-Home Supportive Services	52.2
Other Health and Human Services Programs	91.2
Education	
Proposition 98 [(d)]	1,885.7
Child Care	294.3
Cal Grant Program	133.5
Other Education	35.7
All Other Reductions	
Redevelopment Assets [(e)]	1,479.0
State Mandates	828.3
Judiciary [(f)]	544.0
Employee Compensation [(g)]	528.6
Other Reductions	513.5
Expenditure Reductions	**$8,089.1**
Revenues (36% of total)	
Temporary Taxes [(h)]	$5,579.8
Other Revenues [(i)]	453.5
Revenues	**$6,033.3**
Other (15% of total)	
Loan Repayment Extensions	$1,158.3
Transfers and Loans from Special Funds	612.2
Additional Weight Fee Revenues [(j)]	385.2
Unemployment Insurance Interest Payment [(k)]	312.6
All Other	49.5
Other	**$2,517.8**
Total	**$16,640.2**

Source: State of California, Department of Finance.
(a) Includes vetoes
(b) See "STATE FINANCES - Welfare System – Health Programs"

(Footnotes Continued on Following Page)

(Continued from Previous Page)

(c) See “STATE FINANCES - Welfare System”
(d) See “STATE FINANCES - Proposition 98 and K-14 Funding”
(e) See “THE BUDGET PROCESS - Constraints on the Budget Process – Local Government Finance (Proposition 1A of 2004)”
(f) See “STATE FINANCES - Local Governments – Trial Courts”
(g) See “OVERVIEW OF STATE GOVERNMENT - Employee Relations”
(h) Net of increased Proposition 98 costs
(i) Consists of various minor revenue increases
(j) See “THE BUDGET PROCESS - Constraints on the Budget Process – Local Government Funds”
(k) See “STATE FINANCES - Unemployment Insurance”

The 2012-13 budget package contained the following major General Fund components and budget solutions:

- Governor’s Initiative – The Governor sponsored an initiative measure and collected enough signatures to place Proposition 30 on the November 2012 election ballot. If adopted, it would place into the state Constitution the current statutory provisions transferring 1.0625 percent of state sales taxes to local governments to fund the “realignment” program for many services including housing criminal offenders. See “2011 BUDGET ACT - General – Realigning Services to Local Government.” The second part of this measure would provide temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and would specify that the additional revenues will support K-14 public schools and community colleges as part of the Proposition 98 guarantee. See “STATE FINANCES – Sources of Tax Revenue.” Each of Proposition 30 and Proposition 38 contain language to the effect that, if both are approved, the tax-raising provisions only of the measure with the greater number of votes would become operative law.

- Proposition 98 – The Proposition 98 guarantee for fiscal year 2012-13 is $53.6 billion, of which $36.8 billion is General Fund. This funding level assumes passage of the Governor’s Initiative, which increases Proposition 98 funding by $2.9 billion in fiscal year 2012-13. The balance will come from local property taxes and redevelopment agency assets. For fiscal year 2012-13, the budget will maintain level Proposition 98 programmatic funding for K-12 school districts, pay off $2.2 billion in the amount of payments to schools and community colleges that are deferred each year, and fund the Quality Education Investment Act (“QEIA”) program within the Proposition 98 guarantee. See “STATE FINANCES – Proposition 98 and K-14 Funding.”

- The $1.9 billion in Proposition 98 reduced expenditures shown on Table 2 is primarily due to use of the fiscal year 2011-12 Proposition 98 over-appropriation of the minimum guarantee amount to prepay other costs and as a result of changes in funding sources for K-14 education, referred to as “rebenching” the guarantee. See “STATE FINANCES – Proposition 98 and K-14 Funding.”

- K-12 Education – A total of $38.9 billion for K-12 education programs for fiscal year 2012-13, of which $37.8 billion is funded from the General Fund and the Education Protection Account fund. The remaining funds include special and bond funds. (The Education Protection Account would be created in the General Fund under the Governor’s Initiative to appear on the November 2012 ballot, and would receive the moneys generated by the increased income and sales tax rates.)

- Higher Education – Total state funding of $10.0 billion, including $9.4 billion from the General Fund, for all major segments of Higher Education. The remaining funds include special and bond funds.

- Child Care – The 2012-13 budget package reflects total child care savings of $294.3 million in non-Proposition 98, resulting in the elimination of 14,000 child care slots. The reductions consist of including center-based services within the state preschool program, making across the board reductions to provider contracts, and suspending statutory cost-of-living adjustments for non-CalWORKs programs.

- Health and Human Services – Total funding of $45.5 billion, including $26.7 billion from the General Fund, for Health and Human Services programs. The remaining funds include special and bond funds.

- Prison Funding – Total funding of $8.9 billion, from the General Fund for the California Department of Corrections and Rehabilitation.

- Redevelopment Agencies – Chapter 5, Statutes of 2011 ("ABx1 26"), eliminated redevelopment agencies ("RDAs") and replaced them with locally organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations. RDAs controlled billions of dollars of property tax "increment" generated by new development within redevelopment areas. Elimination of RDAs will provide additional property tax funding for education, by capturing the RDA tax increment over and above the amounts needed to service existing debts; this will yield a General Fund savings by reducing the state's General Fund contribution to Proposition 98. ABx1 26 also requires that former RDA cash and real property assets that are not otherwise encumbered or reserved for legally authorized purposes must be liquidated, and the resultant funds distributed to the affected taxing entities in the same manner as property tax revenues. The 2012 Budget Act includes a total of $3.155 billion from the elimination of RDAs as an offset to Proposition 98 costs. Of this amount, $1.676 billion is from property taxes which will be distributed to local school districts (about $685 million of which is attributable to taxes from fiscal year 2011-12), and $1.479 billion is from distribution of excess RDA cash and liquidation of assets. See "Budget Risks" below, "STATE BUDGET - Local Governments – Constitutional and Statutory Limitations on Local Governments" and "LITIGATION - Budget-Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law."

- Cap and Trade - In fiscal year 2012-13, the Air Resources Board will begin auctioning greenhouse gas ("GHG") emission allowances as a market-based compliance mechanism authorized by the California Global Warming Solutions Act, Chapter 488, Statutes of 2006 ("AB 32"). The auctions will generate proceeds to support existing and new efforts to address the causes of GHG emissions. The first allowance auction is expected in November 2012. The allowance will trade on the open market. Proceeds from the Cap and Trade auctions are expected to be approximately $1 billion in fiscal year 2012-13, of which $500 million is budgeted to offset General Fund costs. See "Budget Risks" and "Cap and Trade Program" below.

"Total funding" mentioned above consists of General Fund, special funds, and selected bond funds, and does not include other costs that are not considered costs to run state government, such as federal funds and reimbursements.

Trigger Mechanism If Governor's Initiative Is Not Approved or Not Operative

The 2012-13 budget package recognized the potential risk to the state's fiscal condition if the new revenues contained in the Governor's Initiative are not implemented by including the 2012-13 Trigger Mechanism to provide certain automatic expenditure reductions as set forth in the below table. The trigger reductions, totaling $6 billion, would go into effect on January 1, 2013, if the Governor's Initiative is not approved by voters, or if the Governor's Initiative is approved but its rate-amending provisions do not become operative.

Ballot Trigger Reductions

(Dollars in Millions)

Expenditure Reductions	**2012-13**
Proposition 98[1]	$5,353.8
University of California[2]	250.0
California State University[2]	250.0
Developmental Services	50.0
City Police Departments: Grants	20.0
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Local Water Safety Patrol	5.0
Other	6.0
Total	**$5,951.4**

Source: State of California, Department of Finance.

(1) For explanation, see "STATE FINANCES - Proposition 98 and K-14 Funding."

(2) This level of savings would be reduced by increased General Fund Cal Grant expenditures if the universities increase tuition as a result of the reduction. Cal Grant award amounts are tied to the mandatory systemwide tuition levels at the public higher education institutions. The annual Budget Act authorizes the Director of Finance to augment the budget for increased Cal Grant costs.

The Governor's Initiative is projected to raise total revenues by an estimated $8.5 billion, but only provide $5.6 billion of additional General Fund resources since Proposition 98 would require additional funding to K-14 schools and colleges. Thus, the 2012-13 Trigger Mechanism would only offset about 70 percent of the total revenues which are expected to be received from the Governor's Initiative, and the balance of the shortfall would have to be addressed in the fiscal year 2013-14 budget. The 2012-13 Trigger Mechanism would take effect even if the higher tax rates in Proposition 38 take effect in place of the Governor's Initiative. See "THE BUDGET PROCESS - Constraints on the Budget Process – Fiscal Propositions on November 2012 Ballot."

Budget Risks

The 2012-13 budget package addressing the state's cash management plan were based on a variety of assumptions. If actual results differ from those assumptions, the state's financial condition could be adversely or positively affected. There can be no assurance that the financial condition of the state will not be materially and adversely affected by actual conditions or circumstances in fiscal year 2012-13 and beyond.

Budget risks with potential significant General Fund impact for the fiscal year 2012-13 include, but may not be limited to, the following:

- Failure of the Governor's Initiative at the November 2012 election. The Budget includes a backup plan — $6 billion in trigger cuts pursuant to the 2012-13 Trigger Mechanism — if the ballot measure is not approved, but the trigger cuts would not fully offset the loss of projected revenues. The remaining shortfall (approximately $2.5 billion) would have to be addressed in the next fiscal year's budget.

- Revenues assumed in the 2012 Budget Act are based upon 2012-13 May Revision projections and could fall short or exceed these amounts. In particular, the exact level of capital gains and income growth for top earners remains uncertain, which can have a major impact on personal income tax receipts, as will the overall pace of the economic recovery. An example of such uncertainty is the future stock price for Facebook. Recent news articles have discussed the decline of Facebook's stock price below $20. The 2012 Budget Act forecast assumed 2012-13 revenues of $1.217 billion based on a share price of $35 Assuming passage of the Governor's Initiative, the total revenue is over $1.35 billion. The amount of revenue derived from the Facebook initial public offering depends primarily on the stock price for Facebook in late November, 2012, when the next wave of taxable events will occur. For example, if the share price were to be near the $20 price level in late November, it is likely that fiscal year 2012-13 revenue associated with the Facebook IPO would be approximately $550 million less than what was assumed in the budget. See "STATE FINANCES – Source of Tax Revenue" for a discussion of certain other assumptions used in projecting fiscal year 2012-13 revenues.

- The exact amount of proceeds from the Cap and Trade auctions (projected to be approximately $1 billion, of which $500 million would benefit the General Fund) will depend upon the bids placed by purchasers.

- Despite clarifying legislation being enacted, there remains uncertainty regarding the timing and dollar amounts of distributions of property tax and liquidation of cash and assets that are available from now dissolved redevelopment agencies (see text following Table 2 above). The dissolution of RDAs is projected to provide $3.155 billion in total resources to offset Proposition 98 costs in fiscal year 2012-13. Litigation has been filed by many of the successor agencies to the RDAs challenging the Administration's calculations of the amounts to be distributed. The Administration is continuing to review these calculations.

- Approximately $0.4 billion (related to Medi-Cal and In-Home Supportive Services) in expenditure savings are contingent on receiving federal administrative approval. The Administration will continue to work closely with the federal government to obtain these approvals, but there is no assurance that they will be obtained in full.

- Federal government actions or inaction (sometimes referred to as the "federal fiscal cliff"), including spending reductions, administrative actions, and decisions on income tax rates and/or tax reform, can impact assumptions made in the 2012 Budget Act.

- Delays in implementing budget solutions could reduce the savings achieved in the short term.

- Lawsuits challenging any of the solutions included in the 2012 Budget Act, or from prior years' budgets, could prevent the state from achieving those solutions. The state may also face costs from other ongoing lawsuits. See "LITIGATION."

LAO Estimates

The LAO has reported that it has a different estimate than the Administration of capital gains receipts and other income items that tend to be concentrated among high-income taxpayers, so that the LAO's estimate of the revenues which would be received from the new tax rates under the Governor's Initiative is about $770 million lower than the Administration's estimate for the period through fiscal year 2012-13, and is lower for future years. The LAO also has different estimates than the Administration for other elements of the 2012-13 budget package, including lower receipts from Cap and Trade auctions and revenues to be received from RDAs. More information can be found on the LAO's website.

Development of Revenue Estimates

Development of the forecast for the major General Fund revenues begins with a forecast of national economic activity prepared by an independent economic forecasting firm. The Department of Finance's Economic Research Unit, under the direction of the Chief Economist, adjusts the national forecast based on the Department of Finance's economic outlook. The national economic forecast is used to develop a forecast of similar indicators for California activity.

After finalizing the forecasts of major national and California economic indicators, revenue estimates are generated using revenue forecasting models developed and maintained by the Department of Finance. With each forecast, adjustments are made for any legislative, judicial, or administrative changes, as well as for recent cash flow results. The forecast is updated twice a year and released with the Governor's Budget by January 10 and the May Revision by May 14.

National Economy. The national and California economies continued to recover slowly between the time of the fiscal year 2012-13 Governor's Budget and the 2012 Budget Act. Various economic indicators suggest that the national economy has experienced a gradual expansion over the past year.

Output of the national economy (real Gross Domestic Product) grew by 1.9 percent in the first quarter of 2012– the eleventh consecutive quarter of growth. Consumer spending, exports, and investment in inventories and residential structures were the largest contributors to this growth. Retail sales grew 6.8 percent in 2011 and 5.4 percent during the first seven months of 2012 as compared to the first seven months of 2011.

The national unemployment rate eased gradually from the middle of 2011 through the early months of 2012 and then rose slightly at mid-year. Nonfarm payroll employment expanded modestly in 2011 and the first seven months of 2012.

Home building has bottomed out but is still at an extremely low level. California issued 47,000 residential building permits in 2011 as compared to the 209,000 permits issued in 2005. New home construction increased modestly in 2011 as compared to 2010. While still at a subdued level, housing starts were up 24 percent during the first four months of 2012 compared to the same period in 2011. Home prices in various metropolitan areas were slowly improving in the first half of 2012.

Investment by businesses in equipment and software expanded throughout 2010, 2011, and during the first half of 2012.

In May 2012, U.S. exports were up 4.2 percent over the year, led by industrial supplies and capital goods. During the second quarter of 2012, exports added 0.73 percent to Gross Domestic Product growth, trailing only the growth rates for household expenditures on goods and private investment.

California Economy. Statistics coming from the California economy are painting a picture of a gradual recovery. Strong growth in the high-technology sector, international trade, and tourism are offsetting weak residential construction and real estate, and fiscally strapped state and local governments.

The California economy is expected to continue making steady progress. Industry employment is forecast to expand 1.4 percent and 1.9 percent in 2012 and 2013, respectively, and 2.5 percent growth is projected for 2014. Personal income is projected to grow 4.9 percent in 2012, 3.4 percent in 2013 and 5.4 percent in 2014.

Personal income increased for the tenth consecutive quarter in the first quarter of 2012. Taxable sales increased for the eleventh consecutive quarter in the first quarter of 2012.

California's nonfarm payroll jobs grew by 167,900 between December 2010 and December 2011, or by 14,000 jobs per month on average. In the 12 months prior to December 2010, jobs grew by 145,000, or by 11,790 jobs per month. During the first five months of 2012, payroll jobs grew by 97,400, or by 19,480 jobs per month. The state unemployment rate reached a high of 12.4 percent in late 2010. The rate improved thereafter, falling to 10.8 percent in May 2012. In comparison, the national unemployment rate was 8.2 percent in May 2012.

Existing home sales stabilized around the half-million unit rate (seasonally-adjusted and annualized). During the first five months of 2012 the median sales price rose 1.6 percent from the same months of 2011 bringing the median price of these homes to approximately $300,000 (but still below the state median price of $526,000 in 2005). California issued 47,000 residential building permits in 2011 as compared to the 209,000 permits issued in 2005. The number of California homes going into foreclosure dropped in the first quarter of 2012 to the lowest level in almost five years. For 2011 as a whole, notices of default declined to 257,700 from their peak of 456,300 in 2009, but this was still much higher than historic norms.

Led by computer and electronic products, made-in-California exports grew by 11.3 percent in 2011 and 19 percent in 2010, after falling by 17 percent in 2009. Made-in-California exports grew 6.4 percent in the first quarter of 2012 compared to a year earlier. As in the rest of the nation, consumer spending in California rebounded in 2011 with growing vehicle sales playing a significant role. Taxable retail sales grew 8.2 percent in 2011. New motor vehicle registrations during the 12 months ending with February 2012 were up over 9 percent from the preceding 12 months.

The prospect of a European financial crisis and impending contractionary federal fiscal policy changes are the most significant known risks at this point. Economic growth in Europe is slowing, which is adversely affecting U.S. exports. California's exposure to this risk, though, is less than the nation's as a whole. Pacific Rim economies, Japan and China in particular, are much more important to the California economy than are European economies. Another risk is the impact of a number of impending federal fiscal policy developments that could slow economic growth at the beginning of 2013. These developments include the expiration of the Bush and temporary payroll tax cuts, the end of emergency unemployment insurance benefits and the imposition of automatic federal spending cuts. If the Bush tax cuts are extended through 2013 or longer, the state could expect to see a reduction in the amount of capital gains and dividend income shifted from 2013 to 2012. However, because of the advent of the 3.8 percent federal Medicare tax and because any decision to extend the Bush tax cuts will not likely be made until late in 2012, it is not likely that there would be a significant reduction in the amount of capital gains and dividend income shifted from 2013 to 2012.

Economic Assumptions Underlying the 2012 Budget Act

The revenue and expenditure assumptions utilized in connection with the 2012 Budget Act are based upon certain projections of the performance of the California, national, and global economies in calendar years 2012 and 2013. These projections are set forth in the table below:

TABLE 3
Selected National and California Economic Data

	2011 (Estimated)	2012 (Projected)	2013 (Projected)
United States			
Real gross domestic product (2005 CW* $, percent change)	1.7	2.2	2.4
Personal income (percent change)	5.1	3.7	4.2
Nonfarm wage and salary employment (millions)	131.4	133.5	135.7
(percent change)	1.2	1.6	1.7
California			
Personal Income ($ billions)	1,685.8	1,769.0	1,830.0
(percent change)	6.0	4.9	3.4
Nonfarm wage and salary employment (thousands)	14,085.2	14,284.6	14,550.9
(percent change)	1.1	1.4	1.9
Unemployment rate (percent)	11.8	10.9	10.4
Housing units authorized (thousands)	47.4	53.1	81.5
(percent change)	6.2	12.1	53.5
New auto registrations (thousands)	1,199.7	1,384.0	1,509.1
(percent change)	2.1	15.5	9.0
Total taxable sales ($ billions)	518.0	554.6	585.0
(percent change)	8.5	7.1	5.5

* CW: Chain Weighted
Note: Percentage changes calculated from unrounded data.
Source: State of California, Department of Finance, 2012 May Revision Forecast (April 2012).

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Summary of State Revenues and Expenditures

The table below presents the actual revenues, expenditures and changes in fund balance for the General Fund for fiscal years 2008-09, 2009-10, 2010-11, the estimated results for fiscal year 2011-12 and the enacted budgeted amounts for fiscal year 2012-13.

TABLE 4
Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance – General Fund (Budgetary Basis)[(a)]
Fiscal Years 2008-09 through 2012-13
(Dollars in Millions)

	2008-09	**2009-10**	**2010-11**	**Estimated[(b) (c)] 2011-12**	**Enacted[(b) (c)] 2012-13**
Fund Balance–Beginning of Period	$5,684.8	$(4,743.8)	$(4,481.4)	$(2,326.5)	$(2,882.3)
Restatements					
Prior Year Revenue, Transfer Accrual Adjustments	181.8	732.3	1,087.8	(1,098.5)	–
Prior Year Expenditure, Accrual Adjustments	(51.4)	583.5	522.2	740.4	–
Fund Balance–Beginning of Period, as Restated	**$5,815.2**	**$(3,428.0)**	**$(2,871.4)**	**$(2,684.6)**	**$(2,882.3)**
Revenues	$81,960.8	$86,574.6	$92,122.5	$85,045.4	$94,298.8
Other Financing Sources					
Transfers from Other Funds	1,054.9	523.5	1,661.5	1,784.2	1,588.2
Other Additions	40.3	102.1	53.2	–	–
Total Revenues and Other Sources	**$83,056.0**	**$87,200.2**	**$93,837.2**	**$86,829.6**	**$95,887.0**
Expenditures					
State Operations	$24,111.3	$24,012.4[(d)]	$26,533.6[(d)]	$23,410.1[(e)]	$24,268.5[(e)]
Local Assistance	67,800.8	61,953.2[(f)]	65,173.1[(f)]	63,499.9	67,391.6
Capital Outlay	1,137.4	1,574.7	139.5	33.9	94.3
Unclassified	–	–	–	83.4	(416.6)
Other Uses					
Transfer to Other Funds	565.5	713.3	401.6[(g)]	–[(g)]	–[(g)]
Total Expenditures and Other Uses	**$93,615.0**	**$88,253.6**	**$92,247.8**	**$87,027.3**	**$91,337.8**
Revenues and Other Sources Over or (Under) Expenditures and Other Uses	$(10,559.0)	$(1,053.4)	1,589.4	$(197.7)	$4,549.2
Fund Balance					
Deferred Payroll		799.7[(h)]	772.6[(h)]		
Reserved for Encumbrances	$1,536.7	770.1	846.6	$718.6	$718.6
Reserved for Unencumbered Balances of Continuing Appropriations[(i)]	1,232.9	1,010.7	1,009.0	–	–
Unreserved–Undesignated [(j)]	(7,513.4)	(7,061.9)	(4,954.7)	(3,600.9)	948.3
Fund Balance–End of Period	**$(4,743.8)**	**$(4,481.4)**	**$(2,326.5)**	**$(2,882.3)**	**$1,666.9**

(a) These statements have been prepared on a budgetary basis in accordance with state law and some modifications would be necessary in order to comply with generally accepted accounting principles ("GAAP"). The Supplementary Information contained in the state's Audited Basic Financial Statements for the year ended June 30, 2011, attached as APPENDIX F to this Official Statement, contains a description of the differences between the budgetary basis and the GAAP basis of accounting and a reconciliation of the June 30, 2011 fund balance between the two methods. See "FINANCIAL STATEMENTS."

(b) Department of Finance estimates shown net of reimbursements and abatements.

(c) Department of Finance estimates as of the 2012 Budget Act.

(Footnotes Continued on Following Page)

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(d) The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report ("BLBAR"). The DOC amounts reported in the BLBAR include the June 30 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 for fiscal year 2009-10 and December 5, 2011 for fiscal year 2010-11.

(e) Includes debt service on general obligation bonds. The estimated amount of debt service is $4.490 billion and $4.454 billion for fiscal years 2011-12 and 2012-13, respectively, net of the federal Build America Bond subsidy. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS - Capital Facilities Financing – Build America Bonds.") These amounts include reimbursement to the General Fund from special and other funds of approximately $790 million in fiscal year 2011-12 and $778 million in fiscal year 2012-13 to offset debt service costs of certain bonds. Debt service amounts for earlier years are set forth in the table titled "Outstanding State Debt Fiscal Years 2007-08 through 2011-12" under "STATE DEBT TABLES."

(f) In fiscal year 2009-10, Proposition 1A was suspended when the Governor declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state is required to repay the obligation, plus interest, by June 30, 2013. In fiscal year 2009-10, $1.7 billion of local property tax revenues were shifted to offset state General Fund costs, and in fiscal year 2010-11 another $350 million were shifted.

(g) "Transfer to Other Funds" is included either in the expenditure totals detailed above or as "Transfers from Other Funds."

(h) Deferred Payroll represents the amount of June 2010 and June 2011 payroll expenses deferred to July 2010 and July 2011, respectively, for all state departments paid through the uniform payroll system. The Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009 and 2010 and pursuant to Government Control Sections 12472.5 and 13302, implemented the deferral of June 2010 and June 2011 payroll expenditures for various governmental and nongovernmental cost funds.

(i) For purposes of determining whether the General Fund budget, in any given fiscal year, is in a surplus or deficit condition, see Chapter 1238, Statutes of 1990, amending Government Code Section 13307. As part of the amendment, the unencumbered balances of continuing appropriations which exist when no commitment for expenditure is made should be an item of disclosure, but the amount shall not be deducted from the fund balance. In accordance with Government Code Section 12460, the BLBAR reflects a specific reserve for the encumbered balance for continuing appropriations.

(j) Both actual and estimated amounts include SFEU. The Department of Finance generally includes in its estimates of the SFEU and set aside reserves, if any, the items reported in the table under "Reserved for Unencumbered Balances of Continuing Appropriations," and "Unreserved – Undesignated."

Source: Actual amounts for fiscal years 2008-09 to 2010-11: State of California, Office of the State Controller.
Estimated amounts for fiscal years 2011-12 and 2012-13: State of California, Department of Finance.

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The following table contains certain summary information concerning major General Fund revenue sources for an eight-year period:

TABLE 5
General Fund Revenues and Transfers
(Dollars in Thousands)

Fiscal Year	Sales & Use Tax	Personal Income Tax	Corporate Income Tax	Other Revenues and Transfers	Total
2005-06	$ 27,580,979	$ 49,901,122	$ 10,316,467	$ 5,652,877	$ 93,451,445
2006-07	27,444,661	51,971,378	11,157,898	4,895,286	95,469,223
2007-08	26,613,264	54,181,857	11,849,097	9,877,663	102,521,881
2008-09	23,753,364	43,375,959	9,535,679	6,107,110	82,772,112
2009-10	26,740,781	44,852,331	9,114,589	6,337,891	87,045,592
2010-11	26,983,000	49,445,469	9,613,594	7,401,213	93,443,276
2011-12[e]	18,921,000[a]	52,958,000[b][d]	8,208,000	6,742,676[c]	86,829,676
2012-13[e]	20,605,000[a][d]	60,268,000[d]	8,488,000	6,525,994	95,886,994

Source: State of California, Department of Finance.

(a) Reflects a decrease in the Sales & Use Tax rate from 6 percent to 5 percent (rate was temporarily increased from 5 percent to 6 percent from April 1, 2009 through June 30, 2011) and realignment of revenues related to shifting 1.0625 percent of the Sales & Use Tax rate to the Local Revenue Fund 2011. These two changes decrease General Fund revenues by an estimated $10.003 billion in fiscal year 2011-12 and $10.550 billion for fiscal year 2012-13.

(b) Reflects the expiration of a temporary 0.25 percent surcharge and the reduced dependent exemption credit for the 2009 and 2010 tax years. These two changes decrease General Fund revenues by an estimated $3.537 billion in fiscal year 2011-12.

(c) Reflects the expiration of a temporary 0.5 percent increase in the vehicle license fee rate (rate was increased from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011), decreasing General Fund revenues by an estimated $1.330 billion in fiscal year 2011-12.

(d) Reflects the assumed passage of the Governor's Initiative. The proposal temporarily increases tax rates on the highest income Californians, and temporarily increases the sales and use tax rate by 0.25 percent. Since higher PIT rate applies to income received in 2012, half the expected new income for that year is allocated to the 2011-12 fiscal year, although the cash receipt will not occur until 2013.

(e) Estimated.

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Revenue and Expenditure Assumptions

The table below presents the Department of Finance's budget basis statements of major General Fund revenue sources and expenditures for fiscal years 2011-12 and 2012-13, as set forth in the 2012 Budget Act. This table assumes voter approval of the Governor's Initiative, which raises the personal income tax in fiscal years 2011-12 and 2012-13 and the sales and use tax in fiscal year 2012-13.

TABLE 6
General Fund Revenue by Sources and Expenditures
Fiscal Years 2011-12 and 2012-13
(Dollars in Millions)

Revenues **Source**	**2011-12 Enacted (as of June 2011)**	**2011-12 Revised (as of June 2012)**	**2012-13 Enacted (as of June 2012)**
Personal Income Tax	$ 50,408*	$ 52,958	$ 60,268
Sales and Use Tax	19,009*	18,921	20,605
Corporation Tax	9,012	8,208	8,488
Insurance Tax	1,893	2,148	2,089
All Other[(a)]	8,134*	4,595	4,437
Total Revenues and Transfers	$ 88,456	$ 86,830	$ 95,887

Expenditures **Function**	**2011-12 Enacted**	**2011-12 Revised**	**2012-13 Enacted**
K-12 Education	$ 34,302	$ 34,497	$ 37,848
Health and Human Services	23,043[(b)]	26,772[(b)]	26,695[(b)]
Higher Education	10,248	9,888	9,432
Corrections and Rehabilitation	9,821[(b)]	8,060[(b)]	8,887[(b)]
Legislative, Judicial and Executive	3,151[(b)]	2,541[(b)]	2,056[(b)]
Natural Resources	1,946	1,948	1,900
State and Consumer Services	624	619	689
Business, Transportation and Housing	603[(c)]	573[(d)]	448[(e)]
Environmental Protection	51	51	46
Labor and Workforce Development	371	354	342
General Government			
Non-Agency Departments	469	443	487
Tax Relief/Local Government	996	545	2,531
Statewide Expenditures	312	736	-23
Total Expenditures	$ 85,937	$ 87,027	$ 91,338

* Reflects expiration of temporary increases effective in 2009 and realignment transfer of 1.0625 percent of state sales tax to local government. Does not reflect loss of $200 million of use tax from AB 155 deferral of taxation of certain internet sales.

(a) Generally consists of transfers and loans, motor vehicle license fees, alcoholic beverage taxes and fees, and various smaller amounts for miscellaneous fees, taxes, royalties, tribal gaming revenues, unclaimed property and other sources.

(b) The savings associated with the 2011 Realignment program were included only in Health and Human Services in the 2011 Budget Act. These savings have been appropriately allocated to Health and Human Services, Corrections and Rehabilitation, and Courts in the 2012 Budget Act.

(c) Includes $83.4 million partial repayment of prior year Proposition 42 loans and $507.1million debt service.

(d) Includes $83.4 million partial repayment of prior year Proposition 42 loans and $479.6 million debt service.

(e) Includes $83.4 million partial repayment of prior year Proposition 42 loans and $354.7 million debt service.

Source: State of California, Department of Finance. Figures in this table may differ from the figures in Table 16; see "Note" to Table 16.

Deferred Obligations

Despite eliminating a significant portion of the structural deficit in the 2011 Budget Act, the state continues to face major long-term challenges and must address the remaining structural budget deficit and the consequences of budget-balancing actions taken in the past. As part of the 2012 Budget Act projection, the Administration prepared a table showing $34.2 billion in "budgetary borrowing," which consisted of budget solutions adopted over the prior decade which had the effect of pushing costs into future years. This table represents a point-in-time estimate of what budgetary borrowings would be at the end of the 2011-12 fiscal year.

Items listed in Table 7 as "deferrals," represent actions (totaling $13.4 billion) taken to move required payments from the 2011-12 fiscal year into the next year for budgetary savings. These deferrals have to be renewed from year to year to avoid having to make a double payment within a fiscal year. Deferred obligations shown in Table 7 are a portion of Proposition 98 payments to schools and community colleges, certain Medi-Cal reimbursements, one month's state payroll and the final quarterly payment to the state pension fund. Other budgetary borrowings shown in Table 7 are repayment of the ERB deficit bonds which financed budget deficits from prior to 2004, repayment of certain legislatively-approved interfund borrowings, reimbursement of borrowings from state and local governments, reimbursements to local governments and school districts for the costs of state mandates placed on those entities under state laws, and repayments to school and community college districts of amounts owed under Proposition 98 from recalculation of the guarantee after the end of the fiscal year, referred to in Table 7 as "underfunding of Proposition 98" and referred to elsewhere in this Appendix A as "settle-up payments."

The Administration projects that, if the 2012-13 budget package is fully implemented and its policies remain in effect, and revenues continue to increase as projected, the state's budget in future years would carry annual operating surpluses (revenues exceeding expenditures). Additionally, a significant amount of the outstanding budgetary borrowing and deferrals shown in Table 7 would be repaid by the end of the 2015-16 fiscal year.

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TABLE 7
Outstanding Budgetary Borrowing
(Projected June 30, 2012 Balances)

	($ in Billions)
Deferred payments to schools and community colleges to next fiscal year	$10.4
Economic Recovery Bonds	6.3
Loans from Special Funds	4.3
Unpaid costs to local governments, schools and community colleges for state mandates	5.1
Underfunding of Proposition 98 ("settle-up" payments)	2.8
Borrowing from local government (Proposition 1A)	2.1
Deferred Medi-Cal Costs to next fiscal year	1.7
Deferral of state payroll costs from June to July	0.8
Deferred payments to CalPERS to next fiscal year	0.5
Borrowing from transportation funds (Proposition 42)	0.3
Total*	$ 34.2

Source: State of California, Department of Finance, 2012 Budget Act.
* Total may not add due to rounding.
NOTE: Table 7 does not reflect elements of the 2012 Budget Act which provide for repayment of some of these obligations, such as regularly scheduled retirement of ERBs, a scheduled repayment of the Proposition 1A obligation, and some amount of repayment of loans from special funds.

In some instances, such as the ERBs and the repayment to local governments under Proposition 1A, the repayment mechanism over time is included in annual budgets. In other cases, such as the loans from special funds, the repayment mechanism remains within the discretion of the Legislature.

In addition to the budgetary borrowing shown in Table 7, the state faces future obligations to employees for compensated absences, costs for self-insurance, and future payment of interest owed on borrowings from the federal government for unemployment insurance payments. (See "STATE FINANCES – Unemployment Insurance" below.) Further, in addition to the Proposition 98 deferred payment and underfunding shown in Table 7, there is another obligation owed under Proposition 98 which arises when under the terms of Proposition 98 there is an underfunding, such as a suspension of the guarantee, which is called a "maintenance factor." The Department of Finance estimates that the total outstanding balance of Proposition 98 maintenance factor payments was $10.6 billion at the end of the 2011-12 fiscal year. The Proposition 98 maintenance factor will be repaid pursuant to the constitutional repayment formula in future years when state revenue increases. See "STATE FINANCES - Proposition 98 and K-14 Funding."

The pension funds managed by the state's two main retirement systems, CalPERS and CalSTRS, each have substantial unfunded liabilities. See "PENSION TRUSTS." The state also has a substantial unfunded liability relating to retirees' postemployment healthcare benefits. See "STATE FINANCES – Retiree Health Care Costs."

Pension Reform Legislation

The Legislature approved a comprehensive pension reform package affecting state and local government on August 31, 2012. The legislation, AB 340, is on the Governor's desk awaiting further action. The bill implements lower defined-benefit formulas with higher retirement ages for new employees hired on or after January 1, 2013, and includes provisions to increase current employee contributions. Though the bill covers most public employees in state government, cities, counties, special districts, school districts, and community colleges, the following discussion relates only to the bill's impact on state employee retirement. The bill would exclude judges, the University of California, and charter cities with independent pension systems from the new retirement plans; however, newly elected or appointed judges would be subject to the cost-sharing provisions.

In a preliminary actuarial analysis, CalPERS noted savings to the state of $10.3 billion to $12.6 billion over the next 30 years due primarily to increased employee contributions and, as the workforce turns over, lower benefit formulas that will gradually reduce normal costs. The bill also directs state savings from additional employee contributions to be used toward additional payments on the state's unfunded liability, subject to Budget Act approval. The Department of Finance is currently calculating the state savings resulting from the increased employee contributions that could be applied toward the state's unfunded liability. Finance's preliminary indication is that, when fully implemented, annual savings would be in the tens of millions of dollars.

Other provisions reduce the risk of the state incurring additional unfunded liabilities, including prohibiting retroactive benefits increases, generally prohibiting contribution holidays, and prohibiting purchases of additional non-qualified service credit ("air time").

Key changes to retirement plans affecting the state include:

- New defined-benefit formulas that increase retirement ages for new public employees hired on or after January 1, 2013.
- For new employees, a cap on pensionable income of $110,100, or $132,120 (for employees not in Social Security). Annual increases on the cap would be limited to the Consumer Price Index for All Urban Consumers.
- A standard that employees pay at least 50 percent of normal costs.
    - Establishes increases for current state civil service and related excluded employees who are not contributing at least half of normal costs.
    - New California State University and judicial branch employees pay at least 50 percent of the normal cost or the current contribution rate of similarly situated employees, whichever is greater.

OPEB costs are not addressed in the bill. However, later retirement ages will help reduce OPEB liabilities in the long term.

Provisions in the bill affecting the CalSTRS system do not change the state's statutory contribution rate and will not likely have a material effect on state contributions in the short term. However, additional employee contributions, limits on pensionable compensation, and higher retirement ages for new members will reduce pressure on the system's unfunded liabilities and potentially state contribution levels in the long term.

Cap and Trade Program

The Cap and Trade program is a key element in the state climate plan. It sets a statewide limit on the sources of greenhouse gases ("GHG") that are responsible for 85 percent of California GHG emissions. In fiscal year 2012-13, the Air Resources Board will begin auctioning GHG emission allowances as a market-based compliance mechanism authorized by the California Global Warming Solutions Act ("AB 32"). The auctions will generate proceeds to support existing and new efforts to address the causes of GHG emissions.

The first allowance auction is expected in November 2012. The allowances will trade on the open market. Proceeds from the Cap and Trade auctions are expected to be approximately $1 billion in fiscal year 2012-13. The actual amount of Cap and Trade proceeds received from each auction is dependent on the price and the number of emission allowances sold. The 2012-13 budget package includes authority to expend at least $500 million in verified Cap and Trade auction proceeds consistent with AB 32. Not less than 60 days prior to allocating any Cap and Trade proceeds, the Air Resources Board and the Director of Finance must submit a plan for expending the funds to reduce GHG emissions to the Legislature.

Special Funds Audit

Following reports of special fund balance discrepancies at the Department of Parks and Recreation, the Department of Finance undertook a fund-by-fund review of more than 500 special funds of the state. The review focused on the extent to which there were differences in special fund balances as of June 30, 2011, as reported by departments to the Department of Finance and to the State Controller's Office (the "SCO") and the reason for the variance. After adjustments to obtain an accurate comparison, there was a difference of $415 million due primarily to methodology and timing. Human errors also contributed to the difference. Additional policies and procedures will be implemented and, beginning with the fiscal year 2013-14 January Budget, the Department of Finance and departments will reconcile special funds in collaboration with the SCO. The Department of Finance and the SCO have determined that the differences in the fund balances reported to the Department of Finance and the SCO will not impact the fiscal year 2012-13 projected cash flows or projected amounts of borrowable resources set forth in the forepart of the Preliminary Official Statement. The fund balances reflected in budget and year-end accounting reports are generally prepared on a modified accrual basis of accounting; the borrowable resources displayed in the cash flows are cash basis numbers. They are tracked and projected independently from fund balances. AB 1487 was passed by the Legislature on August 29, 2012. If signed by the Governor, AB 1487 would make various statutory changes to clarify accounting and reporting requirements related to special funds.

2011 BUDGET ACT

General

The 2011 Budget Act closed a projected budget gap of $26.6 billion over the two fiscal years 2010-11 and 2011-12, and projected a $543 million reserve by June 30, 2012, for a total of $27.2 billion in solutions (including a combination of expenditure reductions, additional revenues, and other solutions) and improved revenue results for the state's tax base. General Fund revenues and transfers for fiscal year 2011-12 were projected at $88.5 billion, a reduction of $6.3 billion compared with fiscal year 2010-11. General Fund expenditures for fiscal year 2011-12 were projected at $85.9 billion, a reduction of $5.5 billion compared to the prior year. In approving the 2011 Budget Act, the Governor exercised his line-item veto power to reduce General Fund expenditures by about $24 million, mostly in the Judicial Branch. The 2011 Budget Act also includes special fund expenditures of $34.2 billion and bond fund expenditures of $9.4 billion. The expectations for the 2011 Budget Act were not fully achieved, as described below in "Fiscal Year 2011-12 Revised Estimates in 2012 Budget Act."

The estimated General Fund revenue in the 2011 Budget Act reflected a combination of factors, including expiration of temporary taxes and surcharges that had been enacted in 2009 (which totaled approximately $7.1 billion in fiscal year 2010-11) and transfer of about one percent of the state sales tax rate to local governments to fund the realignment described further below. Offsetting these reductions was improved revenue estimates for the remaining state tax sources. Expenditures reflected increases needed to offset the termination of federal stimulus funding ("ARRA") which supported about $4.2 billion of General Fund programs in fiscal year 2010-11.

In addition to $27.2 billion in solutions and improved revenues, the 2011 Budget Act contained the following major General Fund components:

- Proposition 98 – The Proposition 98 guarantee for fiscal year 2011-12 is $48.7 billion, of which $32.9 billion is funded from General Fund. The Proposition 98 guarantee was not suspended for fiscal year 2011-12. Transferring 1.0625 percent of the state sales tax to local governments as part of the realignment legislation described below reduced the Proposition 98 guarantee by $2.1 billion in fiscal year 2011-12. Other budget legislation would protect K-14 schools from this reduction by seeking a future ballot measure to provide additional funding. See "STATE FINANCES – Proposition 98 and K-14 Funding" below. A lawsuit was filed which challenges the reduction of the Proposition 98 guarantee as a result of the redirection of state sales tax as part of the realignment program. See "LITIGATION — Budget Related Litigation – Actions Challenging School Financing."

- K-12 Education – A total of $35.8 billion for K-12 education programs for fiscal year 2011-12, of which $34.3 billion is funded from the General Fund. The remaining funds include special and bond funds. The original budgeted expenditures were reduced for the second half of the fiscal year as described below under "Trigger Mechanism for Revenue Shortfall."

- Higher Education – Total funding of $11.1 billion, including $10.2 billion from the General Fund and Proposition 98 sources, for all major segments of Higher Education. The remaining funds include special and bond funds. The original budgeted expenditures were reduced for the second half of the fiscal year as described below under "Trigger Mechanism for Revenue Shortfall."

- Health and Human Services – Total funding of $37.1 billion, including $23 billion from the General Fund, for Health and Human Services programs. The remaining funds include special and bond funds. The original budgeted expenditures were reduced for the second half of the fiscal year as described below under "Trigger Mechanism for Revenue Shortfall."

- Prison Funding – Total funding of $9.8 billion from the General Fund for the California Department of Corrections and Rehabilitation.

- Redevelopment Agencies – Legislation enacted as part of the 2011 Budget Act eliminated redevelopment agencies but optionally allowed them to continue in existence if their sponsoring entity paid a fee to local schools and certain special districts. The 2011 Budget Act reflected an allocation of $1.7 billion of these funds to offset K-14 Proposition 98 General Fund expenditures in fiscal year 2011-12. With the result of the Supreme Court's decision in the case of *California Redevelopment Association v. Matosantos*, that all redevelopment agencies have been terminated as of February 1, 2012, and the alternate choice to pay funds declared unconstitutional, the Administration revised its projections. There were subsequent revisions and shifting of a portion of the funds to fiscal year 2012-13. As of the 2012 Budget Act, the 2011-12 value is now projected to be $133 million. See "CURRENT STATE BUDGET" for more information on the budget savings relating to the termination of redevelopment agencies.

- Realigning Services to Local Governments – The 2011 Budget Act included a major realignment of public safety programs from the state to local governments ("AB 109"). The realignment moved program and fiscal responsibility to the level of government that can best provide the service, eliminating duplication of effort, generating savings, and increasing flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 will move lower-level offenders from state prisons to counties and reduce the number of parole violators in the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The 2011 Budget Act funds the $5.6 billion realignment using two fund sources: (1) the dedication of 1.0625 cents of the existing state sales tax rate ($5.1 billion) and (2) the redirection of vehicle license fee revenues ($453.4 million). As a result of the realignment, the state expected General Fund savings from the realigned programs to be about $2.6 billion in fiscal year 2011-12. About $2.1 billion of these savings is achieved from a reduction in the Proposition 98 guarantee; however, a lawsuit was filed challenging this calculation of the Proposition 98 guarantee. See "LITIGATION – Budget-Related Litigation." As of the 2012 Budget Act, the funding for realignment is $5.6 billion, which consists of the following amounts: (1) a state special fund sales tax of 1.0625 cents ($5.2 billion), and (2) vehicle license fee revenues ($439.4 million). The savings remain as noted above.

Trigger Mechanism for Revenue Shortfall

The 2011 Budget Act projected an additional $4 billion in fiscal year 2011-12 General Fund revenues over May 2011 projections, based on better-than-projected revenues in May and the first part of June 2011. This amount was estimated on an aggregate basis, and was not allocated to specific tax sources. The 2011 Budget Act recognized the potential risk to the state's fiscal condition if the higher revenues did not materialize by including a "trigger mechanism" to provide certain automatic expenditure reductions described below if projections of the fiscal year 2011-12 revenues to be updated in November/December 2011 were more than $1 billion lower than projected under the 2011 Budget Act.

The first step in this process was a report from the LAO released on November 16, 2011, which projected that General Fund revenues and transfers in fiscal year 2011-12 would be $3.7 billion below the level assumed in the 2011 Budget Act. On December 13, 2011, the Director of Finance released a forecast that the revenue shortfall would be about $2.2 billion, largely based on higher revenue estimates than the LAO. Under the law, the lower shortfall estimate of the Director of Finance was used to implement the automatic expenditure reductions, which consisted of $551 million in cuts to higher education, health and human services, and public safety, $350 million in cuts from eliminating the home-to-school transportation program and reducing community college apportionments, and $80 million of cuts from K-12 school apportionments. Subsequent legislation restored the funding for home-to-school transportation and instead made the cuts across the board to K-12 schools. A later court injunction has halted about $100 million of the reductions related to Health and Human Services.

Fiscal Year 2011-12 Revised Estimates in the 2012 Budget Act

The 2012 Budget Act revised various revenue and expenditure estimates for fiscal year 2011-12. The 2012 Budget Act projects, based on the various assumptions and proposals it contains, that the state will end fiscal year 2011-12 with a negative reserve of $3.6 billion, compared to a positive $543 million reserve estimated at the time of the 2011 Budget Act, a decrease of $4.1 billion. This change is based on:

1. Net loss related to activities prior to fiscal year 2011-12 of $1.5 billion. This change in the starting balance is primarily due to the following components:

- $0.9 billion net decrease in revenues after offset of a related decrease in Proposition 98 spending in fiscal year 2010-11;

- $0.2 billion increase in non-Proposition 98 expenditures in fiscal year 2010-11;

- $0.7 billion fiscal year 2010-11 Proposition 98 suspension settle-up payment expenditure; and

- $0.2 billion decrease in expenditures due to an increase in fiscal year 2010-11 CalFire Federal Emergency Management Agency reimbursements.

2. General Fund revenues and transfers for fiscal year 2011-12 projected at a revised $86.8 billion, which is $1.6 billion lower than the 2011 Budget Act's estimate of $88.4 billion. This change includes, among other things, the following major factors:

- $3.1 billion increase in revenues allocated to the 2011-12 fiscal year if the Governor's Initiative is approved (see footnotes to Table 5 above);

- $5.2 billion decrease in revenues from the current tax structure; and

- $0.4 billion increase in Loans and Transfers;

3. General Fund expenditures for fiscal year 2011-12 were projected at $87.0 billion (including the impact of implemented trigger cuts, as described above), an increase of $1.1 billion compared with the 2011 Budget Act's estimate of $85.9 billion. This net increase in expenditures is mainly attributable to the following:

- $1.2 billion increase in Health and Human Services expenditures due to erosions of 2011 Budget Act solutions;

- $0.3 billion increase in Corrections and Rehabilitation expenditures due to unanticipated costs for the federal Receiver;

- $0.4 billion decrease in Higher Education expenditures (including Community Colleges) estimate, primarily due to fiscal year 2011-12 trigger reductions; and

- $0.2 billion increase in K-12 education expenditures.

CASH MANAGEMENT

Cash Management Tools

General. The majority of the state's General Fund receipts are received in the latter part of the fiscal year. Disbursements from the General Fund occur more evenly throughout the fiscal year. The state's cash management program customarily addresses this timing difference by making use of internal borrowing (see " – Internal Borrowing") and by issuing short-term notes in the capital markets (see " – External Borrowing"). External borrowing is typically done with RANs that are payable not later than the last day of the fiscal year in which they are issued. RANs have been issued in all but one fiscal year since the mid-1980's and have always been paid at maturity. The state also is authorized under certain circumstances to issue RAWs that are payable in the succeeding fiscal year. The state issued RAWs to bridge short-term cash management shortages in 1992, 1993, 1994, 2002 and 2003. See "STATE FINANCES – State Warrants – Reimbursement Warrants" for more information on RAWs.

RANs and RAWs are both payable from any "Unapplied Money" in the General Fund of the state on their maturity date, subject to the prior application of such money in the General Fund to pay Priority Payments. "Priority Payments" are payments as and when due to: (i) support the public school system and public institutions of higher education (as provided in Section 8 of Article XVI of the State Constitution); (ii) pay principal of and interest on general obligation bonds and general obligation commercial paper notes of the state; (iii) reimburse local governments for certain reductions in ad valorem property taxes (as required by Section 25.5 of Article XIII of the State Constitution), or make required payments for borrowings secured by such repayment obligation (see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Obligations in Connection with Proposition 1A of 2004"); (iv) provide reimbursement from the General Fund to any special fund or account to the extent such reimbursement is legally required to be made to repay borrowings therefrom pursuant to California Government Code Sections 16310 or 16418; and (v) pay state employees' wages and benefits, state payments to pension and other state employee benefit trust funds, state Medi-Cal claims, lease payments to support lease-revenue bonds, and any amounts determined by a court of competent jurisdiction to be required by federal law or the State Constitution to be paid with state warrants that can be cashed immediately. See "STATE FINANCES - State Warrants."

The state has employed additional cash management measures during some fiscal years; all of the following techniques were used at one time or another during the last several fiscal years and some of them are expected to be utilized in the current fiscal year:

- The State Controller has delayed certain types of disbursements from the General Fund.

- Legislation was enacted in each of the last several fiscal years increasing the state's internal borrowing capability, and the state has increased the General Fund's internal borrowings. See "STATE FINANCES – Inter-Fund Borrowings."

- Legislation has been enacted deferring some of the state's disbursements until later in the then-current fiscal year, when more cash receipts are expected, or into a succeeding fiscal year.

- In addition, the state issued \$2.6 billion of registered warrants (commonly referred to as "IOUs") in July and August 2009 because of insufficient cash resources. (See "STATE FINANCES – State Warrants" for an explanation of registered warrants.)

- Legislation was enacted in the 2011-12 fiscal year to increase borrowable resources through creation of the State Agency Investment Fund ("SAIF") to allow state entities whose monies are not required by law to be deposited in the Pooled Money Investment Account ("PMIA"), to make deposits of at least \$500 million into this new borrowable fund within the PMIA. The California State University and University of California systems deposited a total of \$1.7 billion into the SAIF on September 26, 2011, which will remain on deposit until April 2013, provided that withdrawals may be made earlier under certain emergency circumstances.

- Legislation was enacted in the 2012-13 budget package to establish a Voluntary Investment Fund (the "VIP Fund") to allow for local governmental entities to make deposits of at least \$200 million in the PMIA. Upon a determination by the Controller that additional cash resources are necessary to meet the state's obligations, the Controller can make a demand to the Treasurer to transfer said moneys to the General Fund solely for cash management purposes. Repayment of any such borrowings shall be considered a priority payment, equivalent to any other loan repayment made from the General Fund to another state fund. The Administration is actively discussing participation in the program with certain counties.

> To date, the state has not yet reached agreement with any local governmental entities to make deposits into the VIP Fund. The state's cash flow projections in connection with its fiscal year 2012-13 cash management plan do not assume any benefit from the VIP Fund.

Internal Borrowing. The General Fund is currently authorized by law to borrow for cash management purposes from more than 700 of the state's approximately 1,300 other funds in the State Treasury (the "Special Funds"). Total borrowing from Special Funds must be approved by the Pooled Money Investment Board ("PMIB"). The Controller submits an authorization request to the PMIB quarterly, based on forecasted available funds and borrowing needs. The Legislature may from time to time adopt legislation establishing additional authority to borrow from Special Funds. On February 3, 2012, the Governor signed SB 95 (Chapter 1, Statutes of 2012, "SB 95"), a statute which clarified that certain transportation funds and other funds were available for short-term cash management borrowing, which provided an estimated $865 million of additional capacity at certain times of the year. The state has historically made extensive use of its internal borrowing capability to provide cash resources to the General Fund. The PMIB has authorized the internal borrowing of up to $19.672 billion for the period ending September 30, 2012.

One fund from which moneys may be borrowed to provide additional cash resources to the General Fund is the BSA, a reserve fund established in 2004 by Proposition 58. However, during fiscal years 2008-09 to 2011-12, there were no funds available in the BSA and no funds will be available in fiscal year 2012-13. See "STATE FINANCES - Budget Reserves – Budget Stabilization Account (BSA)." The state also may transfer funds into the General Fund from the state's SFEU, which is not a Special Fund. See "STATE FINANCES – Inter-Fund Borrowings" for a further description of this process.

External Borrowing. As noted above, issuance of RANs is a normal part of the state's annual cash management program. The state issued $5.4 billion of RANs on September 22, 2011 and $1 billion on February 22, 2012 to assist its cash management in fiscal year 2011-12. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings." All of the 2011 RANs have matured and have been paid in full.

Payment Deferrals. From time to time, the Legislature changes by statute the due date for various payments, including those owed to public schools, universities and local governments, until a later date in the fiscal year, or even into the following fiscal year, in order to more closely align the state's revenues with its expenditures. This technique has been used several times in the last few fiscal years and is being used this fiscal year. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year.

In addition, state law gives the State Controller some flexibility as to how quickly the state must pay its bills. For instance, income tax refunds for personal income taxes are not legally due until 45 days after the return filing deadline, which is normally April 15. Accordingly, while the state has typically paid tax refunds as returns are filed, it can conserve cash by withholding refund payments until after the April 15 due date. Payments to vendors generally must be made within 45 days of receipt of an invoice. The state may delay payment until the end of this period, or it may even choose to make these payments later and pay interest. These delays are only used if the State Controller foresees a relatively short-term cash flow shortage.

Cash Management in Fiscal Year 2011-12

As a result of expenditure reductions enacted in March 2011 and improved revenue results (despite the expiration of temporary tax surcharges), the state entered the 2011-12 fiscal year in a better cash position than it had experienced for several years. Timely enactment of the 2011 Budget Act allowed the state to carry out its normal cash management borrowing (the "2011 Series A RANs") early in the fiscal year. In light of the uncertainty related to the federal debt limit situation, the state issued Interim RANs of $5.4 billion in late July 2011 to provide sufficient cash for the early part of the fiscal year in case developments in Congress disrupted the market for the 2011 Series A RANs. These interim RANs were prepaid on September 22, 2011 from Unapplied Moneys in the General Fund. The 2011 Series A RANs in the amount of $5.4 billion were issued on September 22, 2011; additional RANs in the amount of $1 billion were issued on February 22, 2012 (the "2011 Series B RANs," and together with the 2011 Series A RANs, the "2011 RANs"). All of the 2011 RANs have matured and have been paid in full.

Cash management bills enacted by the Legislature authorized deferral of certain payments during fiscal year 2011-12, including payments to K-12 schools (not to exceed $2.5 billion in the aggregate at any one time), reimbursements to the federal government for certain social service costs, certain local government social services, transportation payments and Proposition 63 mental health payments (not to exceed $1 billion in the aggregate at one time), higher education, CalSTRS payment modifications and trial operations (not including payroll). These deferrals were made in July 2011, October 2011 and March 2012 and did not exceed 60, 90 and 60 days, respectively. Certain small cities and counties, community college districts and school districts demonstrated hardship and were not subject to these deferrals. The cash management bills expressly provided that no deferrals may affect state payroll or payments of debt service on state bonds, lease rental payments which support revenue bonds, or certain other payments which are used to support debt service.

In addition to the 2011 RANs, intra-year cash payment deferrals described above were used, providing up to $5.7 billion of cash management relief in certain months. The state also utilized internal borrowable resources, including $1.7 billion from the SAIF program, described above under "General." An additional short-term deposit was made to SAIF in February 2012 as described in the next paragraph.

On January 31, 2012, the Controller sent a letter to Legislative leaders stating that, as a result of revenues $2.6 billion below original 2011 Budget Act projections and expenditures $2.6 billion higher than projections through January 2012, the state faced a potential shortfall of about $3.3 billion in cash resources over a period from the beginning of March to mid-April, 2012, including in that amount a desire to maintain a "cushion" of cash resources of $2.5 billion at all times. By late February 2012, the Controller and other state fiscal officers implemented steps to resolve this potential shortfall through a combination of additional internal borrowing from special funds (utilizing legislation signed by the Governor on February 3, 2012, SB 95, Chapter 1, Statutes of 2012 which added $865 million to borrowable resources), additional internal borrowing made possible by a $450 million temporary increased deposit in an investment fund by state universities, additional external borrowing ($1 billion of revenue anticipation notes sold to institutional investors on February 22, 2012), and temporary delays in making certain payments. On March 12, 2012, the Controller reported that no further cash shortfall was projected for the balance of the 2011-12 fiscal year, and the state paid all of its obligations through June 30, 2012, including all the 2011 RANs.

Cash Management In Fiscal Year 2012-13

The state entered fiscal year 2012-13 in a stronger cash position than it had in some prior years. Timely enactment of the 2012 Budget Act is allowing the state to carry out its regular cash management borrowing with RANs early in the year, and without the need for Interim RANs for the first time in three years. The state issued $10 billion of RANs on August 23, 2012.

As in previous years, the Legislature has enacted a cash management bill which authorizes deferral of certain payments during fiscal year 2012-13, including payments to K-12 schools, reimbursements to the federal government for certain social service costs, certain local government social services, transportation payments and Proposition 63 mental health payments (not to exceed $1 billion in the aggregate at one time) and higher education. The applicable deferrals were made in July 2012. Certain small cities and counties, community college districts and school districts demonstrated hardship and were not subject to these deferrals. The cash management bill expressly provides that no deferrals may affect state payroll or payments of debt service on state bonds, lease rental payments which support lease-revenue bonds, or certain other payments which are used to support debt service.

The state will also benefit from $1.7 billion of additional internal borrowable resources in the SAIF Fund during the first part of the fiscal year. The deposits in the SAIF Fund are scheduled to be returned in late April 2013. The Legislature has created a VIP Fund, described above, which could provide additional short-term cash management borrowing resources, but there are no current agreements for deposits into this fund.

State fiscal officials will continue to monitor the state's cash position during the fiscal year, and will take appropriate steps if necessary to manage any projected cash shortfalls which may occur, as they have done in prior years.

STATE INDEBTEDNESS AND OTHER OBLIGATIONS

General

The State Treasurer is responsible for the sale of most debt obligations of the state and its various authorities and agencies. The state has always paid when due the principal of and interest on its general obligation bonds, general obligation commercial paper notes, lease-revenue obligations and short-term obligations, including RANs and RAWs. Additional information regarding the state's long-term debt appears in the section "STATE DEBT TABLES."

Capital Facilities Financing

General Obligation Bonds

The State Constitution prohibits the creation of general obligation indebtedness of the state unless a bond measure is approved by a majority of the electorate voting at a general election or a direct primary. General obligation bond acts provide a continuing appropriation from the General Fund of all debt service payments on general obligation bonds, subject only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Under the State Constitution, the appropriation to pay debt service on the general obligation bonds cannot be repealed until the principal and interest on the bonds have been paid. See "STATE FINANCES - State Expenditures." Certain general obligation bond programs, called "self-liquidating bonds," receive revenues from specified sources so that moneys from the General Fund are not expected to be needed to pay debt service, but the General Fund is liable as a back-up if the specified revenue source is not sufficient. The principal self-liquidating bond programs are the ERBs, supported by a special sales tax, and veterans general obligation bonds, supported by mortgage repayments from housing loans made to military veterans. See " – Economic Recovery Bonds."

General obligation bonds are typically authorized for infrastructure and other capital improvements at the state and local level. Pursuant to the State Constitution, general obligation bonds cannot be used to finance state budget deficits (except as already authorized by ERBs, as described below).

As of July 1, 2012, the state had outstanding $80,087,280,000 aggregate principal amount of long-term general obligation bonds, of which $73,060,865,000 were payable primarily from the state's General Fund, and $7,026,415,000 were "self-liquidating" bonds payable first from other special revenue funds. As of July 1, 2012, there were unused voter authorizations for the future issuance of $34,380,904,000 of long-term general obligation bonds, some of which may first be issued as commercial paper notes (see "General Obligation Commercial Paper Program" below). Of this unissued amount, $1,306,210,000 is for general obligation bonds payable first from other revenue sources. See the table "Authorized and Outstanding General Obligation Bonds" following the caption "STATE DEBT TABLES." As part of the 2012-13 budget package, the Legislature cancelled $32,659,000 of unused bond authorizations in eight bond acts.

A ballot measure is scheduled to be submitted to the voters at the statewide election in November 2014 (rescheduled from 2012) to approve the issuance of $11.14 billion in general obligation bonds for a wide variety of purposes relating to improvement of California's water supply systems, drought relief, and groundwater protection. There are no bond measures on the November 2012 ballot. Additional bond measures may be included on future election ballots, but any proposed bond measure must first be approved by the Legislature or placed on the ballot through the initiative process.

Variable Rate General Obligation Bonds

The general obligation bond law permits the state to issue as variable rate indebtedness up to 20 percent of the aggregate amount of long-term general obligation bonds outstanding. These bonds are described generally in the following table, and represent about 5.2 percent of the state's total outstanding general obligation bonds (including ERBs).

Name of Bond	**Outstanding Principal Amount ($000) as of July 1, 2012**	**Variable Type**	**Liquidity Support[a]**	**Other Information**
General Obligation	$2,473,690	Daily/Weekly VRDO	Letters of Credit	
General Obligation	505,000	Fixed Rate to Mandatory Tender Date	None	Mandatory Tender on April 1, 2013
General Obligation	100,000	Indexed Floating Rate	None	Mandatory Tender on May 1, 2015
General Obligation	98,100	Indexed Floating Rate	None	Fixed Maturities 2017-2020
ERB	500,000	Daily/Weekly VRDO	Letters of Credit	
ERB	500,000	Fixed Rate to Mandatory Tender Date	None	Mandatory Tender on July 1, 2014
TOTAL	$4,176,790			

(a) See "Bank Arrangements."
Source: State of California, Office of the State Treasurer.

Under state law, except for the ERBs and certain other variable rate bonds without credit enhancement, the state must pay the principal of any general obligation bonds which are subject to optional or mandatory tender, and which are not remarketed or, if applicable, purchased by financial institutions which provide liquidity support to the state. The state has not entered into any interest rate hedging contracts in relation to any of its variable rate general obligation bonds, and it no longer has any auction rate bonds outstanding.

General Obligation Commercial Paper Program

Pursuant to legislation enacted in 1995, voter-approved general obligation indebtedness may be issued either as long-term bonds or, for some but not all bond issues, as commercial paper notes.

Commercial paper notes may be renewed or may be refunded by the issuance of long-term bonds. It is currently the state's policy to use commercial paper notes to provide flexibility for bond programs, such as to provide interim funding of voter-approved projects and to facilitate refunding of variable rate bonds into fixed rate bonds. Commercial paper notes are not included in the calculation of permitted variable rate indebtedness described under "Variable Rate General Obligation Bonds" and are not included in the figures provided above in the section "General Obligation Bonds." The state entered into new agreements in December 2011 with multiple banks to restructure the commercial paper program. A total of $1.649 billion of commercial paper is now authorized. See the "BANK ARRANGEMENTS" table for a list of the new credit agreements supporting the commercial paper program. A total of $10,130,000 of commercial paper was outstanding as of July 1, 2012.

Bank Arrangements

In connection with the letters of credit or other credit facilities obtained by the state in connection with variable rate obligations and the commercial paper program, the state has entered into a number of reimbursement agreements or other credit agreements with a variety of financial institutions as set forth in the table titled "BANK ARRANGEMENTS" which immediately follows the end of the text of this APPENDIX A, prior to "STATE DEBT TABLES." These agreements include various representations and covenants of the state, and the terms (including interest rates and repayment schedules) by which the state would be required to repay any drawings (including drawings resulting from any failed remarketings) on the respective letters of credit or other credit enhancement to which such credit agreements relate. To the extent that variable rate obligations cannot be remarketed over an extended period (whether due to reductions in the credit ratings of the institution providing credit enhancement or other factors), interest payable by the state pursuant to the reimbursement agreement or credit agreement would generally increase over current market levels relating to the variable rate obligations, and the principal repayment period would generally be shorter (typically less than five years) than the repayment period otherwise applicable to the variable rate obligation. On occasion the state's variable rate obligations have not been remarketed resulting in draws on the applicable credit facilities. In the past two years, the state has been able to successfully extend or replace most of its expiring credit facilities. In some cases bonds have been redeemed with excess ERB revenues or converted to bond structures which do not require a credit facility.

Lease-Revenue Obligations

In addition to general obligation bonds, the state has acquired and constructed capital facilities through the use of lease-revenue borrowing (also referred to as lease-purchase borrowing). Under these arrangements, the State Public Works Board, another state or local agency or a joint powers authority issued bonds to pay for the construction of facilities such as office buildings, university buildings, courthouses or correctional institutions. These facilities are leased to a state agency, the California State University, the University of California or the Judicial Council under a long-term lease that provides the source of payment of the debt service on the lease-revenue bonds. In some cases, there was not a separate bond issue, but a trustee directly created certificates of participation in the state's lease obligation, which were then marketed to investors. Under applicable court decisions, such lease arrangements do not constitute the creation of "indebtedness" within the meaning of the State Constitutional provisions that require voter approval. For purposes of this APPENDIX A and the tables under "STATE DEBT TABLES," the terms "lease-revenue obligation," "lease-revenue financing," "lease-purchase obligation" or "lease-purchase" means principally bonds or certificates of participation for capital facilities where the lease payments providing the security are payable from the operating budget of the respective lessees, which are primarily, but not exclusively, derived from the General Fund. The state had $11,330,355,000 in lease-revenue obligations outstanding as of July 1, 2012. The tables under "STATE DEBT TABLES" do not include equipment leases or leases which were not sold, directly or indirectly, to the public capital markets. The State Public Works Board, which is authorized to sell lease-revenue bonds, had approximately $7.82 billion authorized and unissued as of July 1, 2012. See "STATE FINANCES – Department of Corrections and Rehabilitation – Prison Construction Program" for information on the approximately $4.9 billion program to finance certain correctional facilities with lease-revenue bonds. In addition, SB 1407 (Chapter 311, Statutes of 2008) included intent language for up to $5 billion in lease-revenue financing for court construction, none of which has been sold to date. The debt service for all court projects financed under SB 1407 will be paid from a special fund with revenues dedicated for debt service payments.

Non-Recourse Debt

Certain state agencies and authorities issue revenue obligations for which the General Fund has no liability. Revenue bonds represent obligations payable from state revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users or local governments of facilities financed by the revenue bonds. The enterprises and projects include transportation projects, various public works projects, public and private educational facilities (including the California State University and University of California systems), housing, health facilities and pollution control facilities. State agencies and authorities had approximately $57.6 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 2012, as further described in the table "State Agency Revenue Bonds and Conduit Financing" under "STATE DEBT TABLES."

Build America Bonds

In February 2009, the Congress enacted certain new municipal bond provisions as part of the ARRA, which allowed municipal issuers such as the state to issue "Build America Bonds" ("BABs") for new infrastructure investments. BABs are bonds whose interest is subject to federal income tax, but the U.S. Treasury will repay the issuer an amount equal to 35 percent of the interest cost on any BABs issued during 2009 and 2010. The BAB subsidy payments from general obligation bonds are General Fund revenues to the state, while subsidy payments for lease-revenue bonds are deposited into a fund which is made available to the State Public Works Board for any lawful purpose. In neither instance are the subsidy payments specifically pledged to repayment of the BABs to which they relate. The cash subsidy payment with respect to the BABs, to which the state is entitled, is treated by the Internal Revenue Service as a refund of a tax credit and such refund may be offset by the Department of the Treasury by any liability of the state payable to the federal government. As of July 1, 2012 the state has received all BABs cash subsidy payments to which it has been entitled, without offset.

Between April 2009 and December 2010, the state issued $13.54 billion of BAB general obligation bonds and $551 million of BAB State Public Works Board lease-revenue bonds. The aggregate amount of the subsidy payments to be received from fiscal year 2012-13 through the maturity of these bonds (mostly 20 to 30 years) is approximately $8.7 billion for the general obligation BABs and $298 million for the State Public Works Board lease-revenue BABs. Federal legislative proposals have been made from time to time which would provide for future issuance of BABs (although at lower subsidy rates), but none have been enacted into law.

Future Issuance Plans; General Fund Debt Ratio

Since 2006, a significant amount of new general obligation bonds, lease-revenue bonds and Proposition 1A bonds have been authorized by voters and/or the Legislature. These authorizations led to a substantial increase in the amount of General Fund-supported debt outstanding, from $44.85 billion as of July 1, 2006 to $86.3 billion as of July 1, 2012, while still leaving current authorized and unissued bonds of about $40.9 billion.

In calendar years 2009 and 2010, over $35.07 billion of new money general obligation bonds, lease-revenue bonds and Proposition 1A bonds were sold. Following the record bond issuance levels in calendar years 2009 and 2010, bond issuance for new money general obligation bonds has substantially decreased as departments work to manage their existing bond cash balances. In calendar year 2011 and the first half of calendar year 2012, $6.3 billion of new money general obligation and lease-revenue bonds were sold. In addition $4.2 billion of refunding general obligation and lease-revenue bonds were sold.

Based on Department of Finance projections as of the 2012 Budget Act, approximately $6.0 billion of new money general obligation bonds (some of which may initially be in the form of commercial paper notes) and approximately $1.2 billion of lease-revenue bonds will be issued in fiscal year 2012-13. The Department of Finance updates these projections from time to time based on updated funding needs and actual spending by departments. In addition, the actual amount of bonds sold will depend on other factors such as overall budget constraints, market conditions and other considerations. The state also expects to issue refunding bonds as market conditions warrant.

With the continued issuance of authorized but unissued new bond sales to occur in the future, the ratio of debt service on general obligation and lease-revenue supported by the General Fund, to annual General Fund revenues and transfers (the "General Fund Debt Ratio"), can be expected to increase in future years. As assumptions for future debt issuance and revenue projections are updated from time to time, any changes to these amounts may impact the projected General Fund Debt Ratio. Based on the revenue estimates contained in the 2012 Budget Act and bond issuance estimates referred to in the preceding paragraph, the General Fund Debt Ratio is estimated to equal approximately 8.97 percent in fiscal year 2012-13. The projected ratio includes the interest and principal payable on the $1.895 billion Proposition 1A bonds.

The General Fund Debt Ratio is calculated based on actual gross debt service, without adjusting for receipts from the U.S. Treasury for the state's current outstanding general obligation and lease-revenue BABs or the availability of any special funds that may be used to pay a portion of the debt service to help reduce General Fund costs. The total of these offsets for general obligation bond debt service is estimated to equal approximately $1.1 billion for fiscal year 2012-13. Including the estimated offsets reduces the General Fund Debt Ratio to 7.79 percent. The actual General Fund Debt Ratio in future fiscal years will depend on a variety of factors, including actual debt issuance (which may include additional issuance approved in the future by the Legislature and, for general obligation bonds, the voters), actual interest rates, debt service structure, and actual General Fund revenues and transfers.

See the table "OUTSTANDING STATE DEBT, FISCAL YEARS, 2007-08 THROUGH 2011-12" under "STATE DEBT TABLES" for certain historical ratios of debt service to General Fund receipts.

Economic Recovery Bonds

The California Economic Recovery Bond Act ("Proposition 57") was approved by the voters on March 2, 2004. Proposition 57 authorized the issuance of up to $15 billion in ERBs to finance the negative General Fund reserve balance as of June 30, 2004, and other General Fund obligations undertaken prior to June 30, 2004. Repayment of the ERBs is secured by a pledge of revenues from a one-quarter cent increase in the state's sales and use tax that became effective July 1, 2004. In addition, as voter-approved general obligation bonds, the ERBs are secured by the state's full faith and credit and payable from the General Fund in the event the dedicated sales and use tax revenue is insufficient to repay the bonds.

The entire authorized amount of ERBs was issued in three sales, in May and June 2004, and in February 2008. No further ERBs can be issued under Proposition 57, except for refunding bonds. The state issued refunding ERBs in 2009 to restructure the program in response to a drop in taxable sales caused by the recent severe recession, and in 2011 for debt service savings.

Three different sources of funds are required to be applied to the early retirement (generally by purchase or redemption) of ERBs: (i) all proceeds from the dedicated quarter cent sales tax in excess of the amounts needed, on a semi-annual basis, to pay debt service and other required costs of the bonds, (ii) all proceeds from the sale of specified surplus state property, and (iii) fifty percent of each annual deposit, up to $5 billion in the aggregate, of deposits in the BSA (see "THE BUDGET PROCESS – Constraints on the Budget Process – Balanced Budget Amendment (Proposition 58)"). As of July 1, 2012, funds from these sources have been used for early retirement of approximately $4.96 billion of bonds during fiscal years 2005-06 through 2011-12, including $472 million which was transferred from the BSA in fiscal year 2006-07 and $1.023 billion transferred from the BSA in fiscal year 2007-08. As of July 1, 2012 a total of $8.16 billion of ERBs has been retired, leaving a principal balance of $5.81 billion. The state plans to retire approximately $16.2 million of additional ERBs on August 20, 2012 and approximately $438.6 million of additional ERBs on August 24, 2012 from excess sales tax revenues received through July 1, 2012.

The Governor suspended the BSA transfers in each of the fiscal years 2008-09 through 2012-13 due to the condition of the General Fund.

Tobacco Settlement Revenue Bonds

In 1998 the state signed a settlement agreement (the "Master Settlement Agreement" or "MSA") with the four major cigarette manufacturers (the "participating manufacturers" or "PMs"). Under the MSA, the PMs agreed to make payments to the state in perpetuity, which payments, at the time were predicted to total approximately $25 billion (subject to adjustments) over the first 25 years. Under a separate Memorandum of Understanding, half of the payments made by the cigarette manufacturers are paid to the state and half to local governments. The specific amount to be received by the state and local governments is subject to adjustment. Details in the MSA require reduction of the PMs' payments for decreases in cigarette shipment volumes by the PMs, payments owed to certain "Previously Settled States" and certain other types of offsets. However, settlement payments are adjusted upward each year by at least 3 percent for inflation, compounded annually.

State law enacted in 2002 (the "Tobacco Securitization Law") authorized the establishment of a special purpose trust to purchase the tobacco assets and to issue revenue bonds secured by the tobacco settlement revenues received beginning in the 2003-04 fiscal year. Legislation in 2003 amended the Tobacco Securitization Law to authorize a "back-up state guarantee" that requires the Governor to request an appropriation from the General Fund in the annual Budget Act to allocate funds from the General Fund for the payment of debt service and other related costs of the tobacco settlement revenue bonds secured by the second 2003 sale of tobacco settlement revenues in the event tobacco settlement revenues and certain other amounts are insufficient. The Legislature is not obligated to make any General Fund appropriation.

In 2003, two separate sales of these assets financed with revenue bonds (the "2003 Bonds") produced about $4.75 billion in proceeds which were transferred to the General Fund. In 2005 and 2007, the state refunded all of the original 2003 Bonds, generating additional proceeds of approximately $1.783

billion, which were also transferred to the General Fund. The back-up state guarantee was applied to only the second 2003 sale of bonds and was continued when those bonds were refunded in 2005 (the "2005 Bonds"). The back-up state guarantee only applies to the outstanding principal amount of $3.14 billion of 2005 Bonds.

The MSA provides for a potential reduction to the PMs' payments under specified conditions relating to the loss of market share to non-participating manufacturers ("NPMs"). This potential reduction is called an "NPM adjustment." The state disputes the PMs' right to an NPM adjustment for any year. The MSA also allows the PMs to withhold any portion of their annual payments that is disputed, until such time as the dispute is resolved. Since 2006, the annual amount of revenues received by the state has been reduced by some level of withholding of PMs' payments based on the PMs' assertion of their right to receive an NPM adjustment as is reflected in the table below.

Year of Scheduled Payment	Approximate NPM Adjustment Withheld
2006	$50.9 million
2007	$44.0 million
2008	$33.9 million*
2009	$32.8 million
2010	$35.3 million
2011	$53.8 million
2012	$46.6 million

*In February 2009, these funds were released and remitted to the state as part of the NPM arbitration negotiations.
Source: State of California, Office of the Attorney General.

For the second time since the bonds were issued, in part due to the NPM adjustments and declining consumption, the reserve funds of each series of bonds may be used to make the required debt service interest payment due in December 2012. The first time these funds were used was in December 2011. The draw on the 2005 supplemental reserve funds is expected to be approximately $3 million, leaving approximately $238 million in the reserve funds in December 2012. (The current balance also reflects a draw of approximately $5 million in December 2011.) If, in any future year tobacco settlement revenues are less than required debt service payments in such year, additional draws on the reserve funds of each series of bonds will be required. Future revenues in excess of debt service requirements, if any, will be used to replenish the reserve funds of the bonds. The state General Fund is not obligated to replenish the reserve funds.

The State Attorney General continues to pursue, in a multi-state arbitration proceeding, a determination to compel the PMs to pay the full NPM adjustment, given that the state asserts that it has been diligently enforcing the statute governing the NPMs. No assurance can be given that tobacco settlement revenues will not be adversely affected by an adverse ruling in the arbitration proceeding or a settlement of such proceeding.

Tobacco settlement revenue bonds are neither general nor legal obligations of the state or any of its political subdivisions and neither the faith and credit nor the taxing power nor any other assets or revenues of the state or of any political subdivision is or shall be pledged to the payment of any such bonds; provided that, in connection with the issuance of the 2005 Bonds, the state covenanted to request the Legislature for a General Fund appropriation in the event tobacco settlement revenues fall short and other available amounts, including the reserve funds, are depleted. Since the issuance of the 2005 Bonds, this appropriation has been requested and approved by the Legislature, to be utilized in the event tobacco settlement revenues and other available moneys are not sufficient to pay debt service. However, use of the appropriated moneys has never been required.

Obligations in Connection With Proposition 1A of 2004

The Amended 2009 Budget Act provided for state borrowing, pursuant to Proposition 1A of 2004, of approximately $1.998 billion of local property tax revenues. In accordance with Proposition 1A of 2004, the state is required to repay such revenues no later than June 2013. See "THE BUDGET PROCESS - Constraints on the Budget Process – Local Government Finance (Proposition 1A of 2004)."

Legislation implementing the borrowing in the Amended 2009 Budget Act provided authority to local governments to sell their right to receive the state repayment to a joint powers authority ("JPA") and for the JPA to issue bonds backed by the state's repayment obligation. The repayment obligation includes interest and issuance costs for the JPA bonds. See "STATE FINANCES – Local Governments."

On November 19, 2009, the California Statewide Communities Development Authority, a JPA, issued $1,895,000,000 of bonds which are secured by the state's obligation to make these payments to about 1,300 local governments, representing about 95 percent of the state's total borrowing from local governments. The 2012 Budget Act includes $91 million from the General Fund for the interest payments that will be incurred in fiscal year 2012-13. In accordance with the authorizing legislation, these bonds will be repaid by June 15, 2013. In addition, for the obligations to entities not participating in the JPA bond program (which are $103 million in principal amount); the Director of Finance has set an interest rate of two percent per annum. See "STATE DEBT TABLES" for a schedule of payments.

Cash Management Borrowings

As part of its cash management program, the state has regularly issued short-term obligations to meet cash management needs. See "CASH MANAGEMENT."

The following table shows the amount of RANs issued in the past five fiscal years and planned in the current fiscal year.

TABLE 8
State of California Revenue Anticipation Notes Issued
Fiscal Years 2007-08 to 2012-13
(Dollars in Billions)

Fiscal Year	Type	Principal Amount	Date of Issue	Maturity or Redemption Date
2007-08	Notes	$7.0	November 1, 2007	June 30, 2008
2008-09	Notes Series A-1	1.2	October 23, 2008	May 20, 2009
	Notes Series A-2	3.8	October 23, 2008	June 22, 2009
	Notes Series B-1	0.5	March 23, 2009	June 23, 2009
2009-10	Interim Notes	1.5	August 27, 2009	September 29, 2009*
	Notes Series A-1	2.825	September 29, 2009	May 25, 2010
	Notes Series A-2	5.975	September 29, 2009	June 23, 2010
2010-11	Interim Notes	6.7	October 28, 2010	November 23, 2010*
	Notes Series A-1	2.25	November 23, 2010	May 25, 2011
	Notes Series A-2	7.75	November 23, 2010	June 28, 2011
2011-12	Interim Notes	5.4	July 28, 2011	September 22, 2011*
	Notes Series A-1	0.5	September 22, 2011	May 24, 2012
	Notes Series A-2	4.9	September 22, 2011	June 26, 2012
	Notes Series B	1.0	February 22, 2012	June 28, 2012
2012-13	Notes Series A-1	2.5	August 23, 2012	May 30, 2013
	Notes Series A-2	7.5	August 23, 2012	June 20, 2013

* Redemption date.
Source: State of California, Office of the State Treasurer.

Indirect, Nonpublic or Contingent Obligations

Flood Litigation Judgment. In 2005, the state settled a lawsuit arising from liability for past flood damages through a stipulated judgment in the amount of $428 million, which provided for the state to make annual payments of $42.8 million, plus interest, for 10 years; the payments are subject to annual appropriation by the Legislature. The Legislature has included the required annual installment in each budget act since the settlement was approved. This matter is not treated as a "debt" of the state for any legal or constitutional purposes. The state understands that its annual installment payments have been pledged to secure certain debt instruments. The 2012 Budget Act includes $47.7 million for the required annual installment.

Unemployment Insurance Fund Borrowing. As described in "STATE FINANCES – Unemployment Insurance," commencing in fiscal year 2011-12, the state has been required to pay interest on loans made by the federal government to the state Unemployment Insurance ("UI") Fund. The principal amount of these loans at the end of 2011 was about $9.8 billion. The 2012 Budget Act appropriates $312.6 million to pay for the interest expense on this loan due September 30, 2012, by borrowing money from a state special fund.

Office of Statewide Health Planning and Development Guarantees. Pursuant to a law created in 1969, the Office of Statewide Health Planning and Development of the State of California ("OSHPD") insures loans and bond issues for financing and refinancing of construction and renovation projects for nonprofit and publicly-owned healthcare facilities. This program (commonly called "Cal-Mortgage Loan Insurance") is currently authorized in statute to insure up to $3 billion for health facility projects.

State law established the Health Facility Construction Loan Insurance Fund (the "Fund") as a trust fund which is continuously appropriated and may only be used for purposes of this program. The Fund is used as a depository of fees and insurance premiums and any recoveries and is the initial source of funds used to pay administrative costs of the program and shortfalls resulting from defaults by insured borrowers. If the Fund were unable to make payment on an insured loan or bond, state law provides for the State Treasurer to issue debentures to the holders of the defaulted loan or bond which are payable on a par with state general obligation bonds. All claims on insured loans to date have been paid from the Fund.

As of April 30, 2012, OSHPD insured 124 loans to nonprofit or publicly owned health facilities throughout California with an aggregate par amount of approximately $1.726 billion and the cash balance of the Fund was approximately $172.9 million. OSHPD engaged Oliver Wyman Actuarial Consulting, Inc. to perform the biennial actuarial study of the Fund as of June 30, 2010, and the study was completed in August 2011 (the "2010 actuarial study"). Based upon a number of assumptions, the 2010 actuarial study concluded, among other things, that the Fund appeared to be sufficient, under the "expected scenario" to maintain a positive balance until at least 2039-2040. Even under the "most pessimistic scenario," the 2010 actuarial study found that there was a 70 percent likelihood that the Fund's reserves as of June 30, 2010 would protect against any General Fund losses until at least 2020-2021, and a 90 percent likelihood that the Fund's reserves as of June 30, 2010 would protect against any General Fund losses until at least fiscal year 2016-17. More information on the program can be obtained from OSHPD's website.

Equipment Lease/Purchase Program. The state Department of General Services operates a centralized program which allows state departments to acquire equipment, software or services under financing programs with approved vendors. The state departments make annual payments for the equipment from their support budgets, which are subject to annual appropriation by the Legislature. If for any reason the annual payments are not appropriated, the state department is obligated to return the equipment to the vendor. These contracts are represented as capital leases in the state's financial statements. As of June 30, 2012, the aggregate total of contracts under this program was approximately $158.5 million.

STATE FINANCES

The General Fund

The moneys of the state are segregated into the General Fund and over 1,000 other funds, including special, bond and trust funds. The General Fund consists of revenues received by the State Treasury and not required by law to be credited to any other fund, as well as earnings from the investment of state moneys not allocable to another fund. The General Fund is the principal operating fund for the majority of governmental activities and is the depository of most of the major revenue sources of the state. For additional financial data relating to the General Fund, see the financial statements incorporated in or attached to this APPENDIX A. See "FINANCIAL STATEMENTS." The General Fund may be expended as a consequence of appropriation measures enacted by the Legislature and approved by the Governor (including the annual Budget Act), as well as appropriations pursuant to various constitutional authorizations and initiative statutes.

Budget Reserves

Special Fund for Economic Uncertainties (SFEU)

The SFEU is funded with General Fund revenues and was established to protect the state from unforeseen revenue reductions and/or unanticipated expenditure increases. The State Controller may transfer funds from the SFEU to the General Fund as necessary to meet cash needs of the General Fund and such transfers are characterized as "loans." The State Controller is required to return moneys so transferred without payment of interest as soon as there are sufficient moneys in the General Fund. At the end of each fiscal year, the State Controller is required to transfer from the SFEU to the General Fund any amount necessary to eliminate any deficit in the General Fund.

The legislation creating the SFEU (Government Code Section 16418) also contains a continuous appropriation authorizing the State Controller to transfer the unencumbered balance in the General Fund to the SFEU, as of the end of each fiscal year. However, if, at the end of any fiscal year in which it has been determined that there are revenues in excess of the amount that may be appropriated, as defined in subdivision (a) of Section 2 of Article XIII B of the California Constitution, this transfer shall be reduced by the amount of the excess revenues. The estimates of the transfer shall be made jointly by the LAO and the Department of Finance. For a further description of Article XIII B, see "– State Appropriations Limit." In certain circumstances, moneys in the SFEU may be used in connection with disaster relief.

For budgeting and accounting purposes, any appropriation made from the SFEU, other than appropriations contained in Government Code Section 16418, is deemed an appropriation from the General Fund. For year-end reporting purposes, the State Controller is required to add the balance in the SFEU to the balance in the General Fund so as to show the total moneys then available for General Fund purposes.

See Table 1 and footnote (j) in Table 4 for information concerning the recent balances in the SFEU and projections of the balances for the previous and current fiscal years. As in any year, the Budget Act and related trailer bills are not the only pieces of legislation which appropriate funds. Other factors, including re-estimates of revenues and expenditures, existing statutory requirements and additional legislation introduced and passed by the Legislature may impact the fiscal year-end balance in the SFEU.

Budget Stabilization Account (BSA)

Proposition 58, approved in March 2004, created the BSA as a second budgetary reserve. Beginning with fiscal year 2006-07, a specified portion of estimated annual General Fund revenues (reaching a ceiling of 3 percent by fiscal year 2008-09) will be transferred by the State Controller into the BSA no later than September 30 of each fiscal year unless the transfer is suspended or reduced as described below. These transfers will continue until the balance in the BSA reaches $8 billion or 5 percent of the estimated General Fund revenues for that fiscal year, whichever is greater. The annual transfer requirement will go back into effect whenever the balance falls below the $8 billion or the 5 percent target. The annual transfers can be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year. Proposition 58 also provides that one-half of the annual transfers shall be used to retire ERBs, until a total of $5 billion has been used for that purpose. A total of $1.495 billion of the $5 billion amount has been applied to the retirement of ERBs. (See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds").

Since 2007, the Budget Act has provided the Director of Finance the authority to transfer moneys from the BSA back into the General Fund in an amount determined by the Director of Finance to be sufficient to ensure there is a prudent General Fund balance. Using this authority, the Director of Finance ordered the transfer of the entire balance of $1.495 billion from the BSA to the General Fund to address a fiscal emergency proclaimed by the Governor on January 10, 2008. Once moneys are transferred out of the BSA, pursuant to this authority, they will not be replenished by a future fiscal year's annual transfer unless the Legislature, by statute, directs additional funds to be transferred from the General Fund into the BSA. Separate from the foregoing process for a budgetary transfer, the BSA may be used to make temporary loans to the General Fund, which must be repaid when the General Fund has available cash, as described under "– Inter-Fund Borrowings."

On May 31, 2012, Governor Brown issued an Executive Order to suspend the September 30, 2012 transfer from the General Fund to the BSA estimated at $2.9 billion based on the 2012 Budget Act. This transfer suspension was necessary to alleviate the need for additional program cuts. Governor Brown had also suspended the General Fund transfer to the BSA in fiscal year 2011-12. In addition, the previous Governor had suspended the General Fund transfer to the BSA for fiscal years 2008-09 through 2010-11. There is currently no money in the BSA.

Inter-Fund Borrowings

Inter-fund borrowing is used to meet temporary imbalances of receipts and disbursements in the General Fund. In the event the General Fund is or will be exhausted, the State Controller is required to notify the Governor and the PMIB (comprised of the Director of Finance, the State Treasurer and the State Controller). The Governor may then order the State Controller to direct the transfer of all or any part of the moneys not needed in Special Funds to the General Fund, as determined by the PMIB. All money so transferred must be returned to the special fund from which it was transferred as soon as there is sufficient money in the General Fund to do so. Transfers cannot be made which will interfere with the objective for which such special fund was created, or from certain specific funds. In general, when moneys transferred to the General Fund in any fiscal year from any special fund pursuant to the inter-fund borrowing mechanism exceed 10 percent of the total additions to such special fund as shown in the statement of operations of the preceding fiscal year as set forth in the Budgetary/Legal Basis Annual Report of the State Controller, interest must be paid on such excess at a rate determined by the PMIB to be the current earning rate of the PMIA. This provision does not apply to temporary borrowings from the BSA or other accounts within the General Fund.

The amount of loans from the SFEU, the BSA and other internal sources to the General Fund, as of the end of any month is displayed in the most recent State Controller's Statement of General Fund Cash Receipts and Disbursements, on the first page under "Borrowable Resources – Outstanding Loans." See EXHIBIT 2 to APPENDIX A.

Any determination of whether a proposed borrowing from one of the special funds is permissible must be made with regard to the facts and circumstances existing at the time of the proposed borrowing. The Attorney General has identified certain criteria relevant to such a determination. For instance, amounts in the special funds eligible for inter-fund borrowings are legally available to be transferred to the General Fund if a reasonable estimate of expected General Fund revenues, based upon legislation already enacted, indicates that such transfers can be paid from the General Fund promptly if needed by the special funds or within a short period of time if not needed. In determining whether this requirement has been met, the Attorney General has stated that consideration may be given to the fact that General Fund revenues are projected to exceed expenditures entitled to a higher priority than payment of internal transfers, i.e., expenditures for the support of the public school system and public institutions of higher education.

Enactment of Proposition 22 on November 2, 2010 prohibited future interfund borrowing from certain transportation funds. However, legislation (SB 95, Chapter 1, Statutes of 2012) was enacted on February 3, 2012 to clarify the intent of Proposition 22, making those transportation funds available for short-term cash management borrowing purposes.

In addition to temporary inter-fund cash management borrowings described in this section, budgets enacted in the current and past fiscal years have included other budgetary transfers and long-term loans from Special Funds to the General Fund. In some cases, such budgetary loans and transfers have the effect of reducing internal borrowable resources.

The following table shows internal borrowable resources available for temporary cash management loans to the General Fund on June 30 of each of the fiscal years 2008-09 through 2011-12 and estimates the amount currently available based on the 2012 Budget Act. See EXHIBIT 2 to APPENDIX A. The amount of internal borrowable resources fluctuates throughout the year.

TABLE 9
Internal Borrowable Resources
(Cash Basis)
(Dollars in Millions)

	June 30				
	2009	**2010**	**2011**	**2012[(a)]**	**2013[(b)]**
Available Internal Borrowable Resources	$19,037.7	$18,680.5	$18,193.3	$20,824.3	$19,028.2
Outstanding Loans					
From Special Fund for Economic Uncertainties and Budget Stabilization Account	1,539.6	435.9	1,190.8	474.9	948.2
From Special Funds and Accounts	10,368.5	9,486.2	6,973.7	9,118.4	4,647.4
Total Outstanding Internal Loans	(11,908.1)	(9,922.1)	(8,164.5)	(9,593.3)	(5,595.6)
Unused Internal Borrowable Resources	$7,129.6	$8,758.4	$10,028.8	$11,231.0	$13,432.6

(a) Increase in internal borrowable resources at June 30, 2012 is largely a result of the SAIF program, which is in effect from September 2011 to April 2013. See "CASH MANAGEMENT – Cash Management Tools."
(b) Projected as of 2012 Budget Act.
Source: Years ended June 30, 2009 through June 30, 2012: State of California, Office of the State Controller.
Years ended June 30, 2013: State of California, Department of Finance.

State Warrants

No money may be drawn from the State Treasury except upon a warrant duly issued by the State Controller. The State Controller is obligated to draw every warrant on the fund out of which it is payable for the payment of money directed by state law to be paid out of the State Treasury; however, a warrant may not be drawn unless authorized by law and unless unexhausted specific appropriations provided by law are available to meet it. As described below, state law provides two methods for the State Controller to respond if the General Fund has insufficient "Unapplied Money" available to pay a warrant when it is drawn, referred to generally as "registered warrants" and "reimbursement warrants." "Unapplied Money" consists of money in the General Fund for which outstanding warrants have not already been drawn and which would remain in the General Fund if all outstanding warrants previously drawn and then due were paid subject to the prior application of such money to obligations of the state with a higher priority. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Cash Management Borrowings." Unapplied Money may include moneys transferred to the General Fund from the SFEU and the BSA and internal borrowings from state Special Funds (to the extent permitted by law); however the state is not obligated to utilize interfund borrowings for the payment of state obligations if insufficient Unapplied Money is available for such payment. See "STATE FINANCES - Budget Reserves – Special Fund for Economic Uncertainties" and "Inter-Fund Borrowings."

Registered Warrants

If a warrant is drawn on the General Fund for an amount in excess of the amount of Unapplied Money in the General Fund, after deducting from such Unapplied Money the amount, as estimated by the State Controller, required by law to be earmarked, reserved or set apart from the Unapplied Money for the payment of obligations having priority over obligations to which such warrant is applicable, the warrant must be registered on the reverse side as not paid because of the shortage of funds in the General Fund.

The State Controller may issue registered warrants before exhausting all cash management techniques that could provide Unapplied Money to the General Fund. See “CASH MANAGEMENT.”

Registered warrants are interest bearing obligations that may be issued either with or without a maturity date. Most registered warrants bear interest at a rate designated by the PMIB up to a maximum of five percent per annum except, if the PMIB determines that it is in the best interests of the state to do so, the PMIB may fix the rate of interest paid on registered warrants at no more than 12 percent per annum. If issued with a maturity date, the principal and interest on such warrant will not be due until that date (although it may be optionally redeemed early if the state has sufficient unapplied money to do so) and the state may make other payments prior to that maturity date. If a registered warrant is issued without a maturity date, or its maturity date has occurred, it becomes redeemable by the holders on the date determined by the State Controller, with the approval of the PMIB.

State law generally requires that registered warrants be redeemable in the order they are issued but not prior to their maturity date, if any. The state issued approximately $2.6 billion of registered warrants to pay certain obligations of the state not having payment priority under law commencing on July 2, 2009, all of which were called for early redemption on September 4, 2009. (The State Controller was able to manage cash resources to ensure that higher priority payments, such as for schools and debt service, were made on time in July and August 2009.) The issuance of the registered warrants permitted the state to pay Priority Payments with regular warrants which could be cashed.

Reimbursement Warrants

In lieu of issuing individual registered warrants to numerous creditors, state law provides an alternative procedure whereby the Governor, upon request of the State Controller, may authorize utilizing the General Cash Revolving Fund in the State Treasury to borrow from other state Special Funds to meet payments authorized by law. The State Controller may then issue “reimbursement warrants” (sometimes called “revenue anticipation warrants” or “RAWs”) for sale to investors to reimburse the General Cash Revolving Fund, thereby increasing cash resources for the General Fund to cover required payments. The General Cash Revolving Fund exists solely to facilitate the issuance of reimbursement warrants. Reimbursement warrants have a fixed maturity date which may not be later than the end of the fiscal year following the year in which they were issued.

The principal of and interest on reimbursement warrants must be paid by the State Treasurer on their respective maturity dates from any Unapplied Money in the General Fund and available for such payment. In the event that Unapplied Money is not available for payment on the respective maturity dates of reimbursement warrants, and refunding warrants (see “– Refunding Warrants”) have not been sold at such times as necessary to pay such reimbursement warrants, such reimbursement warrants will be paid, together with all interest due thereon (including interest accrued at the original interest rate after the maturity date), at such times as the State Controller, with the approval of the PMIB, may determine.

The state has issued reimbursement warrants on several occasions in order to meet its cash needs when state revenues were reduced because of an economic recession, and the state incurred budget deficits. The state most recently issued reimbursement warrants in June 2002 and in June 2003.

Refunding Warrants

If it appears to the State Controller that, on the maturity date of any reimbursement warrant there will not be sufficient Unapplied Money in the General Fund to pay maturing reimbursement warrants, the State Controller is authorized under state law, with the written approval of the State Treasurer, to issue and sell refunding warrants to refund the prior, maturing reimbursement warrants. Proceeds of such refunding warrants must be used exclusively to repay the maturing warrants. In all other respects, refunding warrants are treated like reimbursement warrants, as described above.

Sources of Tax Revenue

The following is a summary of the state's major tax revenues and tax laws. Further information on state revenues is contained under "CURRENT STATE BUDGET," and "STATE FINANCES – Recent Tax Receipts." In fiscal year 2011-12, approximately 92 percent of the state's General Fund revenues and transfers were derived from personal income taxes, corporation taxes, and sales and use taxes. See Table 16 titled "Comparative Yield of State Taxes – All Funds, Fiscal Years 2007-08 through 2012-13" for a summary of the actual and projected sources of the state's tax revenue for those fiscal years.

The 2012 Budget Act is based on the assumed passage of the Governor's Initiative on the November 2012 ballot. The constitutional amendment would temporarily increase personal income tax rates on the highest income Californians and increase the sales and use tax rate by 0.25 percent. See "Personal Income Tax" and "Sales and Use Tax" below.

Personal Income Tax

The California personal income tax is closely modeled after the federal income tax law. It is imposed on net taxable income (gross income less exclusions and deductions), with rates ranging from 1 percent to 9.3 percent. In addition, a 1 percent surcharge is imposed on taxable income above $1 million and proceeds from such tax are dedicated to the Mental Health Services Fund. The personal income tax is adjusted annually by the change in the consumer price index to prevent taxpayers from being pushed into higher tax brackets without a real increase in income. Personal, dependent, and other credits are allowed against the gross tax liability. In addition, taxpayers may be subject to an alternative minimum tax ("AMT"), which is much like the federal AMT. The personal income tax structure is considered to be highly progressive. For example, the Franchise Tax Board indicates that the top 1 percent of taxpayers paid 40.9 percent of the total personal income tax in tax year 2010.

The 2012 Budget Act revenue projections assume passage of the Governor's Initiative on the November 2012 ballot. This measure will provide for an increase in the personal income tax rate of one percent for joint filing taxpayers with income above $500,000 and equal to or below $600,000; two percent increase for incomes above $600,000 and equal to or below $1,000,000; and three percent increase for incomes above $1,000,000. Tax rates for single filers would start at incomes one half those for joint filers. These additional rates would remain in effect for seven years, commencing for calendar year 2012. The Administration estimates that the additional revenue from the addition of the three new tax brackets will be $3.1 billion attributable to fiscal year 2011-12 and $4.7 billion in 2012-13.

One other initiative, Proposition 38, titled "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act", has qualified for the November 2012 ballot which would also increase personal income tax rates, but on a larger portion of taxpayers than the Governor's Initiative, and for a longer time (until 2024). Funds from this measure would primarily be dedicated to K-12 schools and early childhood education. If both initiatives pass, the income tax rates will be determined by the initiative with more votes. See "THE BUDGET PROCESS – Constraints on the Budget Process – Fiscal Propositions on the November 2012 Ballot."

In addition to making the forecast for fiscal year 2012-13 personal income tax receipts based on the economic forecast in the 2012-13 May Revision, the Department of Finance also made certain assumptions concerning capital gains and related tax behavior. Because of the scheduled increase of 3.8

percent in the federal Medicare tax, and the scheduled expiration of the Bush tax cuts at December 31, 2012, the Department of Finance projected that 15 percent of capital gains and 10 percent of dividend income would be accelerated into 2012 from 2013, thereby increasing receipts in fiscal year 2012-13 but reducing income in fiscal year 2013-14.

In addition, the Department of Finance estimated additional income of $283 million in fiscal year 2011-12 and $1.217 billion in fiscal year 2012-13 from the Facebook initial public offering. Preliminary analysis indicates the estimate for fiscal year 2011-12 has been realized, but the further receipts for fiscal year 2012-13 depend on a number of factors, including the stock price in the future. Assuming passage of the Governor's Initiative, the Administration projected additional Facebook initial public offering related income of $223 million in 2011-12 and $149 million in 2012-13. See "CURRENT STATE BUDGET – Budget Risks."

TABLE 10
Personal Income Tax Revenues (PIT)
Fiscal Year 2006-07 through 2012-13

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2006-07	$51,971	54.4%
2007-08	54,182	54.6
2008-09	43,376	52.4
2009-10	44,852	51.5
2010-11	49,445	52.9
2011-12[(e)]	52,958	61.0
2012-13[(e)]	60,268	62.9

(e) Estimated
Source: State of California, Department of Finance.

Taxes on capital gains realizations, which are linked to stock market performance, can add a significant dimension of volatility to personal income tax receipts. For example, capital gains tax receipts accounted for 14.8 percent of General Fund revenues and transfers in fiscal year 2000-01, while the 2012 Budget Act projects that capital gains will account for 5.4 percent of General Fund revenues and transfers in fiscal year 2011-12 and 7.2 percent in fiscal year 2012-13.

The following table shows actual and projected tax revenues related to capital gains (which are included in the table showing total personal income tax receipts above):

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TABLE 11
Revenues from Capital Gains
Fiscal Year 2006-07 through 2012-13

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2006-07	$10,614	11.1%
2007-08	11,881	12.0
2008-09	5,071	6.1
2009-10	2,593	3.0
2010-11	4,977	5.3
2011-12[(e)]	4,728	5.4
2012-13[(e)]	6,922	7.2

(e) Estimated
Source: State of California, Department of Finance.

Sales and Use Tax

The sales and use tax (referred to herein as the "sales tax") is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains, and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

The California use tax is imposed at the same rates as the regular sales tax on consumers of tangible personal property that is used, consumed, or stored in this state. Use tax applies to purchases from out-of-state vendors that are not required to collect tax on their sales. Use tax also applies to most leases of tangible personal property.

As of July 1, 2012, the breakdown for the uniform statewide state and local sales tax rate of 7.25 percent was as follows (many local jurisdictions have voted additional sales taxes for local purposes):

- 3.8395 percent imposed as a state General Fund tax;
- 1.0625 percent dedicated to local governments for realignment purposes (Local Revenue Fund 2011);
- 0.5 percent dedicated to local governments for health and welfare program realignment (Local Revenue Fund);
- 0.5 percent dedicated to local governments for public safety services (Local Public Safety Fund);
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law, with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use; and
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the state's ERBs (the "special sales tax").

The Governor's Initiative, Proposition 30, includes a 0.25 percent additional sales tax rate from January 1, 2013 through December 31, 2016. Proposition 38 does not include any changes to the sales tax. The Governor's Initiative also includes a provision constitutionally guaranteeing that the 1.0625 percent of the sales tax rate is dedicated to the Local Revenue Fund 2011 and explicitly states that this sales tax revenue does not constitute a General Fund revenue for purposes of the Proposition 98 guarantee. The 1.0625 percent of the sales tax rate is expected to generate $5.153 billion in fiscal year 2011-12 and $5.435 billion in fiscal year 2012-13. If both initiatives pass and the Governor's Initiative has more votes, both the 0.25 percent additional sales tax rate and the constitutional guarantee of the 1.0625 percent of the sales tax rate would take effect. If Proposition 38, instead, has more votes, the 0.25 additional sales tax rate would not take effect. It is unclear what would happen to the constitutional guarantee of the 1.0625 percent of the sales tax rate should both initiatives pass and Proposition 38 has more votes; however, this 1.0625 percent sales tax dedicated to local government would continue under existing statutes. The 2012 Budget Act assumes the 0.25 percent additional rate will take effect January 1, 2013.

Legislation passed as part of the 2011 Budget Act provides for certain companies making internet sales which have a sufficient nexus with the state to collect and remit use tax to the state, commencing in September 2012. The Department of Finance has estimated about $100 million of additional revenue from this source in fiscal year 2012-13, but there is substantial uncertainty about this number since the state has no experience with this method of taxation.

Existing law provides that 0.25 percent of the base state and local sales tax rate may be suspended in any calendar year upon certification by the Director of Finance, by November 1 in the prior year, that both of the following have occurred: (1) the General Fund reserve (excluding the revenues derived from the 0.25 percent special sales tax) is expected to exceed 3 percent of revenues in that fiscal year (excluding the revenues derived from the 0.25 percent special sales tax) and (2) actual revenues for the period May 1 through September 30 equal or exceed the previous May Revision forecast. The 0.25 percent rate will be reinstated the following year if the Director of Finance subsequently determines conditions (1) or (2) above are not met for that fiscal year. The Department of Finance estimates that the reserve level will be insufficient to trigger a reduction for calendar year 2012. See "CURRENT STATE BUDGET – Summary of State Revenues and Expenditures" for a projection of the fiscal years 2011-12 and 2012-13 General Fund Reserve.

Existing law provides that the special sales tax will be collected until the first day of the calendar quarter at least 90 days after the Director of Finance certifies that all ERBs and related obligations have been paid or retired or provision for their repayment has been made or enough sales taxes have been collected to pay all ERBs and related obligations to final maturity. At such time the special sales tax will terminate and the city and county portion of taxes under the uniform local sales and use tax will be automatically increased by 0.25 percent. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Economic Recovery Bonds."

An appellate court decision from 2008 held that two Dell entities and two providers of maintenance and warranty services had improperly collected from customers and remitted to the Board of Equalization ("BOE") use tax on optional service contracts that were sold with computers. The state anticipates that a pending action will result in a settlement requiring the BOE to refund the tax with interest. Plaintiffs estimate that the refund amounts could be as much as $250 million, if every purchaser of a service contract were to file a claim for refund pursuant to the settlement procedures. At the time of the 2012 Budget Act, it was estimated that Dell refunds would impact fiscal year 2012-13 by $75 million with further refunds occurring in fiscal year 2013-14. However, information provided by the BOE subsequent to the passage of the 2012 Budget Act leads the Administration to believe that all of the related refunds will occur in fiscal year 2012-13. While these refunds could be as low as $75 million in fiscal year 2012-13, it is possible they could approach the $250 million estimate as stated above. Identification and notification of all consumers affected by the decision (and thus due a refund) is pending review of databases provided to the BOE in May 2012. Determination of the total refund amount depends upon such identification, subsequent notification, and receipt of claims from such customers. See "LITIGATION – Tax Cases."

The following table shows actual and projected sales and use tax revenue:

TABLE 12
Sales and Use Tax Revenues
Fiscal Year 2006-07 through 2012-13

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2006-07	$27,445	28.7%
2007-08	26,613	26.8
2008-09	23,753	28.7
2009-10	26,741	30.7
2010-11	26,983	28.9
2011-12[(e)]	18,921	21.8
2012-13[(e)(1)]	20,605	21.5

(e) Estimated
(1) Assumes passage of Governor's Initiative.
Source: State of California, Department of Finance.

Corporation Tax

Corporation tax revenues are derived from the following taxes:

1. The Franchise Tax and the Corporate Income Tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that derive income from California sources but are not sufficiently present to be classified as doing business in the state.

2. Banks and other financial corporations are subject to the franchise tax plus an additional tax at the rate of 2 percent on their net income. This additional tax is in lieu of personal property taxes and business license taxes.

3. The AMT is similar to that in federal law. In general, the AMT is based on a higher level of net income computed by adding back certain tax preferences. This tax is imposed at a rate of 6.65 percent.

4. A minimum Franchise Tax of up to $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. New corporations are exempted from the minimum franchise tax for the first year of incorporation.

5. Sub-Chapter S corporations are taxed at 1.5 percent of profits.

6. Fees paid by limited liability companies ("LLCs"), which account for 3.6 percent of corporation tax revenue, are considered "corporation taxes."

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. Now consolidated in one matter and collectively referred to as *Gillette Company v. Franchise Tax Board* ("*Gillette*"), the plaintiffs contend that the single-weighted sales factor specified in section 25128 prior to amendment was contained within the Multistate Tax Compact ("MTC") and therefore cannot be modified without repealing the legislation that enacted MTC. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims for past years of approximately $750 million. The trial court ruled for the state in each of these matters, but the California Court of Appeal published a decision on July 24, 2012 in favor of the taxpayers. On August 9, 2012, the Court of Appeal on its own motion vacated its decision and opinion, and granted a rehearing in this matter. If the *Gillette* taxpayers are ultimately successful in their suit for refund, the vast majority of the revenue loss may not occur for several years. See "LITIGATION – Tax Cases."

One significant revenue measure enacted as part of the 2012-13 budget package was repeal of the state's participation in MTC, as a response to the *Gillette* litigation. By repealing its participation in MTC, the state will ensure that most taxpayers will not be allowed to use the equal weighted sales formula for apportioning income for calendar year 2012 and later tax years. Nonetheless, the ruling could result in a revenue loss of up to $150 million in fiscal year 2012-13 (although these amounts could be recaptured if the state ultimately prevails in the case at the California Supreme Court).

Another portion of the legislation repealing the state's participation in MTC finds and declares that there is a common law doctrine stating that elections affecting the computation of tax must be made on original tax returns. This provision seeks to render ineffective most attempts by taxpayers to file amended returns and obtain retroactive refunds, in the event that the state ultimately loses the *Gillette* cases. However, the implementation of this provision is likely to engender further litigation and the outcome cannot be assured.

The following table shows actual and projected corporate income tax revenues:

TABLE 13
Corporate Income Tax Revenues
Fiscal Year 2006-07 through 2012-13

Fiscal Year	Dollars In Millions	Percent Total General Fund Revenues And Transfers
2006-07	$11,158	11.7%
2007-08	11,849	11.9
2008-09	9,536	11.5
2009-10	9,115	10.5
2010-11	9,614	10.3
2011-12[(e)]	8,208	9.5
2012-13[(e)]	8,488	8.9

(e) Estimated
Source: State of California, Department of Finance.

Legislation enacted in the budget acts of 2008, 2009, and 2010 is expected to reduce corporation tax revenues by about $1.6 billion in fiscal year 2012-13, and by approximately $1.5 billion on an ongoing basis beginning in fiscal year 2013-14. See the table below for the impact of this legislation on prior fiscal years. An initiative measure (Proposition 39) on the November 2012 ballot would reverse portions of these recent tax changes, resulting in an estimated $1 billion of new revenue annually, only a small part of which would be received in fiscal year 2012-13. Further, this measure dedicates about half of the new revenues in fiscal years 2013-14 to 2017-18 to new programs, so the moneys would not benefit the General Fund. See "THE BUDGET PROCESS – Constraints on the Budget Process – Fiscal Initiatives on November 2012 Ballot – Proposition 39."

TABLE 14
Impact of Legislation on Corporate Income Tax Revenues
Fiscal Year 2006-07 through 2012-13
(Dollars in Millions)

Fiscal Year	Total	Impact of Enacted Legislation
2006-07	$11,158	0
2007-08	11,849	0
2008-09	9,536	1,539
2009-10	9,115	751
2010-11	9,614	269
2011-12[e]	8,208	(1,055)
2012-13[e]	8,488	(1,610)

(e) Estimated
Source: State of California, Department of Finance.

Insurance Tax

The majority of insurance written in California is subject to a 2.35 percent gross premium tax. For insurers, this premium tax takes the place of all other state and local taxes except those on real property and motor vehicles. Exceptions to the 2.35 percent rate are certain pension and profit-sharing plans which are taxed at the lesser rate of 0.5 percent, surplus lines and non-admitted insurance at 3 percent and ocean marine insurers at 5 percent of underwriting profits. To provide interim funding for the Healthy Families and Medi-Cal programs, Chapter 11, Statutes of 2011 expanded the 2.35-percent gross premiums tax to the Medi-Cal managed care plans. All tax receipts collected from this proposed extension are divided between the budgets of the Department of Health Care Services and the Managed Risk Medical Insurance Board, which oversees the Healthy Families Program. This provision expired June 30, 2012, but the 2012-13 budget package assumed approximately $183 million in revenue in the 2012-13 fiscal year based on the assumption that legislation would be enacted to extend the tax on Medi-Cal managed care plans for an additional two years. Since legislation to extend the tax was not enacted, the state will be reviewing options to address this funding shortfall.

The BOE ruled in December 2006 that the premium tax that insurers pay should be calculated on the basis of cash receipts rather than the value of premiums written as had been required by the Department of Insurance. This ruling is expected to result in a total loss of about $405 million spread over several years; the impact was $15 million in fiscal year 2008-09, $0 million in fiscal year 2009-10, $2 million in fiscal year 2010-11, and is estimated to be $239 million in fiscal year 2012-13, and $149 million in fiscal year 2013-14.

Estate Tax; Other Taxes

The state estate tax is based on the state death tax credit allowed against the federal estate tax. The California Estate Tax is designed to pick up the maximum credit allowed against the federal estate tax return. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 (the "Economic

Growth and Tax Relief Reconciliation Act") phased out the federal estate tax through 2010. The provisions of this federal act expired after 2010. At that time, the federal estate tax was scheduled to be reinstated along with the California Estate Tax. The federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, however, made changes to the estate tax for 2011 and 2012. One of those changes was an extension of the elimination of the state estate tax credit for 2011 and 2012. See Table 16 titled "Comparative Yield of State Taxes – All Funds-Fiscal Years 2006-07 through 2012-13." Revenues estimated for fiscal year 2012-13 are a very small fraction of eventual revenues estimated to be associated with the closure and payment of estates for deaths in 2013, so there will only be a minor impact if Congress again acts to prevent the state from implementing the pick-up tax in 2013.

Other General Fund taxes and licenses include: Inheritance and Gift Taxes; Cigarette Taxes; Alcoholic Beverage Taxes; Horse Racing License Fees; and Trailer Coach License Fees.

Special Fund Revenues

The California Constitution and statutes specify the uses of certain revenues. Such receipts are accounted for in various special funds. In general, special fund revenues comprise three categories of income:

- Receipts from tax levies which are allocated to specified functions, such as motor vehicle taxes and fees and certain taxes on tobacco products.
- Charges for certain services provided by the state government to individuals, businesses, or organizations, such as fees for the provision of business and professional licenses.
- Rental royalties and other receipts designated for particular purposes (e.g., oil and gas royalties).

Motor vehicle related taxes and fees are projected to account for approximately 30 percent of all special fund revenues in fiscal year 2012-13. Principal sources of this income are motor vehicle fuel taxes, registration and weight fees and vehicle license fees. In fiscal year 2012-13, $11.4 billion is projected to come from the ownership or operation of motor vehicles. About $3.7 billion of this revenue is projected to be returned to local governments. The remainder will be available for various state programs related to transportation and services to vehicle owners. For a discussion of Proposition 1A, approved by the voters in November 2004, which replaced a portion of vehicle license fees with increased property tax revenues, see "STATE FINANCES – Local Governments."

Taxes on Tobacco Products

The state imposes an excise tax on cigarettes of 87 cents per pack and the equivalent rates on other tobacco products. Tobacco product excise tax revenues are earmarked as follows:

1. Fifty cents of the per-pack tax on cigarettes and the equivalent rate levied on non-cigarette tobacco products are deposited in the California Children and Families First Trust Fund and are allocated primarily for early childhood development programs.

2. Twenty-five cents of the per-pack tax on cigarettes and the equivalent rates levied on non-cigarette tobacco products are allocated to the Cigarette and Tobacco Products Surtax Fund. These funds are appropriated for anti-tobacco education and research, indigent health services, and environmental and recreation programs.

3. Ten cents of the per-pack tax is allocated to the state's General Fund.

4. The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

If Proposition 29, on the state's June 6, 2012 ballot, had passed, there would have been an increase in the excise tax on cigarettes by one dollar per pack. However, the Secretary of State recently certified that Proposition 29 had failed by a very small margin. The proponents of the initiative, however, have asked for and were granted recounts in Los Angeles, Orange and Placer Counties. The results of such recounts are not yet available. As such, there is still a chance that the one dollar per pack excise tax increase will become law.

Recent Tax Receipts

The following table shows the trend of major General Fund and total taxes per capita and per $100 of personal income for the past five fiscal years and the current fiscal year.

TABLE 15
Recent Tax Receipts

	State Taxes Per Capita[(a)]		Taxes per $100 of Personal Income	
Fiscal Year	**General Fund**	**Total**	**General Fund**	**Total**
2007-08	$2,606.96	$3,056.56	$6.08	$7.12
2008-09	2,153.11	2,579.07	4.93	5.90
2009-10	2,281.07	2,679.27	5.53	6.50
2010-11	2,409.66	2,866.11	5.65	6.72
2011-12[(b)]	2,204.15	2,824.96	4.91	6.29
2012-13[(b)]	2,431.06	3,073.78	5.20	6.57

(a) Data through fiscal year 2009-10 reflects population figures based on the 2010 Census. Data after fiscal year 2009-10 reflects July 1 population estimates benchmarked to the 2010 Census.
(b) Estimated. Assumes passage of the Governor's Initiative.
Source: State of California, Department of Finance.

The following table displays the actual and estimated revenues by major source for the past five fiscal years and the current fiscal year. This table shows taxes that provide revenue both to the General Fund and state Special Funds.

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TABLE 16
Comparative Yield of State Taxes – All Funds
Fiscal Years 2007-08 through 2012-13
(Modified Accrual Basis)
(Dollars in Thousands)

Fiscal Year	Sales and Use [g]	Personal Income [b]	Corporation	Tobacco	Inheritance, Estate and Gift [c]	Insurance	Alcoholic Beverage	Horse Racing	Motor Vehicle Fuel [d][i]	Motor Vehicle Fees [e]
2007-08	$34,782,591[a]	$55,750,128	$11,849,096	$1,037,279	$6,303	$2,172,935	$327,260	$34,950	3,351,268	$5,218,206
2008-09	31,390,845[a]	44,360,228	9,535,679	1,000,434	245	2,053,850	323,934	30,737	3,162,299	5,636,427[l]
2009-10	33,527,230[a][h]	45,625,240	9,114,589	922,965	252	2,238,872[j][k]	311,242	12,740	3,149,143	6,786,009[l]
2010-11	33,443,592[a][h]	50,508,431	9,613,595	906,807	0	2,307,021[j][k]	334,178	13,078	5,705,527	6,568,834[l]
2011-12[f]	28,657,152[h][i]	54,037,000[m]	8,208,000	876,000	0	2,413,213[j][k]	331,000	15,346	5,630,601	5,890,179
2012-13[f][n]	30,994,745[h][i][m]	61,606,000[m]	8,488,000	847,000	45,000	2,524,505[k]	337,000	15,350	5,670,012	5,732,171

(a) These figures include the General Fund allocation and the 0.5 percent Local Public Safety Fund. The figures do not include the voter approved local revenue, local city and county operations revenue (Bradley-Burns) which also includes the 0.25 percent county transportation funds revenue.

(b) Includes the revenue estimate for a 1.0 percent surcharge on taxpayers with taxable income over $1 million, with the proceeds funding mental health programs pursuant to Proposition 63.

(c) The state estate tax is based on the state death tax credit allowed against the federal estate tax. As a result, the federal Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") progressively reduced the state estate tax in calendar years 2002 through 2004 and eliminated it beginning in calendar year 2005. The EGTRRA was scheduled to sunset after 2010, at which time the federal estate tax would have been reinstated along with the state estate tax. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, however, made changes to the estate tax for 2011 and 2012. One of those changes was an extension for 2011 and 2012 of the elimination of the state estate tax credit, which had been in effect since 2005. Revenues estimated for fiscal year 2012-13 are a very small fraction of eventual revenues estimated to be associated with the closure and payment of estates for deaths in 2013.

(d) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel. As part of the fuel tax swap implemented beginning July 1, 2010, the excise tax rate on gasoline fuel was increased from 18 cents to 35.3 cents in fiscal year 2010-11 and is 35.7 cents in fiscal year 2011-12. This rate will be adjusted each year to maintain revenue neutrality with the elimination of the General Fund portion of sales tax on gasoline fuel. Also as part of the fuel tax swap, the excise tax rate on diesel fuel was reduced from 18 cents to 13 cents in fiscal year 2011-12, and this rate will also be adjusted each year to maintain revenue neutrality with a sales tax increase on diesel fuel.

(e) Registration and weight fees, motor vehicle license fees and other fees. See "STATE FINANCES – Local Governments."

(f) Estimated for fiscal years 2011-12 and 2012-13.

(g) These figures include the temporary one-quarter cent tax increase which started to be collected in July 2004, and which is deposited in the Fiscal Recovery Fund and used for repayment of the Economic Recovery Bonds. See "STATE FINANCES–Sources of Tax Revenue – Sales and Use Tax."

(h) Includes the impact of a temporary increase in the General Fund sales and use tax rate from 5 percent to 6 percent, effective April 1, 2009 through June 30, 2011.

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(i) Includes the impact of the fuel tax swap that eliminated the General Fund portion of sales and use tax on motor vehicle gasoline fuel sales.

(j) Includes insurance tax on Medi-Cal managed care plans through June 30, 2012, to provide interim funding for the Healthy Families and Medi-Cal programs. Current law authorizes this tax through June 30, 2012; however, it is anticipated that legislation will extend this tax for an additional two years.

(k) A Board of Equalization decision regarding the taxation of premiums on cash versus accrued basis has resulted in refunds of $15 million in fiscal year 2008-09, $0 million in fiscal year 2009-10, $2 million in fiscal year 2010-11, and estimated refunds of $239 million and $149 million in fiscal years 2011-12 and 2012-13, respectively.

(l) Includes the impact of a temporary increase in the vehicle license fee from 0.65 percent to 1.15 percent, effective May 19, 2009 through June 30, 2011.

(m) Includes the impact of the assumed passage of Governor's Initiative on the November 2012 ballot which would temporarily add three tax brackets for taxable incomes beginning at $250,000 ($500,000 joint) with rates of 10.3 percent, 11.3 percent, and 12.3 percent effective retroactive to January 1, 2012, and increase the state sales tax by 0.25 percent effective January 1, 2013.

(n) Estimate for fiscal year 2012-13 includes $1.394 billion for the temporary one quarter cent tax described in footnote (g).

Note: This table shows taxes that provide revenue both to the General Fund and state Special Funds. Also, some revenue sources are dedicated to local governments.
Source: Actual amounts for fiscal years 2007-08 through 2010-11: State of California, Office of the State Controller.
Estimated amounts for fiscal years 2011-12 through 2012-13: State of California, Department of Finance.

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State Expenditures

The following table summarizes the major categories of state expenditures, including both General Fund and special fund programs for fiscal years 2006-07 through 2010-11.

TABLE 17
Governmental Cost Funds (Budgetary Basis)
Schedule of Expenditures by Function and Character
Fiscal Years 2006-07 to 2010-11
(Dollars in Thousands)

	Fiscal Year				
	2006-07	**2007-08**	**2008-09**	**2009-10**[(d)(e)]	**2010-11**[(d)(e)(f)]
Function					
Legislative, Judicial, Executive					
Legislative	$ 326,163	$ 338,482	$ 330,594	$ 323,371	$ 325,244
Judicial	3,515,815	3,902,038	3,962,289	2,606,012	3,742,539
Executive	1,634,180	1,761,510	1,669,476	1,615,119	1,810,506
State and Consumer Services	1,280,450	1,272,910	1,248,522	1,079,608	1,173,185
Business, Transportation and Housing					
Business and Housing	227,794	245,062	228,408	215,295	227,899
Transportation[(a)]	9,647,351	10,058,388	7,331,284	7,178,962	7,109,753
Natural Resources	3,176,459	3,657,430	3,225,625	3,307,987	3,414,859
Environmental Protection	1,093,916	1,124,326	1,032,212	831,753	962,109
Health and Human Services	35,333,446	37,232,168	35,041,981	31,129,184	41,642,841
Correctional Programs	9,012,954	9,978,422	9,566,474	7,860,690	9,514,121
Education					
Education–K through 12	38,453,336	39,229,865	34,354,841	33,850,883	33,193,396
Higher Education	10,801,631	11,303,864	9,486,317	9,735,095	10,623,763
Labor and Workforce Development	406,464	421,116	414,307	374,059	370,993
General Government					
General Administration	2,240,543	1,796,460	1,728,781	1,711,273	1,757,991
Debt Service	4,812,893	4,988,637	5,693,895	6,049,251	6,222,307
Tax Relief	666,504	669,140	480,312	438,725	438,082
Shared Revenues	2,117,815	1,649,546	1,976,050	2,151,407	2,231,710
Other Statewide Expenditures	1,532,718	1,454,338	1,168,937	54,058	1,330,757
Expenditure Adjustment for Encumbrances [(b)]	(1,177,635)	(1,244,356)	551,826	1,785,703	18,316
Credits for Overhead Services by General Fund	(470,455)	(549,309)	(507,543)	(362,614)	(417,786)
Statewide Indirect Cost Recoveries	(86,071)	(88,045)	(94,458)	(80,454)	(100,543)
Total	$ 124,546,271	$129,201,992	$ 118,890,130	$ 111,855,367	$ 125,592,042
Character					
State Operations	$ 36,867,742	$ 41,027,869	$ 38,101,282	$ 36,673,078	$ 40,451,395
Local Assistance [(c)]	84,578,753	85,603,560	78,795,864	72,795,422	84,254,039
Capital Outlay	3,099,776	2,570,563	1,992,984	2,386,867	886,608
Total	$ 124,546,271	$ 129,201,992	$ 118,890,130	$ 111,855,367	$ 125,592,042

(a) For fiscal years 2006-07 and 2007-08, the Transportation Investment Fund (Fund 3008) and the Transportation Deferred Investment Fund (Fund 3093) contracted for additional street and road repairs with monies provided by the General Fund per Revenue and Taxation Code Sections 7104 and 7107.

(b) For fiscal year 2008-09 Expenditure Adjustments for Encumbrances has an abnormal balance due to prior year reversal of over encumbered expenditures. Subsequent Budget adjustments per Executive Order S-09-08 issued July 31st did not allow for full expenditure of anticipated encumbered expenses. Health and Human Services, Corrections and Rehabilitation, and Higher Education had the most significant reductions. Fiscal years 2009-10 and 2010-11 have an abnormal balance due to the prior year reversal of over encumbered expenditures.

(c) In fiscal year 2009-10, Proposition 1A was suspended when Governor Schwarzenegger declared a fiscal emergency allowing the state to offset local assistance expenditures with $1.9 billion of property tax revenue borrowed from the local governments. The state is required to repay the obligation, plus interest, by June 30, 2013. Additionally, $1.7 billion of local property tax revenues were shifted to offset General Fund costs in fiscal year 2009-10 and another $350 million in fiscal year 2010-11.

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(d) Executive Orders 10/11-A and 11/12-A were issued by the Department of Finance, as authorized under Control Section 12.45 of the Budget Acts of 2009 and 2010, respectively, and pursuant to Government Code Sections 12472.5 and 13302, to defer the June 2010 and June 2011 payroll expenditures for various governmental and nongovernmental cost funds to July 2010 and July 2011. This affected all state departments paid through the uniform payroll system.

(e) The Department of Conservation ("DOC") did not submit the required year-end financial statements to the State Controller's Office for fiscal years 2009-10 and 2010-11 in time to be included in the Budgetary/Legal Basis Annual Report ("BLBAR"). The DOC amounts reported in the BLBAR include the June 30, 2010 and June 30, 2011 cash balances, plus accruals, derived from actual activity reported through November 30, 2010 and December 5, 2011, respectively.

(f) The State Air Resources Board ("ARB") did not submit the required year-end statements for the Motor Vehicle Account in the State Transportation Fund, to the State Controller's office for fiscal year 2010-11 in time to be included in the BLBAR. The Motor Vehicle Account amounts reported in the BLBAR include the ARB's June 30, 2011 cash balances plus estimated (not reconciled) accrual amounts provided by ARB.

Source: State of California, Office of the State Controller.

State Appropriations Limit

The state is subject to an annual appropriations limit imposed by Article XIII B of the State Constitution (the "Appropriations Limit"). The Appropriations Limit does not restrict appropriations to pay debt service on voter-authorized bonds.

Article XIII B prohibits the state from spending "appropriations subject to limitation" in excess of the Appropriations Limit. "Appropriations subject to limitation," with respect to the state, are authorizations to spend "proceeds of taxes," which consist of tax revenues, and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product or service," but "proceeds of taxes" exclude most state subventions to local governments, tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees and certain other non-tax funds.

There are various types of appropriations excluded from the Appropriations Limit. For example, debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, appropriations for tax refunds, appropriations of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels, and appropriation of certain special taxes imposed by initiative (e.g., cigarette and tobacco taxes) are all excluded. The Appropriations Limit may also be exceeded in cases of emergency.

The Appropriations Limit in each year is based on the Appropriations Limit for the prior year, adjusted annually for changes in state per capita personal income and changes in population, and adjusted, when applicable, for any transfer of financial responsibility of providing services to or from another unit of government or any transfer of the financial source for the provisions of services from tax proceeds to non-tax proceeds. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts. The Appropriations Limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received over such two-year period above the combined Appropriations Limits for those two years, is divided equally between transfers to K-14 districts and refunds to taxpayers.

The Legislature has enacted legislation to implement Article XIII B which defines certain terms used in Article XIII B and sets forth the methods for determining the Appropriations Limit. California Government Code Section 7912 requires an estimate of the Appropriations Limit to be included in the Governor's Budget, and thereafter to be subject to the budget process and established in the Budget Act.

The following table shows the Appropriations Limit for fiscal years 2008-09 through 2012-13.

TABLE 18
State Appropriations Limit
(Dollars in Millions)

	Fiscal Year				
	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
State Appropriations Limit	$79,858	$80,984	$79,118	$81,726	$84,221
Appropriations Subject to Limit	-48,418	-56,372	-61,796	-61,796[(a)]	-70,280[(a)]
Amount (Over)/Under Limit	$31,440	$24,612	$17,322	$19,930[(a)]	$13,941[(a)]

(a) Estimated/projected.
Source: State of California, Department of Finance.

Proposition 98 and K-14 Funding

General. On November 8, 1988, the voters of the state approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act." Proposition 98 changed state funding of public education below the university level and the operation of the Appropriations Limit, primarily by guaranteeing K-14 education a minimum level of funding (the "Proposition 98 guarantee"). Proposition 98 (as modified by Proposition 111, enacted on June 5, 1990) guarantees K-14 education the greater of: (a) in general, a fixed percentage of General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 education in the prior year, adjusted for changes in state per capita personal income and enrollment ("Test 2"), or (c) a third test, which replaces Test 2 in any year that the percentage growth in per capita General Fund revenues from the prior year plus one half of one percent is less than the percentage growth in state per capita personal income ("Test 3").

Legislation adopted prior to the end of the 1988-89 fiscal year implementing Proposition 98 determined the K-14 education's funding guarantee under Test 1 to be 40.7 percent of General Fund tax revenues based on fiscal year 1986-87 appropriations. This percentage has since been adjusted to approximately 36.8 percent of fiscal year 1986-87 appropriations to account for subsequent changes in the allocation of local property taxes since these changes altered the share of General Fund revenues received by schools and other General Fund changes. The Proposition 98 guarantee has typically been calculated under Test 2. Under Test 3, however, schools receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita General Fund revenues, plus 0.5 percent. If Test 3 is used in any year, the difference between Test 3 and Test 2 becomes a "credit" (called the "maintenance factor") to schools and is paid to them in future years when per capita General Fund revenue growth exceeds per capita personal income growth.

The Proposition 98 guarantee is historically funded from two sources: local property taxes and the General Fund. Any amount not funded by local property taxes is funded by the General Fund. Thus, local property tax collections represent an offset to General Fund costs in a Test 2 or Test 3 year. However, to the extent that voters approve the Governor's Initiative, a third source would be created temporarily for fiscal years 2012-13 through 2016-17, the Education Protection Account ("EPA").

Proposition 98 permits the Legislature, by a two-thirds vote of both Houses (on a bill separate from the Budget Act) and with the Governor's concurrence, to suspend the K-14 education's minimum funding guarantee for a one-year period. The amount of the suspension is added to the maintenance factor, the repayment of which occurs according to a specified State Constitutional formula, and eventually restores Proposition 98 funding to the level that would have been required in the absence of such a suspension. Therefore, suspending the minimum funding guarantee provides ongoing General Fund savings over multiple fiscal years until the maintenance factor is fully repaid.

The process for calculating the Proposition 98 guarantee involves recalculations for previous years based on revised estimates of state and local property taxes, average daily attendance ("ADA"), and civilian population. While some of these estimates are adjusted frequently, some may not be final for several years after the close of the fiscal year. Such changes in the estimates can result in significant adjustments to the guarantee, even if that year has ended. Therefore, additional appropriations may be required to fully satisfy the minimum guarantee for a prior year. These funds are referred to as "settle-up" funds, and often include statutory language designating the fiscal year for which the funds count. The factors used to calculate Proposition 98 and how much settle-up is owed are considered final when certified as required by the state Education Code. Settle-up payments are made at the discretion of the Legislature in future years.

Proposition 98 also contains provisions for the transfer of certain state tax revenues in excess of the Appropriations Limit to K-14 education in Test 1 years when additional moneys are available. No such transfer occurred for the 2010-11 fiscal year and no such transfer is anticipated for fiscal year 2011-12. See "STATE FINANCES – State Appropriations Limit."

Funding for Fiscal Years 2011-12 and 2012-13. The 2012 Budget Act assumes the passage of the Governor's Initiative, Proposition 30. Proposition 30, if passed, would require that additional tax revenues generated by temporary increases in personal income tax and sales and use tax rates be deposited into a newly created EPA. Appropriations from the account could be used for any educational purposes and would count towards meeting the Proposition 98 minimum guarantee. The funds deposited into this account would support roughly $2.9 billion in increased Proposition 98 growth attributable to the revenue increase itself, and would also offset an additional $5.2 billion in base Proposition 98 guarantee costs.

The 2012 Budget Act Proposition 98 guarantee level includes changes in revenues and "rebenching" of the guarantee. The major changes in revenues are the inclusion of the revenues generated from the Governor's Initiative, the on-going increase in local tax revenues resulting from the elimination of redevelopment agencies, and the distribution of cash assets previously held by redevelopment agencies. Assuming the passage of the Governor's Initiative, for fiscal year 2011-12, the Proposition 98 guarantee will be $46.9 billion, of which the General Fund share is $33.1 billion, with local property taxes covering the balance. The 2011-12 Proposition 98 guarantee will be $672 million below the level of General Fund appropriated in fiscal year 2011-12; the over appropriation will be deemed as payment toward the court required amount established pursuant to the *California Teachers Association v. Schwarzenegger* settlement agreement. Proposition 98 funding in fiscal year 2012-13 is proposed to be $53.6 billion. The General Fund share in fiscal year 2012-13 is $36.8 billion, including $8.1 billion in assumed revenues from the Governor's Initiative. In fiscal year 2012-13, it is estimated that the state will be in a Test 1 year.

The Proposition 98 guarantee is also rebenched when the law requires an adjustment of the Test 1 percentage to reflect a shift in revenue or movement of programs into or out of the Proposition 98 guarantee. In fiscal year 2011-12, the Proposition 98 guarantee was rebenched to reflect the fund shift impact of a $133 million increase (revised estimate) in offsetting local revenues as a result of the elimination of redevelopment agencies. Additionally, there were two rebenching impacts for programs shifts in fiscal year 2011-12; an increase to reflect the inclusion of mental health services within Proposition 98 and a decrease to reflect the exclusion of child care programs, with the exception of part-day preschool programs, from Proposition 98. All rebenchings of the guarantee used a current value cost methodology, which results in a dollar for dollar change for each rebenching and provides a single and consistent methodology. An additional increase to the guarantee is made for special education mental health services in fiscal year 2012-13 for costs funded in fiscal year 2011-12 out of Proposition 63 funds. Moreover, adjustments were made to reflect an increase in available offsetting redevelopment agencies' property tax revenues, and the one-time distribution of cash assets held by redevelopment agencies. The rebenching policy to hold Proposition 98 harmless from the elimination of sales tax on gasoline is eliminated in the 2012 Budget Act. The total impact of these rebenchings and the changes in revenues, in addition to other natural changes in Proposition 98 factors, result in the fiscal year 2012-13 Proposition 98 guarantee level of $53.6 billion.

If the Governor's Initiative is not approved and operative, the 2012-13 Trigger Mechanism will result in a projected $5.3 billion reduction of Proposition 98 obligations of the General Fund. The Proposition 98 guarantee will drop by $2.9 billion in fiscal year 2012-13. This will result in the elimination of the $2.2 billion repayment of inter-year budgetary deferrals proposed for fiscal year 2012-13, as well as a $50 million increase for community college district growth. In addition, Proposition 98 will be rebenched to shift K-14 general obligation bond debt service costs and the Early Start Program in Proposition 98, resulting in additional savings of $2.7 billion. The shift of debt service and Early Start Program costs into the Proposition 98 guarantee will necessitate programmatic reductions of an identical amount to accommodate funding these costs. This programmatic reduction would equate to shortening the school year by more than three weeks.

The 2012 Budget Act reflects General Fund Proposition 98 expenditures in fiscal years 2010-11 through 2012-13, as outlined in the table below.

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TABLE 19
Proposition 98 Funding
(Dollars in Millions)

	Fiscal Year					Change From Revised 2011-12 to Enacted 2012-13	
	2010-11		2011-12		2012-13		
	Enacted[(a)]	Revised[(c)]	Enacted[(b)]	Revised [(c)]	Enacted[(c)]	Amount	Percent
K-12 Proposition 98							
State General Fund	$32,082	$31,334	$29,413	$29,810	$26,136	$ (3,674)	(12.3)%
Education Protection Account					7,253	7,253	100.0 %
Local property tax revenue[(d)]	11,529	12,192	13,823	11,856	14,342	2,486	(21.0)%
Subtotals [(e)]	$43,611	$43,526	$43,236	$41,666	$47,731	$6,065	14.6%
CCC Proposition 98							
State General Fund	$ 3,885	$ 3,885	$ 3,466	$ 3,279	$ 2,519	$ (760)	(23.2)%
Education Protection Account					896	896	100.0%
Local property tax revenue[(d)]	1,907	1,965	1,949	1,971	2,403	432	21.9%
Subtotals [(e)]	$ 5,792	$ 5,850	$ 5,415	$ 5,250	$ 5,818	$ 568	10.8%
Total Proposition 98							
State General Fund	$35,967	$35,219	$32,879	$33,089	$28,655	$ (4,434)	(13.4)%
Education Protection Account					8,149	8,149	100.0%
Local property tax revenue[(d)]	13,435	14,157	15,772	13,827	16,745	2,918	21.1%
Totals [(e)]	$49,402	$49,376	$48,651	$46,916	$53,549	$ 6,633	14.1%

(a) As of the 2010 Budget Act, October 8, 2010

(b) As of the 2011 Budget Act, June 30, 2011.

(c) As of the 2012 Budget Act, June 27, 2012.

(d) Beginning in fiscal year 2011-12, local property tax revenues include amounts shifted to schools as a result of the elimination of redevelopment agencies; and fiscal year 2012-13 includes the one-time distribution of cash assets held by redevelopment agencies.

(e) Totals may not add due to rounding.

Source: State of California, Department of Finance.

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Future Obligations. As explained above under "General," there are two forms of future obligations for the state General Fund which may be created under Proposition 98: maintenance factor and settle-up payments. Both of these elements have been implemented in years leading up to fiscal year 2012-13. The following table shows the estimated Proposition 98 future obligations as of the 2012 Budget Act (assuming passage of the Governor's Initiative):

TABLE 20
Proposition 98 Future Obligations Balances
(Dollars in Millions)

	Fiscal Year				
Year-End Balances:	**2008-09 Certified[a]**	**2009-10 Estimated[a]**	**2010-11 Estimated[a]**	**2011-12 Estimated[a]**	**2012-13 Estimated[a]**
Maintenance Factor	$11,213	$9,138	$10,324	$10,623	$8,130
QEIA Settle-up[b]	1,981	1,951	1,531	409	409
Other Settle-Up	215	1,856	1,838	1,838	1,884

(a) Proposition 98 factors and appropriations have been certified through fiscal year 2008-09.

(b) The Quality Education Improvement Act ("QEIA") enacted the settlement of a lawsuit concerning the proper amount of the guarantee in fiscal years 2004-05 and 2005-06 that obligated the state to pay a total of $2.7 billion in settle-up based on a statutory repayment plan. The final payment will be made in fiscal year 2014-15.

Note: Proposition 98 budgetary deferrals are not included in this Table. The deferred amount included in the 2012 Budget Act (that is deferred from fiscal year 2012-13 to fiscal year 2013-14) is $8.2 billion, compared to $10.4 billion that was deferred from fiscal year 2011-12 into fiscal year 2012-13.

Proposition 98 maintenance factor payments are included in the multi-year projection developed by the Department of Finance based on factors known as of the 2012 Budget Act. The maintenance factor is adjusted by average daily attendance and per capita personal income growth each year. Therefore, even if a payment is made in a year, the outstanding balance can increase. There are payments built into the multi-year projection as of the 2012 Act Budget totaling $2.9 billion in fiscal year 2012-13, and $4.7 billion in fiscal year 2014-15.

Local Governments

The primary units of local government in California are the 58 counties, which range in population from approximately 1,102 in Alpine County to approximately 9.9 million in Los Angeles County.

Constitutional and Statutory Limitations on Local Government

Counties are responsible for the provision of many basic services, including indigent health care, welfare, jails, and public safety in unincorporated areas. There are also approximately 480 incorporated cities in California and thousands of special districts formed for education, utilities, and other services. The fiscal condition of local governments was changed when Proposition 13, which added Article XIII A to the State Constitution, was approved by California voters in 1978. Proposition 13 reduced and limited the future growth of property taxes and limited the ability of local governments to impose "special taxes" (those devoted to a specific purpose) without two-thirds voter approval. Although Proposition 13 limited property tax growth rates, it also has had a smoothing effect on property tax revenues, ensuring greater stability in annual revenues than existed before Proposition 13 passed.

Proposition 218, another constitutional amendment enacted by initiative in 1996, further limited the ability of local governments to raise taxes, fees, and other exactions. (The limitations include requiring a majority vote approval for general local tax increases, prohibiting fees for services in excess of the cost of providing such service, and providing that no fee may be charged for fire, police, or any other service widely available to the public.)

In the aftermath of Proposition 13, the state provided aid to local governments from the General Fund to make up some of the loss of property tax moneys, including assuming principal responsibility for funding K-12 schools and community colleges. During the recession of the early 1990s, the Legislature reduced the post-Proposition 13 aid to local government entities other than K-12 schools and community colleges by requiring cities and counties to transfer some of their property tax revenues to school districts. However, the Legislature also provided additional funding sources, such as sales taxes, and reduced certain mandates for local services funded by cities and counties. See "STATE FINANCES – Sources of Tax Revenue – Sales and Use Tax" for a discussion of the impact of the Economic Recovery Bond issuances on local sales taxes.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A in 2004 and Proposition 22 in 2010 (described below) dramatically changed the state-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "state–local agreement") in connection with the 2004 Budget Act. One change relates to the reduction of the vehicle license fee ("VLF") rate from 2 percent to 0.65 percent of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled (or offset) by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments because the backfill amount annually increases in proportion to the growth in property tax revenues, which has historically grown at a higher rate than VLF revenues, although property tax revenues have declined over the past two years. This arrangement continues without change in the 2012 Budget Act.

Pursuant to statutory changes made in conjunction with the Initial 2009 Budget Act, the VLF rate increased from 0.65 percent to 1.15 percent effective May 19, 2009. Of this 0.50 percent increase, 0.35 percent flows to the General Fund, and 0.15 percent supports various law enforcement programs previously funded by the state General Fund. This increased VLF rate expired at the end of the 2010-11 fiscal year.

As part of the state-local agreement, voters at the November 2004 election approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and VLF revenues as of November 3, 2004. A detailed description of the provisions of this constitutional amendment is set forth below under the caption "THE BUDGET PROCESS – Constraints on the Budget Process – Local Government Finance (Proposition 1A of 2004)."

The Amended 2009 Budget Act authorized the state to exercise its authority under Proposition 1A of 2004 to borrow an amount equal to about 8 percent of local property tax revenues, or $1.9 billion, which must be repaid within three years. State law was also enacted to create a securitization mechanism for local governments to sell their right to receive the state's payment obligations to a local government-operated joint powers agency ("JPA"). This JPA sold bonds in a principal amount of $1.895

billion in November 2009 to pay the participating local governments their full property tax allocations when they normally would receive such allocations. Pursuant to Proposition 1A of 2004, the state is required to repay the local government borrowing (which in turn will be used to repay the bonds of the JPA) no later than June 30, 2013. The 2012 Budget Act includes $2.1 billion to fully retire this bonded indebtedness, to be paid from the General Fund. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS - Obligations in Connection with Proposition 1A of 2004."

Proposition 22, adopted on November 2, 2010, supersedes Proposition 1A of 2004 and completely prohibits any future borrowing by the state from local government funds, and generally prohibits the Legislature from making changes in local government funding sources. Allocation of local transportation funds cannot be changed without an extensive process. The Proposition 1A borrowing done as part of the Amended 2009 Budget Act is not affected by Proposition 22.

Actions in recent budgets have sought to use moneys from redevelopment agencies ("RDAs") to offset General Fund costs for Proposition 98. These actions have resulted in lawsuits, one of which (relating to fiscal years 2009-10 and 2010-11) is still on appeal, after a favorable trial court ruling for the state. If the state loses this pending lawsuit, a General Fund liability of up to $2.1 billion may be incurred, which amount would be owed to the successor agencies. This lawsuit is not impacted by the Supreme Court ruling in the *Matosantos* case described below.

The 2011 Budget Act included legislation (ABx1 27, Chapter 6, Statutes of 2011) seeking additional funds from RDAs as an alternative to the elimination of such agencies pursuant to the terms of related legislation (ABx1 26, Chapter 5, Statutes of 2011).

On December 29, 2011, in the aforementioned case *California Redevelopment Association et al. v. Matosantos et al.*, the California Supreme Court upheld ABx1 26, which reaffirmed the state's ability to eliminate RDAs, but also ruled that ABx1 27, which required RDAs to remit payments to schools in order to avoid elimination, was unconstitutional. In accordance with the Court's order, RDAs were dissolved on February 1, 2012 pursuant ABx1 26, and their functions have been taken over by successor agencies. (See "LITIGATION – Budget-Related Litigation – Actions Challenging Statutes Which Reformed California Redevelopment Law" for further information regarding the *Matosantos* case and other litigation on this subject.) Revenues that would have been directed to the RDAs will be distributed to make "pass through" payments to local agencies that they would have received under prior law, and to successor agencies for retirement of the RDAs' debts and for limited administrative costs. The remaining revenues will be distributed as property taxes to cities, counties, school and community college districts, and special districts under existing law.

By the time the Supreme Court issued its ruling in the *Matosantos* case in December 2011, and ABx1 26 took effect, the county auditor-controllers had already distributed to the RDAs (which had not dissolved pending the Court's ruling) the property tax increment revenue associated with the payment schedules covering January 2012 to June 2012. In most counties this distribution occurred in December 2011. The RDAs spent from this money and reserves until they dissolved on February 1, 2012, whereupon the funds passed to the control of the successor agencies.

The Department of Finance interpreted the Supreme Court ruling as requiring county auditor-controllers to provide a full year of fiscal benefit to successor agencies and the affected taxing entities alike. To this end, the Department of Finance notified county auditor-controllers that the law required them to proportionately reduce the property tax provided to successor agencies on June 1, 2012, to account for the fact that successor agencies are holding property tax revenues from the January 2012 to June 2012 payment schedules that should have gone to the affected taxing entities under ABx1 26. However, this did not occur in most counties.

The net result is that affected taxing agencies received almost no additional property tax for the January 2012 to June 2012 period. Payments to the affected taxing entities for the July 2012 to December 2012 period also were reduced below the Department of Finance's estimates for various reasons, including county auditor-controllers withholding amounts for disputed payment schedule items, and paying larger pass through amounts than were previously estimated.

Based on reports from the Department of Education and Community Colleges Chancellor's Office, and partial information from surveys of counties on Educational Revenue Augmentation Fund payments, the 2012 Budget Act reflects that only $133 million in property tax revenue was received in fiscal year 2011-12 by K-14 schools pursuant to ABx1 26 (as opposed to the $818 million estimated at the 2012-13 May Revision).

Legislation passed as part of the 2012 Budget Act ("AB 1484") creates a one-time process to recapture the property tax revenue that affected taxing entities should have received in fiscal year 2011-12. By July 9, 2012, AB 1484 required county auditor-controllers to bill successor agencies for the amounts that should have been distributed to the affected taxing entities after the successor agencies paid their enforceable obligations for the January 2012 to June 2012 payment schedule period. The successor agencies must remit these amounts to the county auditor-controller by July 12, 2012. The county auditor-controller has until July 16, 2012 to distribute the remitted amounts to the affected taxing entities. The 2012 Budget Act reflects a shift of $685 million in Proposition 98 General Fund benefit from fiscal years 2011-12 to 2012-13 associated with this mechanism and other features of the bill. Local governments have disputed the implementation of AB 1484 and litigation is pending and expected to be filed in the future on this subject.

Trial Courts

Prior to legislation enacted in 1997, local governments provided the majority of funding for the state's trial court system. The legislation consolidated the trial court funding at the state level in order to streamline the operation of the courts, provide a dedicated revenue source, and relieve fiscal pressure on the counties. In addition, legislation enacted in 2008 provides California's court system with increased fees and fines to expand and repair its infrastructure to address significant caseload increases and reduce delays. The fees raised by this legislation are intended to support up to $5 billion in lease-revenue bonds. Additional legislative authorization is required prior to the issuance of such lease-revenue bonds.

The state's trial court system will receive approximately $1.8 billion in state resources in fiscal year 2012-13, as well as $499 million in resources from counties. The 2011 Budget Act permanently realigned $496 million in court security funding to counties as part of the public safety realignment, which is supported by sales tax revenues provided for county sheriffs. The 2012 Budget Act includes a General Fund reduction of $486 million in fiscal year 2012-13 that is fully offset by redirections from trial court reserves, the Administrative Office of the Courts, and court construction funds. The 2012 Budget Act also includes a reduction of $50 million in fiscal year 2012-13 that will be allocated to all trial courts on a proportional basis. The ongoing impact of these reductions, beginning in the 2013-14 fiscal year, is $111 million, of which $50 million will be offset by redirecting court construction funds. The 2012 Budget Act also includes a General Fund reduction of $8 million to the Judicial Branch's state operations and an ongoing reduction of $14 million beginning in fiscal year 2013-14.

The 2012 Budget Act also includes an increase of $50 million for the Trial Court Trust fund to reflect additional revenues resulting from increased civil court fees that partially offset the ongoing reductions in state support for the trial courts.

Welfare System

The entire statewide welfare system was changed in response to the change in federal welfare law enacted in 1996 (see "Welfare System" below). Under the CalWORKs (as such term is defined herein) program, counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements. Counties are still required to provide "general assistance" aid to certain persons who cannot obtain welfare from other programs.

Welfare System

The state provides welfare benefits to certain adults and children living in the state. Although some of these benefits are available to legal noncitizens, the majority of these benefits are available only to citizens.

These benefits generally take the form of cash payments to beneficiaries, or programs pursuant to which beneficiaries receive food or assistance in procuring employment. Many of these programs are administered by counties within the state, and paid with a combination of federal, state and local funds. Counties are given flexibility to develop their own plans, consistent with state law, to implement the program and to administer many of its elements.

The federal government pays a substantial portion of welfare benefit costs, subject to a requirement that states provide significant matching funds. Federal law imposes detailed eligibility and programmatic requirements in order for states to be entitled to receive federal funds. Federal law also imposes time limits on program availability for individuals, and established certain work requirements. The primary federal law establishing funding and eligibility, and programmatic requirements is The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104–193, the "Law"). Significant elements of the Law include (i) Temporary Assistance for Needy Families ("TANF"), a block grant program; and (ii) the Supplemental Nutrition Assistance Program at the federal level (referred to as "CalFresh" in California, and formerly known as "food stamps").

Chapter 270, Statutes of 1997, embodies California's response to the federal welfare systems, called California Work Opportunity and Responsibility to Kids ("CalWORKs"). Consistent with the federal law, CalWORKs contains time limits on the receipt of welfare aid, both lifetime as well as in the current period. The centerpiece of CalWORKs is the linkage of eligibility to work participation requirements.

Caseload under CalWORKs is projected to decrease in fiscal year 2012-13 from revised fiscal year 2011-12 levels. CalWORKs caseload projections are 577,000 cases in fiscal year 2011-12 and 568,000 cases in fiscal year 2012-13. The 2012-13 projected caseload represents a major decline from the early 1990s, when caseload peaked at 921,000 cases in fiscal year 1994-95. Since CalWORKs' inception in January 1998 through fiscal year 2012-13, caseload is estimated to have declined by approximately 11.4 percent.

The state's required expenditures in connection with the Law are referred to as "Maintenance of Effort" or "MOE." California's required MOE is generally equal to 75 percent of FFY 1994 historic expenditures. However, in order to qualify for that level of MOE, the state is required to demonstrate a 50 percent work participation rate among all families. The federal government determined that the state failed to meet this requirement for FFYs 2007 through 2009, and the state is therefore subject to a penalty. The federal government waived the penalty for FFY 2007, but required the state to increase the required MOE to 80 percent of FFY 1994 historic expenditures. As a result, the state was required to increase its MOE expenditure by approximately $180 million. The 2012 Budget Act continues to reflect this increase in MOE spending in fiscal year 2012-13. Currently, the state is seeking relief from the FFY 2008 and 2009 penalties. If the state is unsuccessful, and the state is unable to provide an acceptable corrective compliance plan, penalties (currently estimated to be approximately $47.7 million for FFY 2008 and $113 million for FFY 2009) may be imposed, which would be payable in future fiscal years. Any penalties from failing to meet federal work participation requirements would be in addition to the approximately $180 million increased MOE requirement.

The following table shows CalWORKs caseload and General Fund expenditures for state fiscal years 2008-09 through 2011-12 and the current fiscal year.

TABLE 21
CalWORKs Expenditures
(Dollars in Billions)

Fiscal Year	Caseload	General Fund Expenditures
2008-09	504,994	$1.948
2009-10	553,347	2.032
2010-11	586,659	2.240
2011-12[(a) (e)]	577,372	0.995
2012-13[(b) (e)]	567,962	1.567

(a) Reflects $1.1 billion ongoing General Fund savings as a result of redirecting 1991-92 realignment revenues from mental health to fund CalWORKs grants, pursuant to Chapter 13, Statutes of 2011.
(b) Does not reflect $803.8 million in federal TANF savings transferred to the California Student Aid Commission to offset General Fund costs in Cal Grants.
(e) Estimated.

The 2012 Budget Act includes significant changes to the CalWORKs program that restore the program's focus on work while achieving $469.1 million in General Fund savings. Major changes include: (1) creating a prospective 24-month time limit on cash aid and employment services for adults, and providing an additional 24 months to adults who meet federal work requirements; (2) providing counties some flexibility by allowing up to 20 percent of the adults to extend their time beyond 24 months to complete educational goals or find a job; and (3) providing two years for clients to transition to the new program and be prepared with the skills necessary to find employment as the economy recovers.

Health Programs

Medi-Cal – Medi-Cal, California's Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or otherwise lack health care coverage. Medi-Cal serves approximately one in five Californians. Federal law requires Medi-Cal to provide basic services such as doctor visits, laboratory tests, x-rays, hospital inpatient and outpatient care, hospice, skilled nursing care, and early periodic screening, diagnosis and treatment. Also, federal matching funds are available if states choose to provide any of numerous optional benefits. California's Federal Medical Assistance Percentage is 50 percent, which is the share of federal funding for standard program benefits. There are also federal funds in the Medi-Cal budget for a number of Medi-Cal programs or supplemental payments that are matched with local funds that do not appear in state funding totals or that receive a higher matching rate. A wide range of public and private providers and facilities delivers these services. Providers are reimbursed by the traditional fee-for-service method or by managed care plans that receive capitated payments from the state. Approximately 5.2 million Medi-Cal beneficiaries (more than half of the people receiving Medi-Cal benefits and services) are currently enrolled in managed care plans.

Average monthly caseload in Medi-Cal was 7.64 million in fiscal year 2011-12. Caseload is expected to increase in fiscal year 2012-13 by approximately 603,600, or 7.90 percent, to 8.25 million eligible people. This includes a shift of 269,504 beneficiaries in fiscal year 2012-13 from the Healthy Families program to the Medi-Cal program.

The following table shows Medi-Cal expenditures for the last five fiscal years and the current fiscal year.

TABLE 22
Medi-Cal Expenditures
(Dollars in Billions)

Fiscal Year	General Fund	Other State Funds	Federal Funds[(a)]	Total[(b)]
2008-09	$12.8	$0.7	$25.2	$38.7
2009-10	10.2	0.8	27.8	38.8
2010-11	12.5	8.9	30.7	52.1
2011-12[(e)]	15.5	3.0	30.6	49.0
2012-13[(e)]	14.6	9.4	36.8	60.8

(a) Includes approximately $6.8 billion in funds passed through from the Department of Health Care Services to other state departments in fiscal year 2012-13.
(b) Totals may not add due to rounding.
(e) Estimated.

The federal funds number includes approximately $6.8 billion in funds passed through from the Department of Health Care Services to other state departments. The state and local matching funds for this $6.8 billion is included in the respective department budgets and is not included in the state fund figures cited in this paragraph. The net decrease of $0.9 billion in Medi-Cal General Fund expenditures in fiscal year 2012-13 (as compared to revised fiscal year 2011-12) is the result of:

(a) an increase of approximately $1.0 billion due to base caseload and cost increases ($853.6 million), managed care rate adjustment ($63.0 million), restoration of the 10 percent provider rate reduction for nursing homes ($96.3 million), Healthy Families Program transition to Medi-Cal ($22.4 million in Medi-Cal, but a statewide savings of $13.1 million), and other baseline issues;

(b) a savings of $1.2 billion related to savings proposals adopted in the 2012 Budget Act including the transition of dual eligibles to coordinated care delivery systems, the transition of the Healthy Families Program to Medi-Cal, changes to hospital reimbursement, rate freeze for skilled nursing facilities, Medi-Cal operational flexibilities, managed care expansion, payment deferrals, and other savings proposals; and

(c) Chapter 286, Statutes of 2011 (SB 335, Hernandez) extended the hospital fee through December 2013. The extension of the fee will result in a savings of $707 million General Fund in fiscal year 2012-13.

On June 22, 2012, the Department of Health Care Services ("DHCS") received federal approval of the hospital fee waiver and inpatient and outpatient Medi-Cal fee-for-service ("FFS") State Plan Amendments authorized under Chapter 286, Statutes of 2011 (SB 335, Hernandez). These amendments and waivers were necessary to implement solutions enacted in the 2011 Budget Act and the 2012 Budget Act. The approval is effective retroactive to July 1, 2011 and will continue through December 31, 2013. The fee revenue is used to provide supplemental inpatient and outpatient FFS payments to private hospitals, direct grants to both designated and non-designated public hospitals, increases in Medi Cal managed care capitation rates for reimbursements to hospitals, and funding to the state for children's healthcare coverage. The 2012 Budget Act projects General Fund savings of $707 million in fiscal year 2012-13 from the hospital fee waiver.

On June 28, 2012, DHCS received federal approval of the Section 1115 Bridge to Reform waiver that allows DHCS to roll over authorized but unexpended Health Care Coverage Initiative funding to the Safety Net Care Uncompensated Care Pool, which is consistent with the 2012 Budget Act which assumes the state and designated public hospitals will use prior year waiver funds to access additional federal funding. This approval is expected to enable the state to achieve General Fund savings of $100 million in fiscal year 2012-13 and $9 million in fiscal year 2013-14.

Litigation is pending with respect to certain cost reductions implemented by the state. See "LITIGATION – Actions Regarding Medi-Cal Reimbursements and Fees."

SSI/SSP – The federal Supplemental Security Income ("SSI") program provides a monthly cash benefit to eligible seniors and persons with disabilities who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment ("SSP") grant. The 2012 Budget Act includes approximately $2.8 billion General Fund for fiscal year 2012-13, 1.9 percent more than the revised fiscal year 2011-12 funding level. The average monthly caseload in this program is estimated to be 1.3 million recipients in fiscal year 2012 13, a 1.34 percent increase over the revised fiscal year 2011-12 projected level.

Health Care Reform – Federal health care reform does the following: (1) expands Medi-Cal coverage beginning January 1, 2014; (2) requires specified rate increases for primary care beginning in 2013; and (3) prohibits California from restricting eligibility primarily for the Medi-Cal and Healthy Families programs before the new coverage requirements go into effect in 2014. Health care reform may result in a significant net increase of General Fund program costs in fiscal year 2013-14 and beyond. The net impact of health care reform on the General Fund will depend on a variety of factors, including levels of participation and potential savings resulting from the reform (as beneficiaries in current state-only programs may receive coverage through Medi-Cal or the California Health Benefit Exchange (the "Exchange") starting in 2014). The state has preliminarily estimated annual costs of $264.7 million General Fund in fiscal year 2013-14 and growing up to $3.5 billion annually by fiscal year 2020-21. Actual costs could vary significantly based on economic factors or subsequently enacted program changes.

Chapter 655, Statutes of 2010 (AB 1602, Perez)("AB 1602"), and Chapter 659, Statutes of 2010 (SB 900, Alquist and Steinberg), established the Exchange as an independent entity in state government and outline the authorities and responsibilities of the Exchange and its governing board. The Exchange will provide a marketplace for individuals and small businesses to purchase health insurance by January 1, 2014. This entity will establish requirements for health plans to participate in the Exchange, standards and criteria for selecting health plans to be offered in the Exchange, and require the Exchange to provide an adequate selection of qualified health plans in each region of the state. The federal government awarded California $1 million to fund preliminary planning efforts related to the development of the Exchange. On August 12, 2011, the Exchange received a $39 million Level I Exchange Establishment grant that will help the state design and develop this entity. The Exchange is also submitting an application to the federal government for a Level 1.2 establishment grant of $188.2 million for the design and development of the Exchange, which would provide funding for the Exchange's operations from August 15, 2012 through June 30, 2013. After 2014, the Exchange must be self-supporting from fees paid by health plans and insurers participating in the Exchange. AB 1602 authorizes the Exchange to assess charges, as a part of premiums, on participating health plans and at rates reasonable to support the ongoing operations of the Exchange and maintain a prudent reserve.

California Department of Corrections and Rehabilitation

General – As one of the largest departments in state government, the California Department of Corrections and Rehabilitation ("CDCR") operates 36 youth and adult correctional facilities and 44 youth and adult camps. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR operates adult prisoner/mother facilities, youth and adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. The CDCR has six regional accounting offices and leases more than two million square feet of office space. The CDCR's infrastructure includes more than 40 million square feet of building space on more than 26,000 acres of land (40 square miles) statewide.

Ruling Concerning Prison Overcrowding – Pursuant to the ruling issued by a panel of three federal judges (affirmed by the United States Supreme Court), the state must reduce its prison population to 137.5 percent of the system's design capacity by June 27, 2013, equivalent to about 110,000 prisoners. The state will achieve a reduction of tens of thousands of prisoners from the state's prison population due to realignment of non-serious, non-violent, non-sex offenders from state prisons to local jurisdictions under AB 109 (described below). A dedicated revenue stream will be provided to local governments to provide for their additional costs. The estimated state savings from realignment is $453.3 million in fiscal year 2011-12, and $1.5 billion annually by fiscal year 2014-15, when realignment is fully implemented.

CDCR Budget – The 2012 Budget Act includes total operating expenditures of $9.0 billion for CDCR from all funding sources. Of this amount, $8.9 billion comes from the General Fund. The CDCR budget includes funding for over 58,743 positions at a total cost for salaries and benefits of approximately $6.0 billion. Lease payments total $259.9 million, and the remaining funds are budgeted for operating expenses and equipment.

The 2012 Budget Act includes reductions for CDCR of $1.0 billion related to implementation of Chapter 15, Statutes of 2011 ("AB 109"). AB 109 shifted responsibility for short-term, lower-level offenders from the state to county jurisdictions. In addition, counties are responsible for community supervision of lower-level offenders upon completion of their prison sentences.

CDCR Population – The average daily adult inmate population is projected to decrease from 163,152 in fiscal year 2011-12, to 129,961 in fiscal year 2012-13, a reduction of 33,191 inmates. The average daily adult parole population is projected to decrease from 108,338 in fiscal year 2011-12, to 61,692 in fiscal year 2012-13, a reduction of 46,646 adult parolees. The decline in the adult inmate and adult parole population is related to the passage and implementation of AB 109.

The Division of Juvenile Justice's average daily institutional population is projected to decrease from 1,090 in fiscal year 2011-12, to 992 in fiscal year 2012-13, and the juvenile parole average daily population is expected to decrease to 300 parolees in fiscal year 2012-13. On January 1, 2013, all remaining juvenile parolees will be discharged from state supervision.

Litigation Concerning Prison Medical Care Services – The federal receiver, the court appointed individual who oversees CDCR's medical operations (the "Receiver"), has plans for the design and construction of additional facilities for inmates with medical or mental health care needs. The facilities will be constructed at existing state correctional facilities or at other appropriate state-owned real property locations. The state is continuing the construction of a major medical facility in Stockton, CA; however, the Administration is reevaluating other construction projects in light of the substantial population declines occurring due to the implementation of AB 109. See "Prison Construction Program" below.

The 2012 Budget Act includes $1.630 billion for the Receiver's Medical Services and Pharmacy Programs, an increase of $161.8 million compared to the 2011 Budget Act, which totaled $1.468 billion.

In January 2012, a federal District Court judge ordered California officials to begin planning for the end of the federal Receivership of the state's prison medical programs. The judge, with jurisdiction over the CDCR medical care litigation, cited "significant progress" in improving California's prison medical care and stated that many of the goals of the Receivership had been accomplished. For these reasons, the judge ordered the State and the plaintiffs in the case to prepare a joint report on various aspects of post-Receiver planning. In response to this report, the court ordered the Receiver to work with CDCR to determine when the state will assume responsibility for particular tasks. This order is a positive step toward reasserting state control over prison medical care.

Prison Construction Program

On May 3, 2007, the Governor signed AB 900 (Chapter 7, Statutes of 2007) ("AB 900"), which provides funding for an expansion of capacity in the state prison system and additional funds for county jails.

Several projects authorized with AB 900 authority are in construction and will be completed in calendar years 2012 and 2013. However, in light of changes to CDCR's inmate classification system and the reduced inmate population resulting from the implementation of AB 109, the Administration has reevaluated the need for several of the planned AB 900 projects and developed a new CDCR facilities plan, which has been approved as part of the 2012-13 budget package. All of the projects currently in construction remain necessary as part of the new facilities plan.

The 2012 Budget Act includes elimination of approximately $4.1 billion of AB 900 lease-revenue bond financing authority no longer necessary for implementation of CDCR's facilities plan and new authorization of $810 million of lease-revenue bond financing authority for the design and construction of three new level II dorm facilities at one or more specified existing prisons. The elimination of existing AB 900 lease-revenue bond financing authority is the result of amending the AB 900 statutes to (i) revise the appropriation amounts for the infill beds and medical, dental, and mental health facility construction programs in Phase I, (ii) repeal the Phase II authorizations for the infill beds and medical, dental, and mental health facility construction programs, and (iii) repeal the authorizations for both phases of the re-entry facilities construction program. The AB 900 authorizations for state prison facilities are now contained in a single phase that includes approximately $2.1 billion for design and construction of the California Health Care Facility, Stockton project, conversion of the DeWitt Nelson Youth Correctional Facility to a semiautonomous annex facility to the California Health Care Facility, and design and construction of several other medical and mental health projects throughout the state, including the projects in the Health Care Facility Improvement Program.

AB 900 also authorizes $1.2 billion of lease-revenue bond financing authority for acquisition, design, and construction of county jail facilities, subject to certain designated priorities and standards. Phase I authorizes up to $446 million, which must be issued for projects underway by June 30, 2017, and requires a 25 percent local match. Phase II authorizes up to an additional $774 million and requires a 10 percent local match. Several Phase I projects have started construction and the Administration expects several Phase II projects to initiate design during the 2012 calendar year.

The 2012 Budget Act includes new authorization of an additional $500 million of lease-revenue bond financing authority for design and construction of adult local criminal justice facilities. These facilities will help provide housing, program, and treatment space necessary to manage the adult offender population under the jurisdiction of sheriffs or county departments of corrections.

Unemployment Insurance

The Unemployment Insurance ("UI") program is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able and available to work, seeking work, and be willing to accept a suitable job. The regular unemployment program is funded by unemployment tax contributions paid by employers for each covered worker.

Due to the high rate of unemployment, the employer contributions are not sufficient to cover the cost of the benefits to claimants. Commencing in January 2009, in accordance with federal law, the state began to fund deficits in the state UI Fund through a federal loan to support benefit payments. The UI Fund deficit was $9.8 billion at the end of calendar year 2011. Using current economic outlook and unemployment projections, absent changes to the UI Fund financing structure, the deficit is projected to be $10.2 billion at the end of calendar year 2012.

Pursuant to federal law, if the state is unable to repay the loan within the same year it is taken, state funds must be used to pay the annual interest payments on the borrowed funds. In September of 2011, the state made an interest payment of approximately $303 million and the General Fund will be required to make an interest only payment of approximately $312.6 million on September 30, 2012. Similar to the 2011 Budget Act, the 2012 Budget Act includes a loan from the Unemployment Compensation Disability Fund to the General Fund to pay for the UI interest expense.

The interest due after fiscal year 2012-13 will depend on a variety of factors, including the actual amount of the federal loan outstanding (which in turn will depend on the rate of unemployment, employer contributions to the UI Fund, and any state or federal law changes relating to the funding of the program) and the interest rate imposed by the federal government. To address the future interest obligations, the 2012 Budget Act assumes a long-term solution will be adopted to pay interest payments on the outstanding federal loan and for repayment of the loans made to the General Fund for the payment of interest on the borrowed funds. Absent a new solution, starting in fiscal year 2013-14, an estimate of $250 million to $500 million of General Fund payments could be required for the annual interest payments on the federal UI loan. This estimated cost is subject to several factors including, but not limited to, changes in federal interest rates and statewide unemployment rates.

Retiree Health Care Costs

In addition to a pension, described in the following section "PENSION TRUSTS," the state also provides postemployment health care and dental benefits to its employees and their spouses and dependents, when applicable, and utilizes a "pay-as-you-go" funding policy. These are sometimes referred to as "Other Postemployment Benefits" or "OPEB."

As of June 30, 2011, approximately 154,500 retirees were enrolled to receive health benefits and 128,100 to receive dental benefits. Generally, employees vest for those benefits after serving 10 years with the state. With 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. Additional information on the State's OPEB plan can be found in Note 25, Postemployment Health Care Benefits, pages 164-168, in the Comprehensive Annual Financial

Report for the fiscal year ended June 30, 2011 included as APPENDIX F to this Official Statement and the *State of California OPEB Valuation as of June 30, 2011*.

Pursuant to the Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, the state now reports on its liability for postemployment healthcare as well as other forms of postemployment benefits, such as life insurance, in its annual financial reports. The long-term costs for other postemployment benefits may negatively affect the state's financial reports and impact its credit rating if the state does not adequately manage such costs.

On February 24, 2012, the State Controller's Office released the state's latest OPEB actuarial valuation report by the private actuarial firm, Gabriel, Roeder, Smith & Company, which was tasked with calculating the state's liability for these benefits. The report was based on a variety of data and economic, demographic and healthcare trend assumptions described in the report. The primary assumption influencing Annual OPEB Costs and the Actuarial Accrued Liability ("AAL") is the assumed rate of return or discount rate on assets supporting the retiree healthcare liability. Based on PMIA's historical returns, investment policy and expected future returns, a discount rate of 4.50 percent was selected for the pay-as-you-go funding policy. The economic assumptions such as the price and wage inflation are assumed to be 3 percent and 3.25 percent, respectively. The actuarial valuation contained in the report covers the cost estimates for existing employees, retirees and dependents. The main objective of the report was to estimate the AAL, which is the present value of future retiree healthcare costs attributable to employee service earned in prior fiscal years.

The report looked at three different scenarios: (i) continuation of the "pay-as-you-go" policy; (ii) a "full funding" policy under which assets would be set aside to prepay the future obligations, similar to the way in which pension obligations are funded, and (iii) a "partial funding" policy, a hybrid of the two scenarios. According to the actuarial valuation as of June 30, 2011, the pay-as-you-go funding policy results in an unfunded AAL of $62.14 billion as of June 30, 2011. Additionally, the pay-as-you-go funding policy results in an annual OPEB cost of $4.74 billion, estimated employer contributions of $1.71 billion and an expected net OPEB obligation of $12.92 billion for fiscal year 2011-12. The annual required contribution for fiscal year 2012-13 is estimated at $4.92 billion.

If the previous assumptions had been exactly realized during the year, the actuarial liability would have increased to $63.2 billion as of June 30, 2011. The key factors contributing to a $1.07 billion decrease in expected actuarial liabilities had the previous assumptions been realized are:

- Favorable healthcare trend experience, resulting in a decrease in actuarial liabilities of approximately $4.21 billion.

- Demographic experience (including more members retiring, retiring earlier, and living longer than assumed) caused actuarial liabilities to increase by $0.73 billion.

- Changes in OPEB related assumptions and methods (updating the aging factors and healthcare trend rates used to project the member's average healthcare claim costs after retirement) increased actuarial liabilities by $1.76 billion.

- An adjustment made to the trend rate due to the Excise Tax under Federal Healthcare Reform. This adjustment increased liabilities by approximately $0.29 billion.

- Data process improvement and refinement for the current valuation. The refinements increased liabilities by approximately $0.36 billion.

The valuation depended primarily on the interest discount rate assumption used to develop the present value of future benefits and on the assets available to pay benefits. The discount rate of 4.50 percent represents the long-term expectation of the earnings on the state's General Fund, which is invested in short-term securities in the Pooled Money Investment Account. The State Controller's Office plans to issue an actuarial valuation report annually.

The following table is the historic annual OPEB cost summary and the projected schedule of funding progress as of the valuation date for the five fiscal years indicated below:

TABLE 23
OPEB Pay-As-You-Go Funding
Fiscal Years 2007-08 to 2011-12
(Dollars in Billions)

Fiscal Year	*Annual OPEB Cost*	*Net Employer Contribution*	*Percentage of Annual OPEB Cost Contribution*	*Net OPEB Obligation*	*Unfunded Actuarial Accrued Liability* [(b)]	*Unfunded Actuarial Accrued Liability as Percent of Payroll* [(b)]
2007-08	$3.59	$1.25	35%	$2.34	$48.22	270%
2008-09	3.73	1.38	37	4.69	51.82	281
2009-10	3.93	1.37	35	7.25	59.91	341
2010-11	4.21	1.58	38	9.88	62.14	345
2011-12[(a)]	4.74	1.71	36	12.91	N/A	N/A

(a) Net employer contribution and Net OPEB Obligation estimated for fiscal year ending June 30, 2012.
(b) Amounts are projected as of the valuation date.
Source: State of California OPEB Valuation as of June 30, 2011.

The following table illustrates the state's budget for postemployment benefits from fiscal years 2006-07 to 2012-13 and does not reflect any future liability for current employees or annuitants. It is anticipated that these costs will continue to grow in the future. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the state averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the state will contribute toward the retiree's health benefits. The state also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. CSU employees fully vest for the 100/90 formula at 5 years of service. As noted below, employees in bargaining unit 12, hired after January 1, 2011, are subject to a longer vesting period.

On October 1, 2009, the Governor signed legislation that provides for prefunding OPEB for California Highway Patrol officers, including cadets, supervisors, and managers. The employee contributions for prefunding OPEB were effective July 1, 2009 (at 1 percent of pay increasing to 2 percent on July 1, 2010), and are deposited in an account in the California Employers' Retiree Benefits Trust. This employee contribution will be temporarily redirected to pensions until July 1, 2013 due to contract agreements reached in fiscal year 2010-11. Contract agreements reached in fiscal year 2010-11, as amended in 2012, with the International Union of Operating Engineers (Bargaining Unit 12) and the Union of American Physicians and Dentists (Bargaining Unit 16) included employee contributions of 0.5 percent of pay to prefund OPEB starting July 1, 2013. Additionally, Bargaining Unit 12 agreed to a revised vesting schedule for retiree health benefits for new employees hired after January 1, 2011. Under the revised schedule those employees will have to work for 15 years to qualify for 50 percent coverage and 25 years to qualify for 100 percent of state coverage of premium and (the current schedule is 10 years and 20 years, respectively).

TABLE 24
Actual Costs/Budget For Other Postemployment Benefits
Fiscal Years 2006-07 Through 2012-13
(Dollars in Thousands)

Fiscal Year	Total Amount*	General Fund Portion
2006-07	$1,006,238	$1,006,238
2007-08	1,114,317	1,051,486
2008-09	1,183,495	1,146,932
2009-10	1,182,497	1,145,934
2010-11	1,386,839	1,351,008
2011-12[a]	1,504,115	1,465,715
2012-13[a][b]	1,350,832	1,314,883

[a] Estimated.
[b] Beginning in the 2012 Budget Act, CSU health care costs, which are $247.3 million ($240.3 million General Fund) for fiscal year 2012-13, are identified separately in the Budget. In contrast to the state, CSU employees fully vest for the 100/90 formula after 5 years of service.
* "Pay-as-you-go" contributions from General Fund and Public Employee's Contingency Reserve Fund.
Source: Fiscal Years 2006-07 through 2010-11 Actuals. Fiscal Years 2011-12 and 2012-13 estimates – State of California, 2012 Budget Act.

PENSION TRUSTS

General

The principal retirement systems in which the state participates or contributes funds to are the California Public Employees' Retirement System ("CalPERS") and the California State Teachers' Retirement System ("CalSTRS"). The assets and liabilities of the funds administered by CalPERS and CalSTRS are included in the financial statements of the state as fiduciary funds. A summary description of CalPERS and CalSTRS is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2011. See "FINANCIAL STATEMENTS."

The University of California ("UC") maintains a separate retirement system. From fiscal years 1990-91 through 2011-12, the state's General Fund did not directly contribute to UC's system. The 2012 Budget Act and Chapter 31 of the Statutes of 2012 provide $89.1 million in state General Fund appropriations for UC's employer retirement contributions for fiscal year 2012-13, with provisional language stating that this funding does not constitute a state obligation to provide funding after fiscal year 2012-13 for additional UC's employer retirement costs. Information about this system may be obtained directly from the University of California.

As described below, the obligation of the state to make payments to CalPERS and CalSTRS to fund retirement benefits constitutes a significant financial obligation. CalPERS and CalSTRS each currently have unfunded liabilities in the tens of billions of dollars. Retirement-related costs payable from the General Fund are expected to increase significantly in the foreseeable future. The actual amount of such increases will depend on a variety of factors, including but not limited to investment returns, actuarial assumptions, experience, retirement benefit adjustments and, in the case of CalSTRS, statutory changes in contributions.

This section contains certain information relating to CalPERS and CalSTRS. The information is primarily derived from information produced by CalPERS and CalSTRS, their independent accountants and their actuaries. The state has not independently verified the information provided by CalPERS and

CalSTRS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS and CalSTRS.

The comprehensive annual financial reports of CalPERS and CalSTRS are available on their websites at www.calpers.ca.gov and www.calstrs.com, respectively. The CalPERS and CalSTRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The state cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") approved two new standards with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements 67 and 68 will replace Statement 27 and most of Statements 25 and 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government's balance sheet (currently, such unfunded liabilities are typically included as notes to the government's financial statements); 2) more components of full pension costs will be shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates will be required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities will be required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns will be recognized over a closed five-year smoothing period. In addition, according to GASB, Statement 68 states that, for pensions within the scope of the statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on CalPERS and CalSTRS is not known at this time. The reporting requirements for pension plans will take effect for the fiscal year beginning mid-2013 and the reporting requirements for government employers will take effect for the fiscal year beginning mid-2014.

CalPERS

General

At June 30, 2011, CalPERS administered a total of 15 funds, including four defined benefit retirement plans: the Public Employees' Retirement Fund ("PERF"), the Legislators' Retirement Fund ("LRF"), the Judges' Retirement Fund ("JRF"), and the Judges' Retirement Fund II ("JRF II"). (These plans, as well as the other plans administered by CalPERS, are described in the comprehensive financial reports of CalPERS, which can be found on CalPERS' website at www.calpers.ca.gov. Such information is not incorporated by reference herein.) The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Certain summary information concerning PERF is set forth below. Certain summary information concerning LRF, JRF, and JRF II is set forth at the end of this section.

CalPERS is administered by a 13-member Board of Administration (the "CalPERS Board"), that includes the State Controller, State Director of Personnel Administration, and the State Treasurer, who serve ex officio. The other CalPERS Board members include a member elected by school employees, a member elected by retirees, a member elected by state employees, a member elected by public agency employees, a member designated by the State Personnel Board, a public representative appointed jointly by the Speaker of the Assembly and the Senate Rules Committee, an official of a life insurer appointed by the Governor, an elected local official appointed by the Governor, and two members elected by all employees.

PERF

PERF is a multiple-employer defined benefit retirement plan. In addition to the state, employer participants at June 30, 2010 included 1,543 public agencies and schools (representing more than 2,600 entities). CalPERS acts as the common investment and administrative agent for the member agencies. The state and schools (for "classified employees," which generally consist of school employees other than teachers) are required by law to participate in PERF. Other public agencies can elect whether or not to participate in PERF or administer their own plans. Members of PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. Separate accounts are maintained for each employer participating in PERF, and separate actuarial valuations are performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of PERF assets.

Unless otherwise specified, the information relating to PERF provided in this section relates only to state employees participating in PERF. State employees include Executive Branch, California State University, Judicial, and Legislature employees.

Members

Benefits to state employees are paid according to the category of employment and the type of benefit coverage provided by the state. All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in PERF. The five categories of membership applicable to state employees are set forth below. Certain of the categories also have "tiers" of membership. The particular tier an employee is in generally depends on the employee's date of hire. Different tiers may have different benefits, as well as different employee contribution requirements.

- Miscellaneous Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.

- Safety Members – employees whose principal duties are in active law enforcement or fire prevention and suppression work but are not defined as a State Peace Officer/Firefighter Member, or who occupy positions designated by law as Safety Member positions.

- State Industrial Members – employees of the California Department of Corrections and Rehabilitation who have the same service retirement and other benefits as Miscellaneous Members, but who also have industrial death and disability benefits under certain limited circumstances.

- State Peace Officer/Firefighter Members – employees who are involved in law enforcement, firefighting and fire suppression, public safety, protective services, or the management and supervision thereof, whose positions are defined as State Peace Officer/Firefighter Members in the Government Code or by the Department of Personnel Administration.

- Patrol Members – California Highway Patrol officers and their related supervisors and managers.

The following table reflects the number of state employee members of PERF as of June 30, 2010 and June 30, 2011. (PERF's fiscal year commences July 1 and ends June 30 of the following year).

TABLE 25
PERF Membership (State Employees) as of June 30, 2010 and 2011

Category	2010	2011
Retirees	157,493	164,611
Survivors and Beneficiaries	25,512	25,959
Active Members	253,226	247,372
Inactive Members	87,346	88,850
Total	523,577	526,792

Source: CalPERS Comprehensive Annual Financial Report for Fiscal Years ended June 30, 2010 and June 30, 2011.

Retirement Benefits

For state employees, annual benefits depend on the particular employee's employment category and are generally determined by taking into account years of service credit, final compensation and age of retirement. Depending on the employment category, annual benefits generally range from 2 percent of final compensation (generally meaning the average pay rate and special compensation over the last one year or three consecutive years of employment, unless the member elects a different period with a higher average) at age 55 for each year of service credit (applicable to Miscellaneous and State Industrial category members) to 3 percent of final compensation for each year of service for retirement at age 50 (for State Peace Officer/Firefighter category members). Annual benefits are also subject to annual cost of living adjustments (generally ranging from 2-3 percent), and an additional adjustment intended to preserve the "purchasing power" of the benefit. Benefits also generally include disability and death benefits. A detailed description of the benefits payable by PERF to state employees is set forth in CalPERS actuarial valuations.

Legislation enacted in October 2010 as part of the 2010 Budget Act package (SB 22, Chapter 3, Sixth Extraordinary Session of 2010) ("SBX6 22") made changes to the retirement formula for state employees hired after January 15, 2011, unless an earlier date was agreed upon in a collective bargaining agreement. Generally, the formula for receiving full retirement benefits was restored to the provisions in effect prior to 1999, when a law increased the percentage formula and reduced the age at which employees could obtain maximum benefits; these formulas vary depending on the category of employment. SBX6 22 also addressed the problem of pension "spiking" by generally requiring the retirement formula for future employees not currently in the three-year formula to be based on an average of pay in three consecutive years, rather than being based on the single highest year's pay. These reforms will not significantly impact state retirement costs until many years in the future. However, there will be current savings from most existing and future employees contributing a greater percentage, ranging from 2 to 5 percent, of their salaries toward future pension benefits. These increases were collectively bargained and extended to most non-represented employees.

The Administration has proposed a constitutional amendment and legislation which would make additional changes to pension benefits. See "CURRENT STATE BUDGET - Pension Reform Proposal."

The following table shows the amount of benefits paid from PERF for fiscal years 2004-05 through 2009-10.

TABLE 26
PERF (State Only)
Schedule of Benefits Paid
(Dollars in Millions)

Fiscal Year	Amount of Benefits Paid
2004-05	$3,709
2005-06	4,035
2006-07	4,352
2007-08	4,741
2008-09	5,037
2009-10	5,486

Source: CalPERS State and Schools Actuarial Valuation for fiscal years ended June 30, 2005 through June 30, 2010.

Member Contributions

The benefits for state employees in PERF are funded by contributions from members, the state, and earnings from investments. Member and state contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and vary by bargaining units within the same employee classification. The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $133 to $863 monthly, and range from 0-11 percent. Additionally, most state employees are on a one-day-per-month Personal Leave Program through June 2013 which reduces the salary used to compute their contributions by an amount of approximately 4.62 percent, but this reduction does not reduce the salary level used for computing final compensation as used to determine retirement benefits. As described below, the state's contribution rates are determined by annual actuarial valuations, which are based on the benefit formulas and employee groups of the state.

Actuarial Methods

Generally, the ultimate cost that PERF incurs is equal to benefits paid plus the expenses resulting from administration. These costs are paid through contributions to the plan and investment earnings on PERF's assets. Using the state plan's schedule of benefits, member data, and a set of actuarial assumptions, CalPERS' actuary estimates the cost of the benefits to be paid. Then, using the actuarial funding method determined by CalPERS (as described below), the actuary allocates these costs to the fiscal years within the employee's career. CalPERS' financial objective is to fund in a manner which keeps contribution rates approximately as a level percentage of payroll from generation to generation, while accumulating sufficient assets over each member's working career. The primary funding method used to accomplish this objective is the "Entry Age Normal Cost Method." New GASB standards will require all states and local governments with pension liabilities to use the Entry Age Normal Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Annual actuarial valuations are performed as of each June 30. Information through the most recent valuation date of June 30, 2010 is set forth below. The actuarial valuation report through June 30, 2011 is expected to be available in September 2012. According to CalPERS, the actuarial assumptions and methods used by CalPERS for funding purposes meet the current parameters set for disclosures presented in the Financial Section by GASB Statements 25 and 27.

Under the Entry Age Normal Cost Method, projected benefits are determined for all members. For active members, liabilities are spread in a manner that produces level annual costs as a level percent of pay in each year from the age of hire (entry age) to the assumed retirement age. The cost allocated to the current fiscal year is called the "normal cost." The AAL for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The AAL for members currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to deferred benefits is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants. The excess of the total AAL over the value of plan assets is called the unfunded actuarial accrued liability. The required contribution is then determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payroll. With respect to CalPERS, the unfunded liability is broken down into components, or bases, according to their date of origin and the cause that gave rise to that component. A component of the unfunded liability that arose due to a change in plan provisions or in actuarial methods or assumptions is separately tracked and amortized over a declining 20-year period. The actuarial assumptions discussed below are used to determine projected benefits. The effect of differences between those assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences are actuarial gains or losses. Gains and losses are tracked separately and amortized over a rolling 30-year period (except as described below with respect to gains and losses in fiscal years 2008-09 through 2010-11). A maximum 30-year amortization payment on the entire unfunded liability is enforced on the amortization methods described above. In addition, when the amortization methods described above result in either mathematical inconsistencies or unreasonable actuarial results, all unfunded liability components are combined into a single base and amortized over a period of time, as determined by the CalPERS Chief Actuary. There is a minimum employer contribution equal to normal cost, less 30-year amortization of surplus (negative unfunded liability), if any. In 2009, the CalPERS Board adopted a change to the amortization policy, described in the following section. This change resulted in all actuarial gains and losses for fiscal years 2008-09, 2009-10 and 2010-11 to be amortized over a fixed 30-year period instead of a rolling 30-year period. The rolling 30-year period will be resumed with actuarial gains and losses for fiscal year 2011-12.

Actuarial Valuation; Determination of Required Contributions

The required state contributions to PERF are determined on an annual basis by the CalPERS Chief Actuary. The actuary uses demographic and other data (such as employee age, salary, and service credits) and various assumptions (such as estimated salary increases, interest rates, employee turnover, and mortality and disability rates) to determine the amount that the state must contribute in a given year to provide sufficient funds to PERF to pay benefits when due. The actuary then produces a report, called the "actuarial valuation," in which the actuary reports on the assets, liabilities, and required contribution for the following fiscal year. State law requires the state to make the actuarially required contribution to PERF each year.

A portion of the actuarial valuations performed by CalPERS actuaries are audited each year by an independent actuarial firm. The actuarial valuations specific to State employees are audited every three years. The most recent audit was for the June 30, 2009 actuarial valuation and was completed in the fall of 2010. The firm currently responsible for these audits is called Ed Friend Inc. (EFI).

The market value of assets measures the value of the assets available in the pension plan to pay benefits. The actuarial value of assets is used to determine the required employer contributions. Various methods exist for calculating the actuarial value of assets. Since 2005, CalPERS has recognized investment gains and losses on the market value of assets equally over a 15-year period when determining the actuarial value of assets. (This is referred to as "smoothing.") The recognized portion is added to the gains and losses and (except as described herein) is amortized over a rolling 30-year period (as described herein under "Actuarial Methods"). This is currently an approved method for determining actuarial value of assets under GASB Statements 25 and 27. Asset smoothing delays recognition of gains and losses, however, thereby providing an actuarial value of assets that does not reflect the market value of pension plan assets at the time of measurement. As a result, presenting the actuarial value of assets as determined using "smoothing" might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually. As discussed under the caption "PENSION TRUSTS—General," beginning in fiscal year 2014-15, Statement 68 will require state and local governments with pension liabilities to recognize the difference between expected and actual investment returns over a closed 5-year period. CalPERS sets contributions based on an actuarial value basis, but it is not known at this time how CalPERS will change its contribution policies in light of the new reporting standard regarding asset smoothing.

In addition to the use of "smoothing," as described above, when CalPERS sets contribution rates, the actuarial value of assets generally cannot be more than 120 percent of the market value or less than 80 percent of the market value (referred to as the "corridor"). Any asset value changes outside these ranges will be recognized immediately, and will result in a greater impact on future state contribution rates. However, in 2009 CalPERS adjusted the "corridor" to mitigate the effects of a negative 24 percent fiscal year 2008-09 investment loss.

According to CalPERS, the 3-year phase-in of the fiscal year 2008-09 investment loss is achieved by temporarily relaxing the constraints on the smoothed value of assets. Previously, the actuarial value of assets could not be more than 120 percent of the market value or less than 80 percent of the market value. Under the 3-year phase in, assets are treated as follows:

1. For the June 30, 2009 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2010-11, the actuarial value of assets cannot be more than 140 percent of the market value or less than 60 percent of the market value.

2. For the June 30, 2010 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2011-12, the actuarial value of assets cannot be more than 130 percent of the market value or less than 70 percent of the market value.

3. For the June 30, 2011 actuarial valuations of the State plans setting the contribution requirements for fiscal year 2012-13, the actuarial value of assets cannot be more than 120 percent of the market value or less than 80 percent of the market value.

Lastly, the asset loss outside of the 80 - 120 percent corridor will be isolated, and paid down with a fixed and certain 30-year amortization schedule. By utilizing a fixed and certain 30-year payment schedule, these losses will be paid in full at the end of 30 years, and will be independent of any investment gain/loss experienced by the remaining portfolio as a whole.

The use of "smoothing" and the "corridor" described above will mitigate short term increases in the state's required annual contribution. While this will limit extreme increases in the state's required annual contribution to CalPERS in the near term, absent investment returns significantly over and above the 7.5 percent assumed by CalPERS, it is expected to result in significantly higher required contributions in future fiscal years. Depending on actual investment returns and other factors, the state's required annual contribution to PERF could increase significantly. The contribution, not including CSU, is estimated to be $3.4 billion for fiscal year 2012-13, approximately $1.8 billion of which is payable from the General Fund. In addition, CSU's contribution is estimated to be approximately $463 million from the General Fund in fiscal year 2012-13.

It is not known at this time how CalPERS will change its contribution policies in light of the new reporting standard regarding asset smoothing

Actuarial Assumptions

The CalPERS Chief Actuary considers various factors in determining the assumptions to be used in preparing the actuarial report. Demographic assumptions are based on a study of the actual history of retirement, rates of termination/separation of employment, years of life expectancy after retirement, disability, and other factors. This experience study is generally done once every four years. The most recent experience study was completed in 2010 in connection with the preparation of actuarial recommendations by the CalPERS Chief Actuary as described below. The following table sets forth the certain economic actuarial assumptions for the fiscal years ended June 30, 2008 through June 30, 2011.

In March 2011, the CalPERS Board reviewed the discount rate assumption as a result of recent changes to the CalPERS asset allocation and once again adopted the use of a 7.75 percent discount rate (investment return) assumption.

At its March 14, 2012, meeting, the CalPERS Board voted to lower the investment earnings assumption to 7.50 percent (a reduction of 0.25 percent) commencing for actuarial valuations dated June 30, 2011, which the Department of Finance estimates will result in an increase in the state's total contribution for fiscal year 2012-13 of approximately $304 million (of which approximately $173 million would be payable from the General Fund). The estimated increases in contributions, which include CSU, are above fiscal year 2011-12 contribution levels.

TABLE 27
Certain Actuarial Assumptions Utilized For PERF

Actuarial Assumption	2008	2009	2010	2011
Investment Returns	7.75%	7.75%	7.75%	7.50%
Inflation	3.00	3.00	3.00	2.75
Salary Increase (Total Payroll)	3.25	3.25	3.25	3.00

Source: CalPERS.

Funding Status

The following table sets forth the schedule of funding progress relating to the state's participation in PERF as of the ten most recent actuarial valuation dates. Funding progress is measured by a comparison of the state's share of PERF assets to pay state employee benefits with plan liabilities.

While not yet included in a formal valuation report, in July 2011, CalPERS reported that the investment return for the PERF in fiscal year 2010-11 was 20.7 percent. As a result of this investment return, the funded ratio ("MVA") is projected to be approximately 70.3 percent as of June 30, 2011, as compared to approximately 63 percent as of June 30, 2010, and the unfunded liability is projected to be approximately $38.5 billion on an MVA basis as of June 30, 2011, as compared to approximately $45.2 billion as of June 30, 2010. However, the funded ratio is expected to fall again in the fiscal year ended June 30, 2012 as a result of the 1.0 percent investment return for such year, as reported by CalPERS.

TABLE 28
PERF Schedule of Funding Progress
State Employees Only
(Fiscal Years Ended June 30)
(Dollars in Millions)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Market Value of Assets (MVA)	$62,298	$56,546	$56,843	$65,488	$74,050	$81,968	$96,988	$91,349	$68,179	$76,266
Actuarial Value of Assets (AVA)	$66,976	$62,201	$62,515	$67,081	$71,830	$77,143	$83,439	$89,304	$93,377	$97,346
Actuarial Accrued Liabilities (AAL)-entry age	64,567	68,854	74,450	79,800	86,595	92,557	100,352	107,642	116,827	121,446
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis	(2,269)	(12,308)	(17,607)	(14,312)	(12,545)	(10,589)	(3,364)	(16,293)	(48,648)	(45,180)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	2,409	(6,653)	(11,935)	(12,719)	(14,765)	(15,414)	(16,913)	(18,338)	(23,450)	(24,100)
Covered Payroll	11,905	12,423	12,628	12,624	12,935	13,299	14,571	15,890	16,333	16,281
Funded Ratio (MVA)	96.5 %	82.1%	76.4 %	82.1 %	85.5 %	88.6%	96.6%	84.9%	58.4%	62.8%
Funded Ratio (AVA)	103.7%	90.3%	84.0%	84.1%	82.9%	83.3%	83.1%	83.0%	79.9%	80.2%

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2010 and prior years.

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State Contributions

As described above, required contributions to PERF are determined annually on an actuarial basis. Payments into PERF are made from the state and from employee contributions. State contributions are made from the General Fund, Special Funds, and non governmental cost funds. From fiscal years 2005-06 to 2012-13, a range of approximately 55 to 63 percent of the state contributions to PERF are made from the General Fund. Table 29 shows the state's actual contributions to PERF for fiscal years 2005-06 through 2010-11 and estimated contributions for fiscal years 2011-12 and 2012-13. The State has made the full amount of actuarially required contribution each year.

TABLE 29
State Contribution to PERF
Fiscal Years 2005-06 to 2012–13
Fiscal Year Ending June 30
(Dollars in Thousands)

Fiscal Year	Amount	GF Amount
2005-06	$2,402,846	$1,321,565
2006-07	2,765,107	1,520,809
2007-08	2,999,455	1,649,700
2008-09	3,063,009	1,684,655
2009-10	2,860,787	1,573,433
2010-11	3,230,489	1,776,769
2011-12[a]	3,514,961	1,933,233
2012-13[a]	3,912,403	2,223,951[b]

(a) Estimated contributions.
(b) Of this $2.2 billion General Fund contribution to CalPERS, approximately $1.761 billion is for state employees and $463 million is for CSU employees.

Source: State of California, Department of Finance.

Prospective Funding Status; Future Contributions

The level of future required contributions from the state depends on a variety of factors, including future investment portfolio performance, actuarial assumptions, and additional potential changes in retirement benefits. There can be no assurances that the required annual contribution to CalPERS will not continue to significantly increase and that such increases will not materially adversely affect the financial condition of the state. See the caption "PENSION TRUSTS—General" for a discussion of new standards adopted by GASB. It is not known at this time how these changes in accounting and financial reporting will impact CalPERS' contribution policies.

The most recent valuation report for PERF contains a projection of future state contribution rates as a percentage of payroll under different investment return scenarios. The tables that follow provide projected state contribution rates through fiscal year 2015-16 for each of the member categories under various scenarios. (CalPERS has indicated that it intends to perform this analysis with each annual valuation.) The results below reflect that unless investment returns over the next three years are as high as 19 percent per year that state contribution rates are expected to continue to increase.

As described herein in " – Actuarial Assumptions," at its March 14, 2012, meeting, the CalPERS Board voted to lower the investment earnings assumption to 7.50 percent (a reduction of 0.25 percent) commencing for actuarial valuations dated June 30, 2011, which the Department of Finance estimates will result in an increase in the state's total contribution for fiscal year 2012-13 of approximately $304 million (of which approximately $173 million would be payable from the General Fund). The estimated increases in contributions, which include CSU, are above fiscal year 2011-12 contribution levels.

When CalPERS lowered the earnings assumption, it provided two sets of contribution rates: one which fully funded the impact of the change commencing in the first year, and another which amortized the first year impact over a number of years (but would ultimately result in higher costs). The state adopted the higher set of contribution rates that fully funded the state's increased first year obligation as a result of the change.

	Fiscal Year 2012-13 Employer Contribution Rates
State Miscellaneous Tier 1	20.503%
State Miscellaneous Tier 2	20.457
State Industrial	16.302
State Safety	17.503
State Peace Officers & Firefighters	30.297
California Highway Patrol	33.728

At the CalPERS May 2012 Board meeting, the Pension and Health Benefits Committee prepared a sensitivity analysis of discount rates 1 percent lower and 1 percent higher than the current discount rate of 7.5 percent. The analysis displays potential required employer contribution rates assuming that the discount rate was adjusted to 6.5 percent or 8.5 percent over the long term. The analysis can be found at http://www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/pension/201205/item-7-attach-8.pdf. However, it is important to note that the employer contribution rates in the analysis assume a phase-in of the impact of the discount rate changes from 7.75 percent to 7.5 percent, resulting in lower contribution rates than the actual rates the state adopted for fiscal year 2012-13. As noted above, the state adopted higher contribution rates to fully fund the increased costs due to the discount rate change.

The tables below show the projected state contribution rates for fiscal year 2013-14 through fiscal year 2015-16 for the employee categories under five different investment return scenarios. The contribution rates for fiscal year 2012-13 will not be affected by fiscal year 2011-12 investment returns. The projected contribution rates set forth below are based on information from the June 30, 2010 actuarial valuation and do not take into account any changes attributable to the decrease in the assumed investment rate of return to 7.5 percent from 7.75 percent described above. The five different investment return scenarios were selected as follows (figures in parentheses are negative numbers):

- The first scenario assumes a negative (3.64) percent return for each of the 2011-12, 2012-13, and 2013-14 fiscal years.

- The second scenario assumes a 2.93 percent return for each of the 2011-12, 2012-13, and 2013-14 fiscal years.

- The third scenario assumed the return for the 2011-12, 2012-13, and 2013-14 fiscal years would be CalPERS' assumed 7.75 percent investment return.

- The fourth scenario assumes a 12.25 percent return for each of the 2011-12, 2012-13, and 2013-14 fiscal years.

- The fifth scenario assumes a 19.02 percent return for each of the 2011-12, 2012-13, and 2013-14 fiscal years.

Estimated: 2013-14

Assumed return	(3.64)%	2.93%	7.75%	12.25%	19.02%
Projected Contribution Rates					
State Miscellaneous Tier 1	21.2%	19.0%	18.9%	18.8%	18.6%
State Miscellaneous Tier 2	20.0	17.8	17.7	17.6	17.5
State Industrial	16.4	15.4	15.3	15.2	15.1
State Safety	17.1	16.7	16.6	16.6	16.5
State Peace Officers & Firefighters	30.0	28.0	27.9	27.8	27.6
California Highway Patrol	34.7	32.2	32.1	32.0	31.8

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2010.

Estimated: 2014-15

Assumed return	(3.64)%	2.93%	7.75%	12.25%	19.02%
Projected Contribution Rates					
State Miscellaneous Tier 1	25.3%	20.7%	19.2%	18.9%	18.4%
State Miscellaneous Tier 2	24.2	19.5	18.0	17.7	17.3
State Industrial	19.1	15.9	15.5	15.3	15.0
State Safety	19.1	16.9	16.7	16.6	16.3
State Peace Officers & Firefighters	34.4	29.1	28.1	27.8	27.3
California Highway Patrol	40.0	33.9	32.5	32.1	31.6

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2010.

Estimated: 2015-16

Assumed return	(3.64)%	2.93%	7.75%	12.25%	19.02%
Projected Contribution Rates					
State Miscellaneous Tier 1	28.9%	22.6%	19.5%	18.9%	18.0%
State Miscellaneous Tier 2	27.8	21.5	18.3	17.8	16.8
State Industrial	21.5	17.1	15.6	15.2	14.6
State Safety	21.0	17.4	16.8	16.5	16.0
State Peace Officers & Firefighters	38.5	31.0	28.3	27.6	26.6
California Highway Patrol	44.7	36.3	32.9	32.1	30.9

Source: CalPERS State and Schools Actuarial Valuation, Fiscal Year Ended June 30, 2010.

Investment Policy; Investment Returns

Pursuant to the State Constitution, the CalPERS Board has sole and exclusive fiduciary responsibility over the assets of the PERF. CalPERS' assets are managed both externally by professional investment management firms and internally by CalPERS investment staff. The CalPERS Board monitors the performance of the managers with the assistance of an external investment consultant.

CalPERS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy," serve to guide CalPERS' asset allocation strategy for PERF. The CalPERS Board reviews the Investment Policy annually, taking into consideration the latest actuarial valuation. Information concerning CalPERS' investments can be found on the CalPERS' website.

The following table sets forth the total return on all assets for PERF for the fiscal years ending June 30, 2001 through June 30, 2011, as well as weighted average returns.

TABLE 30
CalPERS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2000-01	(7.2)%
2001-02	(6.1)
2002-03	3.7
2003-04	16.6
2004-05	12.3
2005-06	11.8
2006-07	19.1
2007-08	(5.1)
2008-09	(24.0)
2009-10	13.3
2010-11	21.7

Source: CalPERS.

According to CalPERS, preliminary investment results for CalPERS for the fiscal year ending June 30, 2012 are approximately 1.0 percent.

TABLE 31
PERF Average Weighted Returns as of June 30, 2011

Period	Weighted Average Rate of Return
3 years	1.5%
5 years	3.4
10 years	5.43

Source: CalPERS.

Investigation Affecting CalPERS

The previous use of placement agents by CalPERS' external investment managers has been the subject of investigations by various governmental authorities, including the U.S. Department of Justice, the U.S. Securities and Exchange Commission, and the California Attorney General's Office. Those law enforcement authorities have made extensive requests for documents and other information. According to CalPERS, it has cooperated and continues to cooperate with federal and state law enforcement authorities who are focused on whether civil or criminal laws have been violated by certain entities and individuals associated with CalPERS. In addition to its pending investigative efforts, the California Attorney General brought a civil action against a placement agent firm and other individuals in May 2010. That litigation is still pending.

In March 2011, CalPERS completed a special review of fees paid by its external managers to placement agents and their related activities. In connection with that review, CalPERS secured substantial fee reductions from a number of its external money managers and those managers agreed to no longer use placement agents for new CalPERS investments.

Other Retirement Plans

In addition to PERF, CalPERS also administers LRF, JRF, and JRF II, which are defined benefit plans.

In the JRF actuarial reports for the year ended June 30, 2011 CalPERS reported that, as of June 30, 2011, JRF had an unfunded actuarial liability of approximately $3.2 billion and JRF II had an unfunded actuarial liability of approximately $48.1 million. In the LRF actuarial report for the year ended June 30, 2011, CalPERS reported that LRF, as of June 30, 2011, had actuarial value of assets that exceeded the actuarial liability by approximately $16.7 million. The state's fiscal year 2012-13 retirement contributions from the General Fund are $160.5 million for JRF and $55.6 million for JRF II.

Further information concerning JRF, JRF II, and LRF can be found in CalPERS' financial reports and actuarial reports and is set forth in Note 24 (and the Schedule of Funding Progress included in the Required Supplementary Information) to the Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2011 attached as APPENDIX F to this Official Statement.

CalSTRS

General

CalSTRS was established under the California Education Code in 1913 to provide benefits to California public school and community college teachers and to certain other employees of the state's public school system (kindergarten through community college). CalSTRS is the administrator of multiple-employer, cost-sharing defined benefit plans, a tax-deferred defined contribution plan, a Medicare Premium Payment Program, and a Teachers' Deferred Compensation Fund.

The largest CalSTRS fund, the State Teachers' Retirement Plan (the "STRP"), is a multiple-employer, cost-sharing, defined benefit plan comprised of four programs: the Defined Benefit Program (referred to in the state's 2011 Financial Statements and in this Official Statement as the "DB Program"), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. Within the DB Program there is also a Supplemental Benefits Maintenance Account (the "SBMA") which provides purchasing power protection for retired members.

The state is not an employer (with certain very limited exceptions) in any of CalSTRS programs but does contribute to the DB Program and the SBMA from its General Fund pursuant to statutes in the Education Code. The DB Program is funded through a combination of investment earnings and statutorily set contributions from three sources: the members, the employers, and the state. Contribution rates for the members and employers to fund the DB Program are not adjusted to reflect or offset actual investment returns or other factors which affect the funded status of the DB Program. The same is true for the contribution rates for the state except that, if the funded status of the DB Program falls below a certain level, the state is required to make specified supplemental contributions to the DB Program.

As of June 30, 2011 (the fiscal year of the DB Program commences July 1 and ends June 30 of the following year), the DB Program's unfunded actuarial obligation was $64.5 billion and the funded ratio was 69 percent based on an actuarial value of assets basis and 67 percent based on a market value of assets basis. The funding status triggered the requirement for the state to make specified supplemental contributions starting in the fiscal year ended June 30, 2012. See "Funding for the DB Program – State Contributions," "Funding Status," and "Prospective Funding Status; Future Contributions." The funding of the DB Program was identified as a new high-risk issue in the California State Auditor Report 2011-601 dated August 2011 because, as stated in the report, the DB Program assets are projected to be depleted in 30 years assuming existing contribution rates continue, and other significant actuarial assumptions are realized. See "Prospective Funding Status; Future Contributions – Responsibility for the Unfunded Obligation."

The SBMA is a separate account within the DB Program that is funded with a combination of investment earnings and statutorily set contributions from the state. The Purchasing Power Protection Program payments for retired members are made only to the extent funds are available in the SBMA and are not a vested benefit. See "Funding for the SBMA."

CalSTRS is administered by a 12-member Teachers' Retirement Board (the "CalSTRS Board") that includes the California Director of Finance, State Controller, State Superintendent of Public Instruction, and the State Treasurer, who serve ex officio. The other CalSTRS Board members serve four-year terms and include three CalSTRS member-elected representatives representing current educators, one retired CalSTRS member, three public representatives, and one school board representative, each appointed by the Governor and confirmed by the Senate.

The CalSTRS Board appoints a Chief Executive Officer to administer CalSTRS and a Chief Investment Officer to direct investment of CalSTRS' assets in accordance with CalSTRS Board policy. The CalSTRS Board also retains independent actuaries, auditors, and investment advisors. The CalSTRS Board has appointed Macias Gini & O'Connell LLP for prior fiscal years and Crowe Horwath LLP beginning with the fiscal year ended June 30, 2011 to serve as the independent auditor for CalSTRS, Pension Consulting Alliance to provide asset allocation and other investment analyses and Milliman, Inc. (the "CalSTRS Consulting Actuary") to provide actuarial services to CalSTRS and for conducting specialized studies at the request of CalSTRS staff. The CalSTRS System Actuary, a CalSTRS employee, is responsible for reviewing the CalSTRS Consulting Actuary's work for quality control purposes and also conducts day-to-day analyses as requested by CalSTRS staff.

Certain summary information concerning the DB Program is set forth below.

Members and Employers

As of June 30, 2011, the DB Program included 1,669 employers. The following table reflects the total number of members in the DB Program as of June 30, 2011 and 2010.

TABLE 32
DB Program Membership

Membership	June 30, 2011	June 30, 2010	Percent Change
Active Members	429,600	441,544	(2.7)
Inactive Members	173,719	166,976	4.0
Retirees and Beneficiaries	253,041	243,796	3.8
Total Membership	856,360	852,316	0.5

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011.

Retirement Benefits

Member benefits are determined by statute in the Education Code and are generally based on member' age, final compensation, and years of credited service. Members are 100 percent vested in retirement benefits after five years of credited service and are eligible for normal retirement at age 60 and for early retirement at age 55 or at age 50 with 30 years of credited service. The normal retirement benefit is 2 percent of final compensation (as defined in the Education Code) for each year of credited service (up to 2.4 percent of final compensation for members retiring after age 60), and members who retired on or after January 1, 2001 with 30 or more years of service by December 31, 2010 receive monthly bonus payments of up to $400 per month. The DB Program also provides disability allowances of up to 50 percent of final compensation plus 10 percent of final compensation for each child (up to an additional 40 percent of compensation) and death benefits for qualifying members and beneficiaries.

Benefits are increased by 2 percent (a simple, not a compounded, cost-of-living increase) of the initial allowance, on each September 1 following the first anniversary of the effective date of the benefit.

The following table shows the amount of benefits and administrative expenses paid under the DB Program for the last seven fiscal years:

TABLE 33
DB Program
Schedule of Benefits Paid and Administrative Expenses
(Dollars in millions)

Fiscal Year	Amount of Benefits Paid	Administrative Expenses
2004-05	$6,134	$95
2005-06	6,649	96
2006-07	7,168	106
2007-08	7,823	109
2008-09	8,604	113
2009-10	9,358	140
2010-11	10,092	110

Source: CalSTRS Comprehensive Annual Financial Reports for Fiscal Years ended June 30, 2005 through 2011.

Funding for the DB Program

The DB Program is funded with a combination of investment income and contributions from members, employers, and the state. Although specific amounts vary from year to year, approximately 55 percent of DB Program assets were derived from investment returns, according to CalSTRS. As described below, the contribution rates of the members, employers, and the state are determined by statute in the Education Code. There can be no assurances that the required amounts annually payable among the members, employers, and state will not significantly increase in the future.

Member Contributions. Members are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation of the member. However, for services performed during the 2000-01 school year until December 31, 2010, the member contribution to the DB Program was 6 percent because 2 percent was directed to the Defined Benefit Supplement Program (to which the state does not contribute).

Employer Contributions. Employers are required to make contributions to the DB Program in an amount equal to 8 percent of creditable compensation plus 0.25 percent to pay costs of the unused sick leave credit; provided that a portion of the employers' contributions has in the past and may in the future be transferred to the Medicare Premium Program which has the effect of further reducing aggregate annual contributions to the DB Program.

State Contributions. The state's General Fund contribution to the DB Program is 2.017 percent of creditable compensation from two fiscal years prior. For example, for fiscal year 2011-12, the state's contribution was based on creditable compensation from fiscal year 2009-10. The state also contributes an additional 0.524 percent of creditable compensation from two fiscal years prior when there is an unfunded obligation or a normal cost deficit exists for benefits in place as of July 1, 1990. The percentage is adjusted up to 0.25 percent per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the supplemental contribution may not exceed 1.505 percent of creditable compensation from two fiscal years prior. Based on the most recent actuarial valuation, as of June 30, 2010, an unfunded obligation exists for the benefits in place as of July 1, 1990, which triggered the supplemental payments for the fiscal year ending June 30, 2012 at a contribution rate of 0.524 percent starting October 1, 2011. An appropriation for this supplemental contribution was included in the 2011 Budget Act. An increased supplemental contribution rate to 0.774 percent is included in the 2012 Budget Act. The following table shows the annual actuarially required contributions, the actual contributions for employers and the state, and the percentage of the actuarially required contribution that has been funded by the employers and the state for the last six fiscal years.

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TABLE 34
DB Program
Schedule Of Contributions From Employers And The State
(Dollars in millions)

Fiscal Year	Annual Actuarially Required Contribution[(a)]	Contributed by Employers[(b)]	Contributed by State[(c)]	Total Contributed	Percent of Actuarially Required Contribution Contributed
2005-06	$3,821	$2,092	$500	$2,592	68%
2006-07	3,980	2,168	360	2,528	64
2007-08	4,362	2,363	501	2,864	66
2008-09	4,547	2,331	536	2,867	63
2009-10	4,924	2,130	563	2,693	55
2010-11	5,985	2,228	568	2,796	47
2011-12	Not yet released	Not yet released	653	Not yet released	Not yet released
2012-13	Not yet released	Not yet released	718	Not yet released	Not yet released

(a) For the DB Program Annual Required Contribution for employers and state, an open amortization period of 30 years is used by the CalSTRS Consulting Actuary to determine the unfunded actuarial liability.
(b) For employer contributions, amounts are reduced by the amount of transfers to the Medicare Premium Program.
(c) State of California, Department of Finance; fiscal year ending June 30, 2012 and 2013 are estimated; amounts contributed by state in fiscal years 2006 and 2007 differ from amounts reflected in CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011 due to timing issues. The fiscal year ending June 30, 2012 and 2013 include the pre-1990 benefit described on the previous page. For 2012, the 0.524 percent contribution equates to $106.5 million and for 2013, the 0.774 percent contribution equates to $188 million.
Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011 (except as noted in footnote 3 to this Table 34).

Actuarial Methods and Assumptions

Although contributions are set by statute, the CalSTRS Consulting Actuary prepares annual actuarial valuation reports of the DB Program. The CalSTRS Consulting Actuary also prepares reports reviewing the DB Program's actual experience every four years. The CalSTRS Board uses experience reports to evaluate how realistic the long-term assumptions have been and may be in the future. The most recent valuation report for the DB Program, dated March 26, 2012 (the "2011 CalSTRS Valuation"), was prepared as of June 30, 2011, and is available on the CalSTRS website. The actuarial assumptions and methods used in the 2011 CalSTRS Valuation were based on the most recent experience report (the "2010 Experience Analysis") prepared by the CalSTRS Consulting Actuary in February 2012.

In preparing the 2011 CalSTRS Valuation, the CalSTRS Consulting Actuary used the Entry Age Actuarial Cost method to measure the accruing costs of benefits under the DB Program. According to GASB, new Statement 68 will require all state and local governments with pension liabilities to use the Entry Age Normal Cost Method beginning in fiscal year 2014-15 if they are not already doing so. Under the Entry Age Actuarial Cost Method, the actuarial present value of projected benefits of each individual is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of the actuarial present value allocated to the valuation year is called the normal cost and represents the cost assigned to a member for a given year, such that it would meet the continuing costs of a particular benefit if contributed each year starting with the date of membership. The CalSTRS

Consulting Actuary notes that the Entry Age Actuarial Cost Method is designed to produce a normal cost rate that remains a level percentage of earned salaries and that the normal cost rate is expected to remain fairly stable so long as the benefit provisions are not amended, the assumptions are not changed, membership experience emerges as assumed, and the demographic characteristics of the membership remain reasonably consistent. Some of the key demographic information taken into account includes assumptions about membership, service retirements, disability retirements, deaths, and merit salary increases, and some of the economic items include assumptions about inflation and wage growth. As presented in Table 35, the CalSTRS Board adopted the recommended changes to the actuarial assumptions from the 2010 Experience Analysis (the CalSTRS Consulting Actuary did not recommend any changes to the actuarial methods). These changes included an adjustment in the assumed investment rate of return to 7.5 percent from 7.75 percent.

The portion of the actuarial value of benefits not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial obligation, and the excess, if any, of the actuarial obligation over the actuarial value of assets is the unfunded actuarial obligation. Assumptions about how long benefits will be paid for active and inactive members and when such members will retire and how long they will live are required in calculating the actuarial obligation, and economic assumptions and valuation methods are required in valuing assets. The following table sets forth certain actuarial methods and assumptions for the four fiscal years ended June 30, 2011.

On June 25, 2012, GASB adopted Statement 67, which is effective beginning in fiscal year 2013-14. See the caption, "PENSION TRUSTS—General." According to GASB, Statement 67 will change the rate used to discount projected benefit payments to their present value (the "Discount Rate") for underfunded pension plans under specific conditions. GASB has stated that Statement 67 will require the Discount Rate for some insufficiently funded plans to be based on a single rate that reflects a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds. There can be no assurance that such change will not apply to the DB Program. The final text of Statement 67 is expected to be made available in August 2012, and it is not known at this time how it will impact CalSTRS. It is possible that a lower Discount Rate could increase the reported unfunded actuarial obligation for the DB Program.

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TABLE 35
Certain Actuarial Methods And Assumptions Utilized For DB Program

	2008	2009	2010	2011
Methods				
Actuarial Cost Method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization Method	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll	Level Percent of payroll
Amortization Period	Open	Open	Open	Open
Remaining Amortization Period	30 years	30 years	30 years	30 years
Asset Valuation Method	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value	Expected value with 33% adjustment to market value
Actuarial Assumptions				
Investment Rate of Return	8.00%	8.00%	7.75%	7.50%
Interest on Accounts	6.00	6.00	6.00	4.50
Wage Growth	4.25	4.25	4.00	3.75
Consumer Price Inflation	3.25	3.25	3.00	3.00
Post-retirement Benefit Increases	2.00 (simple)	2.00 (simple)	2.00 (simple)	2.00 (simple)

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010 and June 30, 2011; 2011 CalSTRS Valuation; 2010 Experience Analysis.

Actuarial Valuation

According to CalSTRS and as reflected in the 2011 CalSTRS Valuation, the biggest source of funding of the DB Program is investment returns, and in calculating the actuarial value of assets, contributions for the past year are added to the actuarial value of assets at the end of the prior year; benefits and expenses are subtracted; an assumed rate of return is added, and as described below, a portion of market value gains and losses are added or subtracted. The assumed investment rate of return on DB Program assets (net of investment and administrative expenses) and the assumed interest to be paid on refunds of member accounts are based in part on an inflation assumption of 3.0 percent.

In February 2012, the CalSTRS Board adopted the changes to the actuarial assumptions recommended in the 2010 Experience Analysis, which decreased the assumed investment rate of return to 7.5 percent from 7.75 percent, the interest on accounts to 4.5 percent from 6.0 percent, and wage growth to 3.75 percent from 4.0 percent. According to the 2011 CalSTRS Valuation, the adoption of new assumptions, based on the 2010 Experience Analysis and adoption by the CalSTRS Board in February 2012, was the most significant factor causing increases in the additional revenue needed for funding sufficiency.

See the caption "Actuarial Methods and Assumptions" above for a discussion of expected changes in GASB standards that could change the Discount Rate used to calculate the DB Program's unfunded actuarial obligation from a long-term assumed investment rate of return to a blend of the long-term assumed investment rate of return and a yield or index rate.

Actual market returns are taken into account but to reduce rate volatility, actual market gains and losses are spread or "smoothed" over a three-year period. That is, one third of the difference between the expected actuarial value of assets and the fair market value of assets is taken into account to determine the actuarial value of assets. According to the 2011 CalSTRS Valuation, due to the asset smoothing method, there are investment losses of $3.89 billion that have not yet been recognized (the difference between the

AVA and MVA in Table 36 below). The average, 10-year investment return of 2.5 percent as of June 30, 2010 instead of the long-term actuarial assumption of 7.75 percent has contributed to an increase in the unfunded actuarial obligation. As discussed under the caption "PENSION TRUSTS—General," GASB Statements 67 and 68, beginning in fiscal year 2013-14 for plans and fiscal year 2014-15 for employers, will require state and local governments with pension liabilities to recognize the differences between expected and actual investment returns over a closed 5-year period. It is not known at this time how this change will impact the DB Program.

Funding Status

The following table sets forth the schedule of funding progress as of the ten most recent actuarial valuation dates based on information provided by CalSTRS from the actuarial valuation reports for such years. Funding progress is measured by a comparison of DB Program assets with DB Program liabilities.

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TABLE 36
DB Program Schedule of Funding Progress
(Fiscal Years Ended June 30)
(Dollars in Millions)

	2001-02[b]	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Market Value of Assets (MVA)[a]	NA	NA	NA	NA	NA	NA	NA	NA	$117,129	$140,040
Actuarial Value of Assets (AVA)	NA	$108,667	$114,094	$121,882	$131,237	$146,419	$155,215	$145,142	140,291	143,930
Actuarial Accrued Liabilities (AAL)-entry age	NA	131,777	138,254	142,193	150,872	167,129	177,734	185,683	196,315	208,405
Excess of Market Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) MVA Basis[a]	NA	NA	NA	NA	NA	NA	NA	NA	(79,186)	(68,365)
Excess of Actuarial Value of Assets over AAL or Surplus (Unfunded) Actuarial Accrued Liabilities (UAAL) AVA Basis	NA	(23,110)	(24,160)	(20,311)	(19,635)	(20,710)	(22,519)	(40,541)	(56,024)	(64,475)
Covered Payroll	NA	23,867	22,589	23,257	24,240	25,906	27,118	27,327	26,275	25,576
Funded Ratio (MVA)[a]	NA	NA	NA	NA	NA	NA	NA	NA	60%	67%
Funded Ratio (AVA)	NA	82%	83%	86%	87%	88%	87%	78%	71%	69%

(a) The CalSTRS Comprehensive Annual Financial Report reports the SBMA assets with DB Program assets and does not provide a separate accounting of the DB Program only assets. Therefore, market values for DB Program assets were not available for the fiscal years ended June 30, 2002 to 2009. The market value of the DB Program assets (without SBMA assets) for the fiscal year ended June 30, 2010 and June 30, 2011 was provided by the CalSTRS Consulting Actuary.

(b) An Actuarial Valuation was not completed in the year 2002. At that time, valuations were only performed every two years.

Source: CalSTRS.

According to the CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011, the market value of the entire DB Program investment portfolio (including the SBMA assets) was $155.3 billion, an increase from $129.8 billion or 19.7 percent over June 30, 2010. Using CalSTRS smoothing method, the gain will be recognized over a three-year period. CalSTRS noted in a press release that the 2011 calendar year resulted in a 2.3 percent gain.

Prospective Funding Status; Future Contributions

In the 2011 CalSTRS Valuation, the CalSTRS Consulting Actuary concluded that the unfunded actuarial obligation will not be amortized over any future period and that the DB Program is projected to have its assets depleted in about 35 years. This was primarily due to lower investment return experience since 2000. The CalSTRS Consulting Actuary also determined in the CalSTRS Valuation for June 30, 2010 that a supplemental contribution of 0.524 percent of creditable compensation was required to be paid by the state beginning in the fiscal year ending June 30, 2012 (commencing with the first quarterly payment due October 1, 2011) because as of June 30, 2010 there was an unfunded actuarial obligation related to the 1990 structure discussed above under "Funding for the DB Program – State Contributions." The 2011 Budget Act included an appropriation related to this statutorily required supplemental contribution. In the 2011 CalSTRS Valuation, the CalSTRS Consulting Actuary determined than an increase of 0.25 percent in the supplemental contribution for a total supplemental contribution of 0.774 percent, will be required for the 2012-13 fiscal year. The increased supplemental contribution rate of 0.774 percent is included in the 2012 Budget Act.

Using the CalSTRS Board's methods and assumptions as of June 30, 2011, the CalSTRS Consulting Actuary calculated that to amortize the unfunded actuarial obligation as of June 30, 2011 over 30 years, a level combined contribution rate of 32.343 percent (an increase to existing combined contribution rates of 12.925 percent and assuming the state's supplemental contribution is adjusted as required by current statutes), beginning on July 1, 2011, would be required. This is a decrease of 1.169 percentage points from what the valuation for June 30, 2010 indicated was necessary.

See the caption "Actuarial Methods and Assumptions" above for a discussion of expected changes in GASB standards that could change the Discount Rate used to calculate the DB Program's unfunded actuarial obligation from a long-term assumed investment rate of return to a blend of the long-term assumed investment rate of return and a yield or index rate.

The following table sets forth the amortization of the unfunded actuarial obligation of the DB Program assuming that the contribution rates and actuarial assumptions as of June 30, 2011 continue to be utilized. The table shows the amount available to amortize the unfunded actuarial obligation after payment of the normal cost on a year-by-year basis and the unfunded actuarial obligation growing from $70.6 billion in 2011 to $550.8 billion in 2041.

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TABLE 37
DB Program
Amortization of Unfunded Actuarial Obligation[(a)(b)]

(*$Millions*)		Beginning	Amortization Payment			Interest	Recognition of	Ending
	Fiscal	Unfunded	Total	Normal	Available	Charge	Deferred	Unfunded
Year	Year	Act. Oblig.	Contrib.	Cost	Amtzn.	at 7.50%	Asset Losses	Act. Oblig.
1	2011-12	$64,475	$5,026	$4,916	$110	$4,832	$1,394	$70,591
2	2012-13	70,591	5,289	5,101	188	5,287	999	76,689
3	2013-14	76,689	5,516	5,292	224	5,743	716	82,924
4	2014-15	82,924	5,793	5,490	303	6,208	513	89,342
5	2015-16	89,342	6,077	5,696	381	6,687	368	96,016
6	2016-17	96,016	6,305	5,910	395	7,187	264	103,072
7	2017-18	103,072	6,541	6,131	410	7,715	189	110,566
8	2018-19	110,566	6,786	6,361	425	8,277	135	118,553
9	2019-20	118,553	7,041	6,600	441	8,875	97	127,084
10	2020-21	127,084	7,305	6,847	458	9,514	70	136,210
11	2021-22	136,210	7,579	7,104	475	10,198	50	145,983
12	2022-23	145,983	7,863	7,371	492	10,931	36	156,458
13	2023-24	156,458	8,158	7,647	511	11,715	26	167,688
14	2024-25	167,688	8,464	7,934	530	12,557	18	179,733
15	2025-26	179,733	8,781	8,231	550	13,460	13	192,656
16	2026-27	192,656	9,111	8,540	571	14,428	9	206,522
17	2027-28	206,522	9,452	8,860	592	15,467	7	221,404
18	2028-29	221,404	9,807	9,192	615	16,583	5	237,377
19	2029-30	237,377	10,174	9,537	637	17,780	3	254,523
20	2030-31	254,523	10,556	9.895	661	19,065	2	272,929
21	2031-32	272,929	10,952	10,266	686	20,444	2	292,689
22	2032-33	292,689	11,363	10,651	712	21,925	1	313,903
23	2033-34	313,903	11,789	11,050	739	23,516	1	336,681
24	2034-35	336,681	12,231	11,465	766	25,223	1	361,139
25	2035-36	361,139	12,689	11,894	795	27,056	0	387,400
26	2036-37	387,400	13,165	12,340	825	29,025	0	415,600
27	2037-38	415,600	13,659	12,803	856	31,139	0	445,883
28	2038-39	445,883	14,171	13,283	888	33,409	0	478,404
29	2039-40	478,404	14,703	13,781	922	35,846	0	513,328
30	2040-41	513,328	15,254	14,298	956	38,465	0	550,837

(a) Based on the actuarial value of assets with projected recognition of deferred known asset losses as of June 30, 2011.
(b) Supplemental State contributions under Education Code §22955(b) are included, as they are required based on the current valuation.
Source: CalSTRS 2011 Valuation.

Responsibility for the Unfunded Obligation. As explained above, total statutorily required contributions, when added to investment earnings, have been significantly less than the actuarially required contributions necessary to fully fund the DB Program on an actuarial basis. The CalSTRS Consulting Actuary noted in the 2011 CalSTRS Valuation Report that the DB Program assets would be depleted in about 35 years assuming existing contribution rates continue, and other significant actuarial assumptions are realized. Other than the state's requirement to contribute specified supplemental contributions under certain conditions described above, the state is not required under existing statutes to increase its contributions (only the Legislature can change the statutes requiring the state's contribution), and the Administration does not believe that the state is otherwise required to provide funding for the outstanding liability.

CalSTRS has stated on a number of occasions, including in a letter from the Chief Executive Officer of CalSTRS contained within the CalSTRS Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2010, that it believes based on its analysis of case law and statutes that the state is responsible for providing an actuarially sound retirement system and paying the difference between the benefits paid and the contributions received in the event that the DB Program assets are depleted. Subsequently, in the most recent Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011, the Chief Executive Officer of CalSTRS stated the Legislature and the Governor must craft a specific funding strategy involving increased contributions, which can be "gradual, predictable, and fair to all parties." The Administration does not agree with CalSTRS' position regarding the state's responsibility. The Administration believes that there are a number of ways to address the unfunded liability, including increased employer and employee contributions and other reforms.

In accordance with state law, the Bureau of State Audits periodically identifies what it believes to be "high risk" issues facing the state. The funding of the DB Program was identified as a new high-risk issue in the California State Auditor Report 2011-601 dated August 2011. The report stated that:

> "We have added the funding of the Defined Benefit Program of the California State Teachers' Retirement System (CalSTRS) as a new high-risk issue. These retirement benefits provide an incentive for teachers to make teaching a career. CalSTRS sets aside funds collected as a percentage of teachers' and administrators' salaries each year to pay future pension obligations. However, the laws governing the contribution rates for CalSTRS members and their employers have not changed in decades. As a result, the Defined Benefit Program is currently funded at 71 percent, well below the 80 percent considered necessary to fund a sound pension program. Additionally, CalSTRS reports that the program's assets will be depleted in 30 years. Considering that pension obligation can extend beyond 50 years, unless the State takes steps, such as raising the contribution rates for members and their employers, it may be responsible for providing the necessary funding to ensure that CalSTRS' Defined Benefit Program meets its obligations. Consequently, we have designated the funding of CalSTRS' Defined Benefit Program as a high-risk issue."

No assurance can be given that the state's contributions to the DB Program will not be increased substantially in the future.

Investment Policy; Investment Returns

Pursuant to the State Constitution, the CalSTRS Board has sole and exclusive fiduciary responsibility over all CalSTRS' assets (including the DB Program assets). CalSTRS' assets (including the DB Program assets) are managed both externally by professional investment management firms and internally by CalSTRS investment staff. The CalSTRS Board monitors the performance of the managers with the assistance of an external investment consultant. See "General" above.

CalSTRS has established a series of procedures and guidelines with respect to investments. The procedures, grouped together as the "Investment Policy and Management Plan," serve to guide CalSTRS asset allocation strategy for all CalSTRS' programs, including the DB Program. The CalSTRS Board reviews the Investment Policy and Management Plan annually, taking into consideration the latest actuarial study. The most recent Investment Policy and Management Plan, dated May 2012, sets forth general parameters for long-term asset allocation, including the following targets: 47 percent global equity, 12 percent private equity, 15 percent real estate, 5 percent inflation sensitive, 20 percent fixed income, and 1 percent cash.

The following table sets forth the total return on all CalSTRS' assets (including the DB Program assets) for the fiscal years ended June 30, 2001 through June 30, 2011, as well as weighted average returns.

TABLE 38
CalSTRS Investment Results Based On Market Value

Fiscal Year	Annualized Rate of Return
2000-01	(9.12)%
2001-02	(5.95)
2002-03	3.41
2003-04	17.38
2004-05	11.09
2005-06	13.21
2006-07	21.03
2007-08	(3.69)
2008-09	(25.03)
2009-10	12.20
2010-11	23.10

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011.

According to CalSTRS, preliminary investment results for CalSTRS for the fiscal year ending June 30, 2012 are approximately 1.84 percent.

TABLE 39
CalSTRS Average Weighted Returns as Of June 30, 2011

Period	Weighted Average Rate of Return
3 years	1.17%
5 years	3.84
10 years	5.66
20 years	8.12

Source: CalSTRS Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2011 for the 3-year, 5-year, and 10-year periods. For the 20-year period, data provided by CalSTRS via email to Department of Finance dated January 17, 2012.

Funding for the SBMA

The SBMA is a separate account within the DB Program that is funded with a combination of investment income and contributions from the state. The contribution rate for the state's funding of the SBMA is also determined by statute in the Education Code. The Purchasing Power Protection Program funded from the SBMA provides quarterly payments to retired and disabled members and beneficiaries to restore purchasing power to beneficiaries if the purchasing power of their initial retirement or disability allowances have fallen below a specified percentage. The Purchasing Power Protection Program payments are made only to the extent funds are available in the SBMA and are not a vested benefit.

State Contributions. The state's General Fund contribution to the SBMA is 2.5 percent of creditable compensation of the fiscal year ending in the prior calendar year, less $70 million for the fiscal year ended June 30, 2010, $71 million for the fiscal year ended June 30, 2011 and $72 million thereafter. The following table summarizes funding of the SBMA during the nine fiscal years ending June 30, 2013. The Education Code requires the state to continue contributions to the SBMA and that the unused balances remain in the SBMA even if they exceed the amounts required to be paid to beneficiaries.

TABLE 40
SBMA Funding

Fiscal Year	General Fund Contributions[1]	Other Amounts	Benefit Payments	Interest	Reserve
2004-05	$ 584,925,000	$36,000,000	$217,953,375	$131,673,811	$2,173,231,737
2005-06	581,367,000	83,520,000	210,955,854	173,858,539	2,802,727,828
2006-07	598,391,000	0	224,130,894	224,218,226	3,399,499,340
2007-08	1,121,501,000[2]	0	223,337,493	271,959,947	4,569,622,638
2008-09	597,474,000[3]	0	341,069,179	365,569,811	5,302,830,510
2000-10	684,935,000	0	266,244,852	424,226,441	6,112,989,062
2010-11	689,633,000	0	245,823,604	489,039,125	6,988,857,762
2011-12[4]	662,744,000	0	Not yet released	Not yet released	Not yet released
2012-13[4]	641,763,000	0	Not yet released	Not yet released	Not yet released

(1) State of California, Department of Finance; fiscal years ending June 30, 2012 and 2013 are estimated.
(2) In the fiscal year ended June 30, 2004, the Legislature reduced the planned $558,867,986 contribution by $500 million. After litigation, the state was ordered to repay the $500 million with interest. The principal amount was repaid in the fiscal year ended June 30, 2008, and the interest is to be paid in four annual installments beginning with the fiscal year ended June 30, 2010. The interest payments are included in the contribution amounts for the respective years.
(3) The Education Code was amended to reduce the amount transferred from the General Fund and to provide that the transfer be made in two equal payments, one on November 1 and the second on April 1.
(4) Estimated.
Source: CalSTRS 2011 Report to the Governor and the Legislature (except as noted in footnote 1 to this Table 40).

THE BUDGET PROCESS

General

The state's fiscal year begins on July 1 and ends on June 30 of the following year. The state's General Fund budget operates on a legal basis, generally using a modified accrual system of accounting for its General Fund, with revenues credited in the period in which they are measurable and available and expenditures debited in the period in which the corresponding liabilities are incurred.

The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under state law and the state constitution, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues for the ensuing fiscal year. Following the submission of the Governor's Budget, the Legislature takes up the proposal. As required by the Balanced Budget Amendment ("Proposition 58") and as described below, beginning with fiscal year 2004–05, the Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and beginning fund balances at the time of the passage and as set forth in the budget bill.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of annual expenditure appropriations is the annual Budget Act as approved by the Legislature and signed by the Governor. Pursuant to Proposition 25, enacted on November 2, 2010, the Budget Act (or other appropriation bills and "trailer bills" which are part of a budget package) must be approved by a majority vote of each House of the Legislature. (This was a reduction from a requirement for a two-thirds vote.) The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation are not required to be in the State Treasury at the time an appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Constraints on the Budget Process

Over the years, a number of laws and constitutional amendments have been enacted, often through voter initiatives, which have increased the difficulty of raising state taxes, restricted the use of the state's General Fund or special fund revenues, or otherwise limited the Legislature and the Governor's discretion in enacting budgets. Historic examples of provisions that make it more difficult to raise taxes include Proposition 13, passed in 1978, which, among other things, required that any change in state taxes enacted for the purpose of increasing revenues collected pursuant thereto, whether by increased rates or changes in computation, be approved by a two-thirds vote in each house of the Legislature. Examples of provisions restricting the use of General Fund revenues are Proposition 98, passed in 1988, which mandates that a minimum amount of General Fund revenues be spent on local education, and Proposition 10, passed in 1998, which raised taxes on tobacco products and mandated how the additional revenues would be expended. See "STATE FINANCES – Proposition 98 and K-14 Funding" and " – Sources of Tax Revenue – Taxes on Tobacco Products."

Constitutional amendments approved by the voters have also affected the budget process. These include Proposition 58, approved in 2004, which requires the adoption of a balanced budget and restricts future borrowing to cover budget deficits; Proposition 49, approved in 2002, which requires the expansion of funding for before and after school programs; Proposition 63, approved in 2004, which imposes a surcharge on taxable income of more than $1 million and earmarks this funding for expanded mental health services; Proposition 1A, approved in 2004, which limits the Legislature's power over local revenue sources, and Proposition 1A approved in 2006, which limits the Legislature's ability to use sales taxes on motor vehicle fuels for any purpose other than transportation. Most recently, Propositions 22 and 26, approved on November 2, 2010, further limit the state's fiscal flexibility. Finally, Proposition 25, also passed by the voters in November 2010, changed the legislative vote requirement to pass a budget and budget related legislation from two-thirds to a simple majority. It retained the two-thirds vote requirement for taxes.

These approved constitutional amendments are described below.

Balanced Budget Amendment (Proposition 58)

Proposition 58, approved by the voters in 2004, requires the state to enact a balanced budget, and establish a special reserve and restricts certain future borrowing to cover fiscal year end deficits. As a result of the provisions requiring the enactment of a balanced budget and restricting borrowing, the state would in some cases have to take more immediate actions to correct budgetary shortfalls. Beginning with the budget for fiscal year 2004-05, Proposition 58 requires the Legislature to pass a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance and the Governor calls a special legislative session to address the shortfall. The balanced budget determination is made by subtracting estimated expenditures from all resources expected to be available, including prior-year balances.

If the Governor determines that the state is facing substantial revenue shortfalls or spending increases, the Governor is authorized to declare a fiscal emergency. He or she would then be required to propose legislation to address the emergency, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the Governor legislation to address the fiscal emergency within 45 days, the Legislature would be prohibited from: (i) acting on any other bills or (ii) adjourning in joint recess until such legislation is passed.

Proposition 58 also required the establishment of the BSA, which is funded by annual transfers of specified amounts from the General Fund, unless suspended or reduced by the Governor or until a specified maximum amount has been deposited.

Proposition 58 also prohibits the use of general obligation bonds, revenue bonds, and certain other forms of borrowing to cover fiscal year end budget deficits. The restriction does not apply to certain other types of borrowing, such as: (i) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the state), or (ii) inter-fund borrowings.

Local Government Finance (Proposition 1A of 2004)

As described under "STATE FINANCES – Local Governments," Senate Constitutional Amendment No. 4 (also known as "Proposition 1A of 2004"), approved by the voters in the November 2004 election, amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the state's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008-09, the state was able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaimed such action was necessary due to a severe state fiscal hardship and two–thirds of both houses of the Legislature approve the borrowing. The amount borrowed is required to be paid back within three years. In addition, the state cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

The provisions of Proposition 1A of 2004 allowing the state to borrow money from local governments from time to time have been deleted by Proposition 22 of 2010, which permanently prohibits any future such borrowing.

Proposition 1A of 2004 also prohibits the state from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005-06, if the state does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate is suspended. In addition, Proposition 1A of 2004 expands the definition of what constitutes a mandate on local governments to encompass state action that transfers to cities, counties and special districts financial responsibility for a required program for which the state previously had partial or complete financial responsibility. The state mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Proposition 1A of 2004 further requires the state to reimburse cities, counties, and special districts for mandated costs incurred prior to fiscal year 2004-05 over a term of years. Chapter 72, Statutes of 2005 (AB 138) requires the payment of mandated costs incurred prior to fiscal year 2004-05 to begin in fiscal year 2006-07 and to be paid over a term of 15 years. The 2012-13 budget package defers payment of these claims through the 2014-15 fiscal year and refinances the balance owed over the remaining payment period. The remaining estimated cost of claims for mandated costs incurred prior to fiscal year 2004-05 is approximately $900 million.

The Amended 2009 Budget Act authorized the state to exercise its Proposition 1A of 2004 borrowing authority. This borrowing generated $1.998 billion that was used to offset state General Fund costs for a variety of court, health, corrections, and K-12 programs. The enabling legislation also created a securitization mechanism for local governments to sell their right to receive the state's payment obligations to a local government-operated joint powers agency ("JPA"). This JPA sold bonds in an aggregate amount of $1.895 billion in November 2009 to pay the local agencies their property tax allocations when they otherwise would receive them. Pursuant to Proposition 1A of 2004, the state is required to repay the local government borrowing (which in turn will be used to repay the bonds of the JPA) no later than June 15, 2013. The 2012 Budget Act includes $2.1 billion to fully retire the outstanding bond obligations to be paid from the General Fund.

After School Education Funding (Proposition 49)

An initiative statute, Proposition 49, called the "After School Education and Safety Program Act of 2002," was approved by the voters on November 5, 2002, and required the state to expand funding for before and after school programs in the state's public elementary, middle and junior high schools. The increase was first triggered in fiscal year 2006-07, which increased funding for these programs to $550 million. These funds are part of the Proposition 98 minimum funding guarantee for K-14 education and, in accordance with the initiative, expenditures can only be reduced in certain low revenue years. See "STATE FINANCES – Proposition 98 and K-14 Funding."

Mental Health Services (Proposition 63)

On November 2, 2004, the voters approved Proposition 63, the Mental Health Services Act, which imposes a 1 percent tax surcharge on taxpayers with annual taxable income of more than $1 million for purposes of funding and expanding mental health services. Proposition 63 prohibits the Legislature or the Governor from redirecting these funds or from reducing General Fund support for mental health services below the levels provided in fiscal year 2003-04. However, Chapter 5, Statutes of 2011 (AB 100) allowed the one-time redirection of $861 million of Proposition 63 funds from the reserve in fiscal year 2011-12 for the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") program, mental health managed care, and mental health services for special education students. Commencing in fiscal year 2012-13, the EPSDT program and mental health managed care are funded with "2011 Realignment" funds as the programs are realigned to counties, mental health services for special education students are funded with Proposition 98 General Fund, and all available Proposition 63 funds are distributed for programs eligible under the Mental Health Services Act.

Transportation Financing (Proposition 1A of 2006)

On November 7, 2006, voters approved Proposition 1A of 2006, which had been placed on the ballot by the Legislature as Senate Constitutional Amendment No. 7, to protect Proposition 42 transportation funds from any further suspensions. Provisions of the State Constitution enacted as Proposition 42 in 2002, permitted the suspension of the annual transfer of motor vehicle fuel sales tax revenues from the General Fund to the Transportation Investment Fund if the Governor declared that the transfer would result in a "significant negative fiscal impact" on the General Fund and the Legislature agreed with a two-thirds vote of each house. The new measure modified the constitutional provisions of Proposition 42 in a manner similar to Proposition 1A of 2004, so that if such a suspension were to have occurred, the amount owed by the General Fund would have had to be repaid to the Transportation Investment Fund within three years, and only two such suspensions could have been made within any 10 year period. In fiscal year 2003-04, $868 million of the scheduled Proposition 42 transfer was suspended, and in fiscal year 2004-05 the full transfer of $1.258 billion was suspended. Budget Acts for fiscal years 2006-07 through 2010-11 all fully funded the Proposition 42 transfer and partially repaid the earlier suspensions. Chapter 11, Statutes of 2010, in the Eighth Extraordinary Session included an elimination of the state sales tax rate on gasoline and an increase in gasoline excise taxes, effectively removing the revenue subject to these restrictions from the state tax system. However, the 2011 Budget Act included $83 million to repay a portion of past suspensions and the 2012 Budget Act continues these repayments.

Proposition 22 – Local Government Funds

On November 2, 2010, voters approved this measure, called the "Local Taxpayer, Public Safety and Transportation Protection Act of 2010," which supersedes some parts of Proposition 1A of 2004, prohibits any future action by the Legislature to take, reallocate or borrow money raised by local governments and redevelopment agencies for local purposes, and prohibits changes in the allocation of property taxes among local governments designed to aid state finances or pay for state mandates. The Proposition 1A borrowing done in 2009 is grandfathered. In addition, by superseding Proposition 1A of 2006, the state is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels for budgetary purposes (but legislation enacted in 2012 clarifies these funds may be used for short-term cash management borrowing), or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings. Any law enacted after October 29, 2009 inconsistent with Proposition 22 is repealed. Proposition 22 jeopardized the use of funds from the gasoline excise tax that had been used in the 2010 Budget Act to offset General Fund debt service cost on highway bonds and for lending to the General Fund. Passage of this measure jeopardized an estimated $850 million in General Fund relief in fiscal year 2010-11, an amount which will grow to over $1 billion by fiscal year 2013-14. The 2011 Budget Act replaced the use of gasoline excise tax for these purposes with truck weight fees and other transportation revenues that may be used for these purposes under Article XIX of the California Constitution. This preserved the 2011 Budget Act allocations for state and local programs while achieving similar levels of General Fund relief to that obtained in the 2010 Budget Act. The 2012 Budget Act continues the use of truck weight fees to offset General Fund debt service costs on transportation bonds and for lending to the General Fund.

The inability of the state to borrow or redirect property tax funds reduces the state's flexibility in reaching budget solutions. The state had used these actions for several billion dollars of solutions prior to the enactment of Proposition 22.

Proposition 26 – Increases in Taxes or Fees

On November 2, 2010, voters approved this ballot measure which revises provisions in Articles XIII A and XIII C of the Constitution dealing with tax increases. The measure specifies that a two-thirds vote of both houses of the Legislature is required for any increase in any tax on any taxpayer, eliminating the current practice where a tax increase coupled with a tax reduction is treated as being able to be adopted by majority vote. Furthermore, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed a tax requiring two-thirds vote. Finally, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were in place would be repealed after one year from the election date unless readopted by the necessary two-thirds vote.

<u>Proposition 25 – On-Time Budget Act of 2010</u>

On November 2, 2010, voters approved this measure that is intended to end budget delays by changing the legislative vote necessary to pass the budget bill from two-thirds to a majority vote and by requiring legislators to forfeit their pay if the Legislature fails to pass the budget bill on time. This measure does not change Proposition 13's property tax limitations in any way. This measure does not change the two-thirds vote requirement for the Legislature to raise taxes. The lower vote requirement also applies to trailer bills that appropriate funds and are identified by the Legislature "as related to the budget in the budget bill." This measure also provides that the budget bill and other bills providing for appropriations related to the budget bill are to take effect immediately upon being signed by the Governor or upon a date specified in the legislation.

<u>Fiscal Propositions on November 2012 Ballot</u>

The November 6, 2012 contains the following ballot initiatives that could significantly affect the state's finances. As of the date of this Official Statement, litigation was pending before the California Court of Appeal challenging the Secretary of State's numbering of certain November 2012 ballot propositions, which may affect the order in which the propositions appear on the ballot:

i) <u>Proposition 30</u> – The Schools and Local Public Safety Protection Act of 2012 (Governor's Initiative)

This proposed constitutional amendment would place into the state Constitution the current statutory provisions transferring 1.0625 percent of state sales taxes to local governments to fund the "realignment" program for many services including housing criminal offenders. See "2011 BUDGET ACT – General – Realigning Services to Local Government." The second part of this measure would provide temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the state sales tax rate, and would specify that the additional revenues will support K-14 public schools and community colleges as part of the Proposition 98 guarantee. See "STATE FINANCES – Sources of Tax Revenue." Each of Proposition 30 and Proposition 38 contain language to the effect that, if both are approved, the tax-raising provisions only of the measure with the greater number of votes would become operative law.

ii) <u>Proposition 31</u> – The Government Performance and Accountability Act

This initiative would amend the state Constitution and state statutes to make the following major changes:

- Constrain the Legislature's authority to enact laws that increase state costs and/or decrease state revenues by more than $25 million annually, adjusted for inflation.
- Change to a biennial budget with a supplemental budget bill during the second year.
- Shift approximately $200 million in sales tax revenue from the state and provides it to local governments. Creates the Performance and Accountability Trust Fund for these funds.
- Require local governments to provide the Legislature with a "Community Strategic Action Plan" to receive these taxes and would require performance standards and criteria. Gives counties power to alter state statutes or regulations related to spending unless Legislature or state agency vetoes changes within 60 days.
- Establish state expenditures accountability requirements and performance standards.

- Allow the Governor to reduce or eliminate any appropriation that is not otherwise required by the Constitution or federal law during specified fiscal emergencies.

- Make changes to the legislative calendar and process.

iii) Proposition 38 – Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act

This initiative would amend state statutes to increase personal income tax rates for all taxpayer brackets above the lowest bracket by a sliding scale of from 0.4 percent to 2.2 percent for individuals earning more than $2.5 million, for a period of twelve years starting in calendar year 2013. For the first four years, the additional funds from the new tax brackets (estimated at $10-11 billion per year at the beginning, and increasing later) would be allocated 60 percent to K-12 schools, 30 percent to repayment of state debt, and 10 percent to early childhood programs. Thereafter, funding would be allocated 85 percent to K-12 schools and 15 percent to early childhood programs. These additional moneys would supplement existing funding for schools and early childhood programs. There are other provisions regarding administration, audits, local control and other matters. See "Proposition 30" above regarding the outcome if both this measure and Proposition 30 are approved.

iv) Proposition 39 – The California Clean Energy Jobs Act

The initiative would amend state statutes governing corporation taxes to reverse a provision adopted in 2009 giving corporations an option on how to calculate the portion of worldwide income attributable to California. By requiring corporations to base their state tax liability on sales in California, it is estimated state revenues would be increased by about $1 billion per year. The measure would also, for five years, dedicate $550 million per year from this increased income to funding of projects that create energy efficiency and clean energy jobs in California.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2011 (the "Financial Statements") are included as APPENDIX F to this Official Statement and incorporated into this Appendix A. The Financial Statements consist of an Independent Auditor's Report, a Management Discussion and Analysis, Basic Financial Statements of the state for the Year Ended June 30, 2011 ("Basic Financial Statements"), and Required Supplementary Information. Only the Basic Financial Statements have been audited, as described in the Independent Auditor's Report. A description of the accounting and financial reporting standards set by the Governmental Accounting Standards Board and used in the Basic Financial Statements is contained in Note 1 of the Basic Financial Statements.

The State Controller issues a monthly report on General Fund cash receipts and disbursements. These reports are available on the State Controller's website, and are normally released on the 10th day of every calendar month for the period ended on the last day of the prior month. The State Controller's unaudited report of General Fund cash receipts and disbursements for the periods July 1, 2011 to June 30, 2012 and July 1, 2012 through July 31,2012, respectively, are included as EXHIBIT 1 and EXHIBIT 2 to this APPENDIX A. The Controller's unaudited report of General Fund cash receipts and disbursements for the month of August 2012 will be released on or about September 10, 2012, and will be included in a Supplement to this Preliminary Official Statement and in the final Official Statement.

Periodic reports on revenues and/or expenditures during the fiscal year are issued by the Administration, the State Controller's Office and the LAO. The Department of Finance issues a monthly bulletin, available by accessing the internet website of the Department of Finance (www.dof.ca.gov), which reports the most recent revenue receipts as reported by state departments, comparing those receipts to budget projections. The Administration also formally updates its budget projections three times during each fiscal year, in January, May, and at the time of budget enactment. These bulletins and reports are available on the internet at websites maintained by the agencies and by contacting the agencies at their offices in Sacramento, California. Such bulletins and reports are not part of or incorporated into this APPENDIX A. Investors are cautioned that interim financial information is not necessarily indicative of results for a fiscal year. Information which may appear in this APPENDIX A from the Department of Finance concerning monthly receipts of "agency cash" may differ from the State Controller's reports of cash receipts for the same periods because of timing differences in the recording of in-transit items.

INVESTMENT OF STATE FUNDS

Moneys on deposit in the State Centralized Treasury System are invested by the State Treasurer in the PMIA. As of July 31, 2012, the PMIA held approximately $40.1 billion of state moneys, and $21.4 billion invested for about 2,703 local governmental entities through the Local Agency Investment Fund ("LAIF"). The assets of the PMIA as of July 31, 2012 are shown in the following table.

TABLE 41
Analysis of Pooled Money Investment Account Portfolio[(a)]
(Dollars in Thousands)

Type of Security	Amount	Percent of Total
U.S. Treasuries	$31,458,463	51.11%
Federal Agency Debentures	1,297,424	2.11
Certificates of Deposit	3,675,003	5.97
Bank Notes	0	0.00
Federal Agency Discount Notes	2,296,401	3.73
Time Deposits	4,429,140	7.19
GNMAs	12	0.00
Commercial Paper	1,603,684	2.61
FHLMC/REMICs	311,842	0.51
AB 55 Loans	281,101	0.46
General Fund Loans	15,797,200	25.66
Other	399,942	0.65
Total	$61,550,212	100.00%

(a) Totals may not add due to rounding.
Source: State of California, Office of the State Treasurer.

The State's Treasury operations are managed in compliance with the California Government Code and according to a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The PMIA operates with the oversight of the PMIB. The LAIF portion of the PMIA operates with the oversight of the Local Agency Investment Advisory Board (consisting of the State Treasurer and four other appointed members).

The PMIA does not now invest, nor has it ever invested, in structured investment vehicles or collateralized debt obligations. In keeping with full transparency of the PMIA portfolio performance, the PMIA's holdings are displayed quarterly on the State Treasurer's website and may be accessed under PMIB Quarterly Reports. The PMIA does not currently invest in auction rate securities.

The State Treasurer does not invest in leveraged products or inverse floating rate securities. The investment policy permits the use of reverse repurchase agreements subject to limits of no more than 10 percent of the PMIA. All reverse repurchase agreements are cash matched either to the maturity of the reinvestment or an adequately positive cash management date which is approximate to the maturity of the reinvestment.

The average life of the investment portfolio of the PMIA as of July 31, 2012 was 243 days.

OVERVIEW OF STATE GOVERNMENT

Organization of State Government

The State Constitution provides for three separate branches of government: the legislative, the judicial and the executive. The Constitution guarantees the electorate the right to make basic decisions, including amending the Constitution and local government charters. In addition, the state voters may directly influence state government through the initiative, referendum and recall processes. The Constitution provides for mechanisms through which it may be amended or revised.

California's Legislature consists of a forty-member Senate and an eighty-member Assembly. Assembly members are elected for two-year terms, and Senators are elected for four-year terms. Assembly members are limited to three terms in office and Senators to two terms. The Legislature meets almost year round for a two-year session. The Legislature employs the Legislative Analyst, who provides reports on state finances, among other subjects. The Bureau of State Audits, headed by the State Auditor, an independent office since 1993, annually issues an auditor's report based on an examination of the General Purpose Financial Statements of the State Controller, in accordance with generally accepted accounting principles. See "FINANCIAL STATEMENTS."

The Governor is the chief executive officer of the state. The Governor presents the annual budget and traditionally presents an annual package of bills constituting a legislative program. In addition to the Governor, state law provides for seven other statewide elected officials in the executive branch. The Governor and the other statewide officials may be elected for up to two four-year terms. The current elected statewide officials, their party affiliation and the dates on which they were first elected are as follows:

Office	Name	Party Affiliation	First Elected
Governor	Edmund G. Brown Jr.	Democrat	2010*
Lieutenant Governor	Gavin Newsom	Democrat	2010
Controller	John Chiang	Democrat	2006
Treasurer	Bill Lockyer	Democrat	2006
Attorney General	Kamala D. Harris	Democrat	2010
Secretary of State	Debra Bowen	Democrat	2006
Superintendent of Public Instruction	Tom Torlakson	Democrat	2010
Insurance Commissioner	Dave Jones	Democrat	2010

* Previously served as Governor 1975-83, prior to term limit law.

The executive branch is principally administered through the following agencies and Secretaries, in addition to other entities such as the Department of Finance:

1. State and Consumer Services,
2. Business, Transportation and Housing,
3. Emergency Management,
4. Environmental Protection,
5. Health and Human Services,
6. Labor and Workforce Development,
7. Natural Resources,

8. Corrections and Rehabilitation,
9. Technology,
10. Department of Food and Agriculture,
11. Service and Volunteering; and,
12. Department of Veterans Affairs,

In addition, some state programs are administered by boards and commissions, such as The Regents of the University of California, Public Utilities Commission, Franchise Tax Board and California Transportation Commission, which have authority over certain functions of state government with the power to establish policy and promulgate regulations. The appointment of members of boards and commissions is usually shared by the Legislature and the Governor, and often includes ex officio members.

The 2012-13 Budget and Governor's Reorganization Plan continue efforts to make state government smaller, more efficient, and more focused on core activities. The reorganization will become effective on July 1, 2013. In addition to other entities such as the Department of Finance, the executive branch will be principally administered through the following agencies and Secretaries:

1. Business, Consumer Services and Housing,
2. Government Operations,
3. Corrections and Rehabilitation,
4. Labor and Workforce Development,
5. Health and Human Services,
6. Environmental Protection,
7. Natural Resources,
8. Food and Agriculture,
9. Transportation; and
10. Veterans Affairs.

Higher Education

California has a comprehensive system of public higher education comprised of three segments: the University of California, the California State University System and California Community Colleges. The University of California provides undergraduate, graduate and professional degrees to students. Approximately 62,500 degrees were awarded in the 2010-11 school year. Approximately 236,000 full-time students were enrolled at the ten University of California campuses and the Hastings College of Law in the 2010-11 school year. The CSU provides undergraduate and graduate degrees to students. Approximately 99,000 degrees were awarded in the 2010-11 school year. The CSU estimates that about 342,000 full-time students were enrolled at the 23 campuses in the 2010-11 school year. The third sector consists of 112 campuses operated by 72 community college districts, which provide associate degrees and certificates to students. Additionally, students may attend California community colleges ("CCCs") to meet basic skills and other general education requirements prior to transferring to a four-year undergraduate institution. About 141,000 associate degrees and certificates were awarded in the 2010-11 school year. For the 2010-11 academic year, approximately 1.2 million full-time equivalent students were enrolled at CCCs.

Employee Relations

The 2012 Budget Act estimates the state work force for fiscal year 2012-13 at approximately 342,000 positions, of which approximately 128,000 positions represented state employees of the legislative and judicial branches of government, and institutions of higher education. Of the remaining positions, over 80 percent are subject to collective bargaining and less than 20 percent are excluded from collective bargaining. State law provides that state employees, defined as any civil service employee of the state and teachers under the jurisdiction of the Department of Education or the Superintendent of Public Instruction, and excluding certain other categories, have a right to form, join, and participate in the activities of employee organizations for the purpose of representation on all matters of employer-employee relations. Once a bargaining unit ("BU") selects an employee organization, only that organization can represent those employees.

The scope of representation is limited to wages, hours, and other terms and conditions of employment. Representatives of the Governor are required to meet and confer in good faith and endeavor to reach agreement with the employee organization and, if an agreement is reached, to prepare a memorandum of understanding ("MOU") and present it to the Legislature for ratification. The Governor and the recognized employee organization are authorized to agree mutually on the appointment of a mediator for the purpose of settling any disputes between the parties, or either party could request the Public Employment Relations Board to appoint a mediator.

There are 21 collective BUs that represent state employees. The Service Employees International Union is the exclusive representative for 9 of the 21 BUs, or approximately 50 percent of those represented employees subject to collective bargaining. The International Union of Operating Engineers is the exclusive representative for 2 of the 21 collective BUs. The remaining BUs have their own exclusive representative. All of the 21 BUs have MOUs approved by their membership and the Legislature. The following table lists the state's 21 BUs, their exclusive representatives, membership levels, and MOU expiration dates.

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TABLE 42
Collective Bargaining Units

Unit	Description	Personnel Years[a]	MOU Expiration
1, 3, 4, 11, 14, 15, 17, 20, and 21	Service Employees International Union, Local 1000: Various	92,208	7/1/2013
2	California Attorneys, Administrative Law Judges & Hearing Officers in State Employment: Attorneys and Administrative Law Judges	3,576	7/1/2013
5	California Association of Highway Patrolmen: Highway Patrol	6,643	7/3/2018
6	California Correctional Peace Officers Association: Corrections	29,347	7/2/2013
7	California Statewide Law Enforcement Association: Protective Services and Public Safety	6,343	7/1/2013
8	California Department of Forestry Firefighters: Firefighters	4,740	7/1/2017
9	Professional Engineers in California Government: Professional Engineers	10,657	7/1/2013
10	California Association of Professional Scientists: Professional Scientists	2,656	7/1/2013
12	International Union of Operating Engineers: Craft and Maintenance	10,381	7/1/2013
13	International Union of Operating Engineers: Stationary Engineers	956	7/1/2013
16	Union of American Physicians and Dentists: Physicians, Dentists, and Podiatrists	1,688	7/1/2013
18	California Association of Psychiatric Technicians: Psychiatric Technicians	5,678	7/1/2013
19	American Federation of State, County and Municipal Employees: Health and Social Services/Professional	5,046	7/1/2013
Total		179,919	

(a) Personnel Years are from the Table 183, State Controller's Office, August 2011
Source: Department of Personnel Administration.

The following are major changes in employee compensation and terms of employment as a result of the 2012 Budget Act, current MOUs, enacted pension reform legislation, and administratively-established compensation adjustments for excluded employees:

- A reduction of $839.1 million ($401.7 million General Fund) in employee compensation, roughly equivalent to a 5-percent reduction in pay. To achieve the reductions, the Administration negotiated agreements with most of the state's 21 BUs for a one day per month, unpaid Personal Leave Program ("PLP"). BUs without negotiated agreements will be subject to a corresponding level of savings through either a negotiated agreement including PLP provisions or furlough.

- An extension of current MOUs for BUs 5, 8, 12, 16, 18, and 19. BUs 12, 16, 18, and 19 had their MOU extended through July 1, 2013. BU 8's MOU was extended through July 1, 2017 and BU 5's MOU was extended through July 3, 2018.

- Employee contributions of 0.5 percent of base salary towards prefunding other postemployment retirement benefits for BUs 12 and 16 that were set to begin on July 1, 2012 are deferred to July 1, 2013.

ECONOMY AND POPULATION

Introduction

California's economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. California followed the nation's path through the recession and into the recovery. California labor markets deteriorated dramatically during the latter half of 2008 and the first nine months of 2009, suffering their worst losses on record. From July 2007 through September 2009, the state lost nearly 1.4 million nonfarm jobs. These losses moderated as the year progressed and switched to very modest gains during 2010 and 2011. California has gained 425,000 jobs from September 2009 through May 2012. See "CURRENT STATE BUDGET – Development of Revenue Estimates."

Population and Labor Force

In 2011 California's population reached 37.5 million residents comprising 12 percent of the total United States population. California is by far the most populous state in the nation, with the next largest state, Texas, having 12 million fewer residents. In the last decade, California experienced more modest growth in comparison to historical growth patterns, especially toward the end of the decade. This recent modest growth is the result of lower total migration figures for the state as well as fewer births statewide since 2007. While California has been known as a destination state, for both international and domestic migration, for the last several years the largest growth component for population in California has been natural increase (more births than deaths).

Short-term population growth through 2015 is expected to show the largest increases for the 65 and older population. The proportion of the population under age 25 is projected to decline due to decreasing fertility rates and smaller cohort sizes, while the working age population is expected to show a slight increase.

The 2010 Census highlights that California's population remains one of the most diverse in the nation, with no single race/ethnic group constituting a majority of the population. It is expected that the Hispanic and Asian population in California will show the largest increases numerically and in population share.

California's population is highly concentrated in metropolitan areas. As of July 1, 2011, the five-county Los Angeles area (Los Angeles, Orange, Ventura, Riverside, and San Bernardino counties) accounted for nearly half of the state's population, with over 18.0 million residents, and about one in five California residents lived within the nine-county San Francisco Bay area (Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties).

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The following table shows California's population data for 2001 through 2011.

TABLE 43
Population 2001-2011

Year	California Population(a)	Increase Over Preceding Year (%)	United States Population(a)	Increase Over Preceding Year (%)	California as (%) of United States
2001	34,512,742	1.5%	284,968,955	1.0%	12.1
2002	34,938,290	1.2	287,625,193	0.9	12.1
2003	35,388,928	1.3	290,107,933	0.9	12.2
2004	35,752,765	1.0	292,805,298	0.9	12.2
2005	35,985,582	0.7	295,516,599	0.9	12.2
2006	36,246,822	0.7	298,379,912	1.0	12.1
2007	36,552,529	0.8	301,231,207	1.0	12.1
2008	36,856,222	0.8	304,093,966	1.0	12.1
2009	37,077,204	0.6	306,771,529	0.9	12.1
2010	37,312,510	0.6	309,330,219	0.8	12.1
2011	37,543,381	0.6	311,591,917	0.7	12.0

(a) Population as of July 1.
Source: U. S. figures from U.S. Department of Commerce, Bureau of the Census; California figures from State of California, Department of Finance.

The following table presents civilian labor force data for the resident population, age 16 and over, for the years 2001 to 2011.

TABLE 44
Labor Force 2001-2011
(Thousands)

			Unemployment Rate (%)	
Year	Labor Force	Employment	California	United States
2001	17,152	16,220	5.4%	4.7%
2002	17,344	16,181	6.7	5.8
2003	17,391	16,200	6.8	6.0
2004	17,444	16,355	6.2	5.5
2005	17,545	16,592	5.4	5.1
2006	17,687	16,821	4.9	4.6
2007	17,921	16,961	5.4	4.6
2008	18,203	16,890	7.2	5.8
2009	18,208	16,145	11.3	9.3
2010	18,316	16,052	12.4	9.6
2011	18,385	16,227	11.7	8.9

Source: State of California, Employment Development Department.

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Employment, Income, Construction and Export Growth

The following table shows California's non-farm payroll employment distribution and growth for 2001 and 2011.

TABLE 45

Nonfarm Payroll Employment by Major Sector
2001 and 2011

(Thousands)

	Employment		Distribution of Employment %	
Industry Sector	**2001**	**2011**	**2001**	**2011**
Mining and Logging	25.6	28.5	0.2%	0.2%
Construction	780.4	553.7	5.3%	3.9%
Manufacturing				
Nondurable Goods	617.2	468.4	4.2%	3.3%
High Technology	495.9	347.6	3.4%	2.5%
Other durable	665.5	429.8	4.6%	3.1%
Trade, Transportation & Utilities	2,748.8	2,662.9	18.8%	18.9%
Information	551.9	432.4	3.8%	3.1%
Financial Activities	829.7	761.5	5.7%	5.4%
Professional & Business Services	2,187.2	2,126.3	15.0%	15.1%
Educational & Health Services	1,454.1	1,833.6	10.0%	13.0%
Leisure & Hospitality	1,365.1	1,530.3	9.3%	10.9%
Other Services	499.2	486.9	3.4%	3.5%
Government				
Federal Government	254.3	255.1	1.7%	1.8%
State & Local Government	2,127.7	2,143.6	14.6%	15.2%
TOTAL	**14,602.0**	**14,060.5**	**100%**	**100%**

Source: State of California, Employment Development Department.

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The following tables show California's total and per capita income patterns for selected years.

TABLE 46
Total Personal Income In California 2001-2011[(a)]
(Dollars in Millions)

Year	Total Personal Income	% Change[(b)]	California % of U.S.
2001	$1,168,723	2.9%	13.2%
2002	1,187,348	1.6	13.1
2003	1,232,981	3.8	13.2
2004	1,312,227	6.4	13.2
2005	1,387,661	5.7	13.2
2006	1,495,533	7.8	13.3
2007	1,566,400	4.7	13.2
2008	1,610,698	2.8	12.9
2009	1,526,531	-5.2	12.8
2010	1,587,404	4.0	12.9
2011	1,673,396	5.4	12.9

(a) Revised estimates as of June 27, 2012.
(b) Change from Prior Year.

Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TABLE 47
Per Capita Personal Income
2001-2011[(a)]

Year	California	% Change[(b)]	United States	% Change[(b)]	California % of U.S.
2001	$33,896	1.5%	$31,157	2.8%	108.8%
2002	34,049	0.5	31,481	1.0	108.2
2003	34,975	2.7	32,295	2.6	108.3
2004	36,887	5.5	33,909	5.0	108.8
2005	38,731	5.0	35,452	4.6	109.2
2006	41,518	7.2	37,725	6.4	110.1
2007	43,211	4.1	39,506	4.7	109.4
2008	44,003	1.8	40,947	3.6	107.5
2009	41,301	-6.1	38,846	-5.1	106.5
2010	42,514	2.9	39,937	2.8	106.5
2011	44,481	4.6	41,663	4.3	106.8

(a) Revised estimates as of March 29, 2012.
(b) Change from prior year.

Note: Omits income for government employees overseas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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The following tables show California's residential and non-residential construction.

TABLE 48
Residential Construction Authorized By Permits
2001-2011

Year	Units			Valuation[(a)] (Dollars in Millions)
	Total	Single	Multiple	
2001	148,757	106,902	41,855	$28,804
2002	167,761	123,865	43,896	33,305
2003	195,682	138,762	56,920	38,968
2004	212,960	151,417	61,543	44,777
2005	208,972	155,322	53,650	47,138
2006	164,280	108,021	56,259	38,108
2007	113,034	68,409	44,625	28,621
2008	64,962	33,050	31,912	18,072
2009	36,421	25,454	10,967	12,037
2010	44,762	25,526	19,236	13,731
2011[p/]	47,015	21,420	25,595	14,362

(a) In millions of dollars. Valuation includes additions and alterations.
p/ Preliminary.
Source: Construction Industry Research Board.

TABLE 49
Nonresidential Construction 2001-2011
(Dollars in Thousands)

Year	Commercial	Industrial	Other	Additions and Alterations	Total
2001	$6,195,368	$1,552,047	$2,584,321	$6,421,551	$16,753,287
2002	5,195,348	1,227,754	2,712,681	5,393,329	14,529,112
2003	4,039,561	1,320,222	2,954,039	5,601,117	13,914,939
2004	5,105,541	1,456,283	3,100,982	6,026,567	15,689,373
2005	5,853,351	1,693,373	3,818,100	6,900,709	18,265,533
2006	7,733,068	1,760,888	3,873,055	7,741,610	21,108,621
2007	8,812,083	1,450,875	3,496,471	8,782,424	22,541,853
2008	6,513,610	938,081	2,983,640	8,776,285	19,211,616
2009	1,919,763	359,868	1,984,534	6,602,103	10,866,268
2010	1,990,358	358,338	1,937,166	6,913,901	11,199,763
2011[p/]	2,211,133	478,896	2,230,192	8,108,493	13,028,714

p/ Preliminary
Source: Construction Industry Research Board.

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The following table shows changes in California's exports for the period from 2001 through 2011.

TABLE 50
Exports Through California Ports 2001-2011
(Dollars in Millions)

Year	Exports(a)	% Change[b]
2001	$127,255.3	-14.3%
2002	111,340.1	-12.5
2003	113,550.7	2.0
2004	123,039.2	8.4
2005	129,988.9	5.6
2006	147,823.8	13.7
2007	159,549.5	7.9
2008	170,594.2	6.9
2009	137,215.5	-19.6
2010	168,588.3	22.9
2011	189,431.3	12.4

(a) "Free along ship" value basis.
(b) Change from prior year.
Source: U.S. Department of Commerce, Bureau of the Census.

LITIGATION

The state is a party to numerous legal proceedings. The following describes litigation matters that are pending with service of process on the state accomplished and have been identified by the state as having a potentially significant fiscal impact upon the state's revenues or expenditures. The state makes no representation regarding the likely outcome of these litigation matters.

The following description was developed by the state with the participation of the Office of the Attorney General and other state entities. The Office of the Attorney General does not represent the state, its subdivisions, departments, agencies and other units in all litigation matters, and accordingly there may be litigation matters of which the Office of the Attorney General is not aware. The state does not conduct a docket search of federal or state court litigation filings to identify pending litigation and no inquiry has been made into pending administrative proceedings. There may be litigation and administrative proceedings with potentially significant fiscal impacts that have not been described below.

Budget-Related Litigation

Actions Challenging School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768) and *California Teachers Association ("CTA") Complaint in Intervention*, plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of 62 minor school children, various school districts, the California Association of School Administrators, the California School Boards Association and CTA, allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek an order enjoining the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. It is currently unknown what the fiscal impact of this matter might be upon the General Fund. In a related matter, *Campaign for Quality Education, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), plaintiffs also challenge the constitutionality of the state's education finance system. The court issued a ruling that there was no constitutional right to a particular level of school funding. The court allowed plaintiffs to amend their complaint with respect to alleged violation of plaintiffs' right to equal protection. Plaintiffs in each of these matters elected not to amend, and both matters have been dismissed by the trial court. Plaintiffs in each matter have appealed (Court of Appeal, First Appellate District, Case Nos. A134423, A134424).

Plaintiff in *California School Boards Association v. State of California* (Alameda County Superior Court, Case No. RG-11-554698), alleges, among other things, that two budget trailer bills enacted in October 2010 as part of the 2011 Budget Act violate the California Constitution provision which requires that a statute embrace one subject expressed in its title. Specifically, plaintiff alleges that SB 856 entitled "State government" and AB 1610 entitled "Education finance" are comprehensive bills containing dozens of sections, including appropriations, amendments, and new laws that are not expressed in their titles. AB 1610 contains a $340 million reduction in an education appropriation, approximately $5 billion in payments deferred to next fiscal year, and hundreds of millions of dollars in reversions to the General Fund. If the court declares AB 1610 unconstitutional, these fiscal provisions may be declared void.

In *California School Boards Association, et al. v. State of California, et al.* (San Francisco County Superior Court, Case No. CGC-11-514689), plaintiffs allege that the state improperly calculated the amount required to be spent on education pursuant to Proposition 98 by approximately $2.1 billion in fiscal year 2011-12. Plaintiffs contend that the $5.1 billion in use and sales taxes transferred to help fund the cost of realignment of certain services previously provided by state government to local governments should have been counted as General Fund revenue for purposes of Proposition 98. Plaintiffs do not challenge the realignment plan but seek a writ of mandate compelling state officials to recalculate the funding guarantees required by Proposition 98, as well as similar injunctive and declaratory relief. On June 1, 2012, the trial court denied the petition for writ of mandate. Plaintiffs appealed (Court of Appeal, First Appellate District, Case No. A136193).

<u>*Actions Challenging Statutes Which Reformed California Redevelopment Law*</u>

In *California Redevelopment Association, et al. v. Matosantos, et al.* (California Supreme Court, Case No. S194861), the California Supreme Court upheld the validity of legislation ("ABx1 26") dissolving all local Redevelopment Agencies ("RDAs") and invalidated a second law ("ABx1 27") that would have permitted existing RDAs to convert themselves into a new form of RDA and continue to exist, although they would have to pay higher fees to school, fire and transit districts to do so.

A second case challenging the constitutionality of these statutes, *City of Cerritos, et al. v. State of California* (Sacramento County Superior Court, Case No. 34-2011-80000952) raises the same theories advanced in the California Supreme Court action, and also contains challenges based on claimed violations of the single subject rule and the contracts clause, the statutes being outside scope of the proclamation calling the Legislature into special session, and the failure to obtain a 2/3 vote to pass the statutes. On January 27, 2012, the trial court denied the petitioners' motion for a preliminary injunction seeking to block implementation of ABx1 26. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070484). Plaintiffs' request to stay portions of ABx1 26 was denied by the appellate court.

Several pending cases challenge AB 1484, which requires successor agencies to the former RDAs to remit by July 2012 certain property tax revenues for fiscal year 2011-12 that the successor agency had received, or face a penalty. *City of National City v. Matosantos* (Sacramento County Superior Court, Case No. 34-2012-80001198), *City of El Cerrito v. Campbell* (Sacramento County Superior Court, Case No. 34-2012-80001200), *Town of Apple Valley v. Matosantos* (Sacramento County Superior Court, Case No. 34-2012-00127355), *City of Mission Viejo v. State of California* (Sacramento County Superior Court, Case No. 34-2012-80001203), *City of Brea v. State of California* (Sacramento County Superior Court, Case No. 34-2012-80001204) *and City of Pittsburg, et al. v. Campbell, et al. (Sacramento County Superior Court, Case No. 34-2012-80001245)*. Each case challenges the individual calculations made by Department of Finance that each successor agency owes between $1 million to $20 million per depending on the city. (*National City* involves five cities). Plaintiffs also make broader challenges to the constitutionality of AB 1484 under a range of theories. In *National City*, a request for a temporary restraining order was denied. In *Town of Apple Valley*, the Court denied a request for a temporary restraining order, and granted a preliminary injunction to prevent the imposition of penalties on the successor agency pending resolution of the merits. In *City of Mission Viejo & City of Brea*, ex parte hearings for temporary restraining orders scheduled for July were taken off calendar.

In *City of Irvine v. Matosantos* (Sacramento County Superior Court, Case No. 34-2012-80001161), plaintiffs assert that a former RDA's pledge of $1.4 billion to build the Orange County Great Park qualifies as an enforceable obligation under ABx1 26. The trial court denied a request for a temporary restraining order.

In *Affordable Housing Coalition v. Sandoval* (Sacramento County Superior Court, Case No. 34-2012-80001158), plaintiffs argue that all former RDAs had obligations to pay for affordable housing that should be funded going forward on an implied contracts theory. The trial court denied a request for a temporary restraining order.

Another challenge to ABx1 26 has been filed by plaintiffs who insured bonds issued by now-dissolved RDAs. In *Syncora Guarantee Inc., et al v. State of California, et al* (Sacramento County Superior Court, Case No. 34-2012-80001215), plaintiffs allege that ABx1 26 constitutes an impairment of contract and a taking of property without just compensation, in violation of both the U.S. and California Constitutions. Plaintiffs seek injunctive relief, including an order requiring the tax revenues remitted by the successor agencies to local taxing entities be returned and held in trust for the bondholders until the bonds are paid.

In *County of Orange v. Matosantos* (Sacramento County Superior Court, Case No. 34-2012-80001224), plaintiff county asserts that its former RDA's pledge of $346 million to develop numerous projects qualifies as an enforceable obligation under ABx1 26. Plaintiff seeks a declaration that the pledge constitutes an enforceable obligation, and a writ ordering the Department of Finance to approve the obligation.

Actions Challenging Required Contribution by Redevelopment Agencies

Petitioners in *California Redevelopment Association, et al. v. Genest, et al.* (Sacramento County Superior Court, Case No. 34-2009-80000359), challenge the constitutionality of legislation that required that local redevelopment agencies remit a total of $1.7 billion in fiscal year 2009-10 and $350 million in fiscal year 2010-11 to county education funds. Petitioners asked the trial court to enjoin implementation of the legislation. A second case challenging the constitutionality of this legislation and seeking to enjoin its implementation was filed by seven counties. *County of Los Angeles, et al. v. Genest, et al.* (Sacramento County Superior Court, Case No. 34-2009-80000362). The trial court denied the petitions in both matters, and petitioners in both matters appealed (Court of Appeal, Third Appellate District, Case Nos. C064907 and C065390). The appellate court denied petitioners' request in the *California Redevelopment Association* matter for a stay pending resolution of the appeal.

Actions Challenging Allocation of Vehicle License Fees

In *League of California Cities, et al. v. John Chiang, et al.* (Sacramento County Superior Court, Case No. 34-2-11-80000957), petitioners seek a writ to block implementation of the Legislature's allocation of $489 million of Vehicle License Fee ("VLF") revenue for fiscal year 2011-12 to local government for specific local law enforcement activities. Petitioners allege that the allocation is unconstitutional and that the VLF revenue must be allocated to local governments as general purpose revenue. The trial court heard argument and took the matter under submission.

<u>*Actions Regarding Furlough of State Employees*</u>

In several cases, petitioners challenged Governor Schwarzenegger's executive orders directing the furlough without pay of state employees. The first order, issued on December 19, 2008, directed furloughs for two days per month, effective February 1, 2009 through June 30, 2010. The second, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, Governor Schwarzenegger issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010 Budget Act was adopted and the Director of the Department of Finance determined that the state had sufficient cash flow to pay for essential services.

On October 4, 2010, the California Supreme Court, ruling in three consolidated cases, upheld the validity of the two day per month furloughs implemented by the Governor's December 2008 order on the ground that the Legislature had ratified these furloughs in enacting the 2008 budget revision. *Professional Engineers in California Government ("PECG"), et al. v. Schwarzenegger, et al.* (California Supreme Court, Case No. S183411).

Most of the remaining cases that challenge the two furlough orders issued in July 2009 and/or July 2010 have been dismissed or settled. The pending cases include the following:

Two cases pending in Alameda County Superior Court challenge the furloughs of certain categories of employees, such as those paid from funds other than the General Fund or who otherwise assert a claim not to be furloughed on a basis outside of the rationale of the Supreme Court decision. These two cases are *PECG v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG-10-494800) and *California Association of Professional Scientists v. Schwarzenegger, et al.* (Alameda County Superior Court, Case No. RG-10-530845). The trial court granted the petition in part, finding that two furlough days in March 2011, were unlawful for specified employees. The state appealed (Court of Appeal, First Appellate District, Case No. A136338).

In *Tyler, et al. v. Brown, et al.* (Alameda County Superior Court, Case No. RG- 12-619687), state employees, who have alleged their claims as a class action, challenge the furlough orders, the elimination of two paid holidays and an increase to the amount of their required pension contribution, claiming violations of state collective bargaining law (the Dills Act), the constitutional protection against impairment of contract, violation of the constitutional separation of powers, and violation of due process. Plaintiffs further allege a claim on behalf of all state taxpayers who were allegedly deprived of the income tax that the state would have received had the employees received full pay but for the furloughs. Plaintiffs allege that their claims have not yet been adjudicated by prior furlough-related litigation.

In *Morgan v. Schwarzenegger* (Alameda County Superior Court, Case No. RG-11-555149), an individual state employee alleges the furlough orders were invalid and seeks back pay. The trial court denied the petition and plaintiff filed a notice of appeal.

In *Acosta v. Henning, et al.* (San Francisco County Superior Court, Case No. CPF-08-508192), petitioners assert that the furloughs interfere with the ability of the California Employment Development Department and the California Unemployment Insurance Appeals Board ("CUIAB") to timely perform their functions. The trial court entered judgment in the state's favor and petitioners appealed (Court of Appeal, First Appellate District, Case No. A132426). On appeal, petitioners do not challenge the furloughs but request an order that the CUIAB comply with federal guidelines for resolution of appeals regarding benefits and, if it does not do so, pay the benefits at issue. At this time it is unknown what fiscal impact this claim would have on the state's General Fund.

In *Horton v. Brown, et al.* (Sacramento County Superior Court, Case No. 34-2012-00125438), plaintiff asserts a class action on behalf of all gubernatorial and certain other appointees. The complaint alleges that such appointees were exempt from civil service rules, and therefore should not have been furloughed. Because the putative class is limited, any fiscal impact on the state's General Fund is expected to be modest.

Tax Cases

Six actions have been filed contending that the Legislature's modification of Revenue and Taxation Code section 25128, which implemented the double-weighting of the sales factor in California's apportionment of income formula for the taxation of multistate business entities, is invalid and/or unconstitutional. *Kimberly-Clark Worldwide, Inc., et al. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495916); *Gillette Company and Subsidiaries v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495911); *Procter & Gamble Manufacturing Company & Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-495912); *Sigma-Aldrich, Inc. and Affiliates v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496437); *RB Holdings (USA), Inc. v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-496438); and *Jones Apparel Group v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-10-499083), now consolidated in one matter, collectively referred to as *Gillette Company v. Franchise Tax Board*. Plaintiffs contend that the single-weighted sales factor specified in section 25128 prior to amendment was contained within the Multistate Tax Compact and therefore cannot be modified without repealing the legislation that enacted the Compact. An adverse ruling in these cases would affect multiple taxpayers and create potential exposure to refund claims in excess of $750 million. The trial court ruled for the state in each of these matters, but, on appeal, the trial court judgment was reversed (Court of Appeal, First Appellate District, Case No. A130803). On August 9, 2012, the Court of Appeal on its own motion vacated its decision and opinion, and granted a rehearing in this matter. See "STATE FINANCES - Sources of Tax Revenue – Corporation Tax."

A pending case challenges the fee imposed by the state tax code upon limited liability companies ("LLCs") registered in California, alleging that it discriminates against interstate commerce and violates the U.S. and California Constitutions, is an improper exercise of the state's police powers, and has been misapplied by the Franchise Tax Board. *Bakersfield Mall LLC v. Franchise Tax Board* (San Francisco County Superior Court, Case No. CGC-07-462728). *Bakersfield Mall* was filed as a purported class action on behalf of all LLCs operating solely in California. Plaintiff filed an amended complaint to allege that not all of its income is derived solely from sources in California, which would call into question the class plaintiff purports to represent. A second lawsuit that is virtually identical to *Bakersfield Mall* also seeks to proceed as a class action. *CA-Centerside II, LLC v. Franchise Tax Board* (Fresno County Superior Court, Case No. 10 CECG00434). If either case proceeds as a class action, the claimed refunds could be significant (in excess of $500 million).

Lucent Technologies, Inc. v. State Board of Equalization ("*Lucent I*") (Los Angeles County Superior Court, Case No. BC 402036), a tax refund case, involves the interpretation of certain statutory sales and use tax-exemptions relating to computer software and licenses to use computer software that are transferred pursuant to technology transfer agreements. A second case, *Lucent Technologies, Inc. v. State Board of Equalization* ("*Lucent II*") (Los Angeles County Superior Court, Case No. BC 448715), involving the same issue but for different tax years than in the *Lucent I* matter, has been consolidated with the *Lucent I* case. In a similar case, *Nortel Networks Inc. v. State Board of Equalization* (Los Angeles County Superior Court, Case No. BC 341568), the trial court ruled in favor of plaintiff and the ruling was affirmed on appeal (Court of Appeal, Second Appellate District, Case No. B213415, California Supreme Court, Case No. S190946). The adverse ruling in the *Nortel* matter, unless limited in scope by a decision in the *Lucent* matters, if applied to other similarly situated taxpayers, could have a significant negative impact, in the range of approximately $300 million annually, on tax revenues.

Environmental Matters

In a federal Environmental Protection Agency ("U.S. EPA") administrative abatement action titled In the Matter of: *Leviathan Mine, Alpine County, California, Regional Water Quality Control Board, Lahontan Region, State of California* (U.S. EPA Region IX CERCLA Docket No. 00-16(a)), the state, as owner of the inactive Leviathan Mine, is a responsible party through the Lahontan Regional Water Quality Control Board ("Regional Board"). The Atlantic Richfield Company ("ARCO") is also a responsible party as the successor in interest to the mining company that caused certain pollution of the mine site. The Leviathan Mine site ("Site") is listed on the U.S. EPA "Superfund" List, and both remediation costs and costs for natural resources damages may be imposed on the state. The alleged bases for the state's liability are the state's ownership of the Site and the terms of a 1983 settlement agreement between the Regional Board and ARCO. The Regional Board purchased the Site to abate the pollution and has undertaken certain remedial actions ("Project"), but the U.S. EPA's decision on the interim and final remedies is pending. ARCO has sued the state, the State Water Resources Control Board, and the Regional Board, seeking to recover past and future clean-up costs, based on the settlement agreement, the state's ownership of the property, and the Regional Board's allegedly defective Project. The matter is scheduled to commence a five-week trial in September 2012. *Atlantic Richfield Co. v. State of California* (Los Angeles County Superior Court, Case No. BC 380474). It is possible these matters if determined adversely to the state could result in potential liability in the hundreds of millions of dollars.

In *Pacific Lumber Company, et al. v. State of California, et al.* (Sacramento County Superior Court, Case No. 34-2009-00042016), plaintiffs seek damages against the state for an alleged breach of the Headwaters Agreement. The Headwaters Agreement, reached in 1996, involved the sale of certain timberlands by plaintiffs to federal and state agencies. Plaintiffs allege that the state's environmental regulation of plaintiffs' remaining timberlands since the Headwaters Agreement constitutes a breach of the Agreement. The state denies plaintiffs' allegations. The current plaintiffs are successors in interest to the original plaintiffs, who filed a bankruptcy proceeding and have since dissolved. In that proceeding, the debtors claimed that the value of the litigation ranges from $626 million to $639 million in the event they could establish liability. It is currently unknown what the fiscal impact of this matter might be upon the General Fund. The trial court granted the state's motion for summary judgment and plaintiffs appealed (*Avidity Partners, LLC v. State of California*, Court of Appeal, Third Appellate District, Case No. C070255).

In *Consolidated Suction Dredge Mining Cases (Karuk Tribe v. DFG)* (Alameda, Siskiyou, and San Bernardino County Superior Courts), environmental and mining interests challenge the state's regulation of suction dredge gold mining. After initially prohibiting such mining in the state except pursuant to a permit issued by the Department of Fish and Game under specified circumstances, the Legislature subsequently placed a moratorium on all suction dredging until certain conditions are met by the Department of Fish and Game. The Court is considering whether the cases should be consolidated. One of these matter, *The New 49'ERS, Inc. et al. v. California Department of Fish and Game* (originally filed in Siskiyou County but now the subject of a coordination hearing), claims that federal law preempts and prohibits state regulation of suction dredge mining on federal land. Plaintiffs, who have pled a class action but have yet to seek certification, claim that as many as 11,000 claims, at a value of $500,000 per claim, have been taken.

In *City of Colton v. American Promotional Events, Inc., et al.* (Los Angeles County Superior Court, Case No. BC 376008), two defendants in an action involving liability for contaminated groundwater have filed cross complaints seeking indemnification from the state and the Regional Water Quality Control Board in an amount of up to $300 million. In a related action, *Emhart Industries v. Regional Water Quality Control Board* (Los Angeles County Superior Court, Case No. BC 472949), another defendant in an action involving liability for contaminated groundwater seeks indemnification from the state and the Regional Water Quality Control Board in an amount up to $300 million.

Escheated Property Claims

In two cases, plaintiffs claim that the state has an obligation to pay interest on private property that has escheated to the state, and that failure to do so constitutes an unconstitutional taking of private property: *Suever v. Connell* (U.S. District Court, Northern District, Case No. C03-00156 RS); and *Taylor v. Chiang* (U.S. District Court, Eastern District, Case No. S-01-2407 WBS GGH). Both matters are styled as class actions but no class has been certified. The *Suever* and *Taylor* plaintiffs argue that the state's failure to pay interest on claims paid violated their constitutional rights. In *Suever*, the district court concluded that the state is obligated to pay interest to persons who reclaim property that has escheated to the state, but its ruling did not specify the rate at which interest must be paid. The district court certified this issue for appeal. Plaintiffs in *Suever* and *Taylor* also assert that for the escheated property that has been disposed of by the state, plaintiffs are entitled to recover, in addition to the proceeds of such sale, any difference between the sale price and the property's highest market value during the time the state held it; the state asserts that such claims for damages are barred by the Eleventh Amendment. The district court granted the state's motion for summary judgment on this claim in *Suever*, and plaintiffs appealed. The Ninth Circuit ruled against plaintiffs on the two consolidated *Suever* appeals, holding that the state is not required to pay interest and that the Eleventh Amendment bars plaintiffs from suing in federal court for anything other than the return of their property or the proceeds of its sale. (U.S. Court of Appeals, Ninth Circuit, Case No. 08-015884). The Ninth Circuit denied plaintiffs' request for rehearing and plaintiffs declined to seek review in the U.S. Supreme Court. The district court granted the state's motion for summary judgment on all remaining claims in Suever, and plaintiffs appealed. The Ninth Circuit affirmed. Plaintiffs have until September 13, 2012 to seek review in the U.S. Supreme Court. Meanwhile, plaintiffs have amended their complaint to allege that the Controller applies the Unclaimed Property Law's notice requirements in ways that violate state and federal law, and the state filed a motion to dismiss plaintiffs' claims.

Actions Seeking Damages for Alleged Violations of Privacy Rights

In *Gail Marie Harrington-Wisely, et al. v. State of California, et al.* (Los Angeles County Superior Court, Case No. BC 227373), plaintiffs seek damages, asserting that the use by the California Department of Corrections and Rehabilitation ("CDCR") of a body-imaging machine to search visitors entering state prisons for contraband violated the rights of the visitors. This matter was certified as a class action. The trial court granted judgment in favor of the state. Plaintiffs' appeal was dismissed (Court of Appeal, Second Appellate District, Case No. B190431) and the trial court denied plaintiffs' motion for attorneys' fees. The parties agreed to a stipulated judgment and dismissed the case subject to further review if CDCR decides to use similar technology in the future. Plaintiffs may not seek further review of the trial court's rulings until 2013. If plaintiffs were successful in obtaining an award of damages for every use of the body-imaging machine, damages could be as high as $3 billion.

Plaintiff in *Gilbert P. Hyatt v. Franchise Tax Board* (State of Nevada, Clark County District Court, Case No. A382999) was subject to an audit by the Franchise Tax Board involving a claimed change of residence from California to Nevada. Plaintiff alleges a number of separate torts involving privacy rights and interference with his business relationships arising from the audit. The trial court ruled that plaintiff had not established a causal relation between the audit and the loss of his licensing business with Japanese companies; the Nevada Supreme Court denied review of this ruling. The economic damages claim exceeded $500 million. On the remaining claims, the jury awarded damages of approximately $387 million, including punitive damages, and over $1 million in attorneys' fees. The total judgment with interest is approximately $490 million. The state appealed and the Nevada Supreme Court has granted a stay of execution on the judgment pending appeal. The state will vigorously pursue its appeal of this unprecedented award.

Actions Regarding Medi-Cal Reimbursements and Fees

In *Orinda Convalescent Hospital Inc., et al. v. Department of Health Services, et al.* (Sacramento County Superior Court, Case No. 06CS01592), plaintiffs challenge a quality assurance fee ("QAF") charged to skilled nursing facilities that was enacted in 2004, alleging violations of the federal and state constitutions and state law. Funds assessed under the QAF are made available, in part, to enhance federal financial participation in the Medi-Cal program. Plaintiffs seek a refund of fees paid. On March 25, 2011, the trial court ruled the QAF is properly characterized as a "tax" rather than a "fee." Trial then proceeded on plaintiffs' claims for refund of QAF amounts paid as an allegedly illegal and improperly collected tax. The QAF amounts collected from all providers to date total nearly $2 billion, and California has received additional federal financial participation based on its imposition and collection of the QAF. An adverse ruling could negatively affect the state's receipt of federal funds. The trial court ruled for the state, finding that the QAF is constitutionally valid. Plaintiffs appealed (Court of Appeal, Third Appellate District, Case No. C070361).

In *Brotman Medical Center v. Department of Health Care Services* (Los Angeles County Superior Court, Case No. BC 453723), plaintiff seeks declaratory and injunctive relief prohibiting the Department of Health Care Services ("DHCS") from collecting unpaid quality assurance fees that were imposed on plaintiff pursuant to a hospital quality assurance fee program established by Assembly Bill 1383, alleging, among other things, that the QAF constitutes an unconstitutional tax. Plaintiff's request for a preliminary injunction was denied and the appellate court denied plaintiff's appeal on that ruling as moot (Court of Appeal, Second Appellate District, Case No. B232459). An adverse ruling in this matter could negatively affect the state's receipt of federal funds.

Other pending cases challenge state legislation requiring reductions in Medi-Cal reimbursements to providers. In *Independent Living Center of Southern California, et al. v. Shewry, et al.* (U.S. District Court, Central District, Case No. CV 08-3315 CAS (MANx)), health care advocates, Medi-Cal providers and Medi-Cal recipients challenge various 10 percent rate reductions, the 10 percent "actuarial equivalent" managed care rate reductions, the hold on payments to providers for one month prior to January 2009, and delays in the annual cost of living adjustments in the state-funded Supplementary Security Income – State Supplementary Payment (SSI/SSP). The district court granted in part a preliminary injunction, requiring the state, as of August 18, 2008, to pay the rates in effect prior to the 10 percent reduction. The district court thereafter issued a second preliminary injunction, restoring the rates in effect prior to the reduction, as of November 2008, for two additional categories of services. The Ninth Circuit affirmed the preliminary injunctions. (U.S. Court of Appeals, Ninth Circuit, Case No. 08-56422.) The Ninth Circuit also found that the district court erred in making the injunction effective as of August 18, 2008, and that the injunction should apply to services rendered on or after July 1, 2008. The district court amended the injunction to apply retroactively. The U.S. Supreme Court granted the state's petition for certiorari in this matter (U.S. Supreme Court, Case No. 09-958) and in other cases discussed below, and on February 22, 2012, vacated the judgment and remanded the matter to the Ninth Circuit for further review in light of the federal government's intervening action approving the state's plan to implement the rate reductions. On June 17, 2010, the district court stayed further proceedings pending resolution of the petition for certiorari. This matter is scheduled for mediation in the Ninth Circuit. A final decision adverse to the state in this matter could result in additional costs to the General Fund of $192 million in retroactive reimbursements, and possible additional costs for future Medi-Cal reimbursements.

In *California Medical Association, et al. v. Shewry, et al.* (Los Angeles County Superior Court, Case No. BC 390126), professional associations representing Medi-Cal providers seek to enjoin implementation of the 10 percent Medi-Cal rate reductions that were to go into effect on July 1, 2008, alleging that the legislation violates federal Medicaid requirements, state laws and regulations, and the California Constitution. The trial court denied plaintiffs' motion for a preliminary injunction. Plaintiffs filed an appeal, which was dismissed at their request. (Court of Appeal, Second Appellate District, Case No. B210440.) Plaintiffs have indicated that they will file an amended petition seeking the retrospective relief the Ninth Circuit awarded in the Independent Living Center case, discussed above, after final disposition of that case. The matter is stayed pending final resolution in the *Independent Living Center* matter. A final decision adverse to the state in this matter could result in costs to the General Fund of $508.2 million.

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-08200), Medi-Cal pharmacy providers filed a suit challenging reimbursement rates, including the use by DHCS of reduced published average wholesale price data to establish reimbursement rates, and challenging the Legislature's amendment of Welfare and Institutions Code section 14105.45 and enactment of Welfare and Institutions Code section 14105.455. Plaintiffs seek injunctive relief based on alleged violations of federal law. The district court granted a request for preliminary injunction in part, with respect to sections 14104.45 and 14105.455, and denied it in part, with respect to the use of reduced published average wholesale price data to establish reimbursement rates. Plaintiffs filed a motion seeking to modify the district court ruling, and both parties filed notices of appeal to the Ninth Circuit Court of Appeals. Proceedings in the Ninth Circuit and the district court were stayed pending the outcome of review by the U.S. Supreme Court, in the *Independent Living Center* case, discussed above. The Ninth Circuit has lifted the stay. The parties have requested mediation. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

In *California Pharmacists Association, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-0722), various Medi-Cal provider trade associations (doctors, hospitals, pharmacists, etc.) challenge reductions to reimbursement rates implemented by AB 1183. In a similar matter, *Managed Pharmacy Care, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV09-00382), Medi-Cal pharmacy providers challenge reimbursement rates reduction mandated by AB 1183. In each matter, the district court granted a request for preliminary injunction and the Ninth Circuit affirmed. The U.S. Supreme Court granted the state's petition for writ of certiorari in these two matters, along with the *Independent Living Center* case, and issued its decision on February 22, 2012, as discussed above. There is no current activity in these two cases while the *Independent Living Center* matter is in mediation in the Ninth Circuit.

In *Centinela Freeman Emergency Medical Associates, et al. v. Maxwell-Jolly, et al.* (Los Angeles County Superior Court, Case No. BC 406372), filed as a class action on behalf of emergency room physicians and emergency department groups, plaintiffs claim that Medi-Cal rates for emergency room physicians are below the cost of providing care. Plaintiffs seek damages, injunctive relief, and a writ of mandate based on alleged violations of state law and the federal and state Constitutions. The trial court granted the petition of the plaintiffs and ordered DHCS to conduct an annual review of reimbursement rates for physicians and dentists pursuant to Welfare and Institutions Code section 14079. On June 28, 2012, the trial court sustained without leave to amend a demurrer to some of the claims brought under the federal constitution. A final decision in this matter adverse to the state could result in costs to the General Fund of $250 million.

In *Sierra Medical Services Alliance, et al. v. Maxwell-Jolly, et al.* (U.S. District Court, Central District, Case No. CV10-04182), emergency medical transportation companies challenge California regulations that set Medi-Cal reimbursement rates paid for medical transportation services. Plaintiffs seek damages and injunctive relief under the Supremacy Clause, the Takings Clause, the Due Process Clause, and 42 U.S.C. §1983. The case was stayed pending the decision of the Ninth Circuit in other rate cases but plaintiffs have filed a motion to lift the stay and for leave to file a first amended complaint. DHCS will not oppose the plaintiffs' motion. At this time it is unknown what fiscal impact this case would have on the state's General Fund.

In *California Association of Health Facilities v. Maxwell-Jolly* (U.S. District Court, Central District, Case No. CV10-03284 CAS (MANx), consolidated with *Developmental Services Network, et al., v. Maxwell-Jolly*, plaintiffs (professional associations representing Medi-Cal providers) challenge AB 5, which amended Welfare and Institutions Code section 14105.191(f)(2)(A), to maintain Medi-Cal reimbursement rates for intermediate care facilities and freestanding pediatric sub-acute facilities as the rates for fiscal year 2009-10, and each year thereafter, to not exceed the rates applicable in fiscal year 2008-09. Plaintiffs seek declaratory and injunctive relief under the Supremacy Clause and 42 U.S.C. section 1983. Plaintiffs allege that the rate freeze violates federal law because the Legislature did not study the impact of the freeze on efficiency, economy, quality of care, and access to care. Plaintiffs also allege that the rate freeze violates the notice and public process provisions of federal law. The district court granted a preliminary injunction but the Ninth Circuit reversed the preliminary injunction and remanded the matter to the district court. On March 19, 2012, the district court granted plaintiffs' request to amend their complaint, and the consolidated cases are currently stayed. At this time, it is unknown what fiscal impact these matters will have upon the state's General Fund.

In *California Hospital Association v. Maxwell-Jolly, et al.* (Sacramento County Superior Court, Case No. 34-2010-80000673), plaintiff challenges limits on Medi-Cal reimbursement rates for hospital services enacted in 2008, and which were to take effect October 1, 2008 or March 1, 2009, as allegedly violating federal law. Plaintiff seeks to enjoin the implementation of the limits. This matter is currently stayed. At this time it is unknown what fiscal impact this matter may have on the state's General Fund.

In four pending matters, plaintiff health care plans claim the DHCS breached their respective contracts in setting capitation rates for each plan for fiscal year 2003-04. *Health-Net of California, Inc. v. Maxwell-Jolly, et al.* (Sacramento County Superior Court, Case No. 2008-80000056), *Molina Healthcare of California, Inc. v. Maxwell-Jolly, et al.* (Sacramento County Superior Court, Case No. 2008-80000132), *Blue Cross of California, et al. v. Maxwell-Jolly. et al.* (Sacramento County Superior Court, Case No. 2010-80000490), and *Santa Clara County Health Authority v. Douglas, et al.* (Sacramento County Superior Court, Case No. 2008-00013943). The plaintiffs claim that the rate-setting process failed to comply with their contracts by including a budget reduction factor and an actuarially-equivalent reduction required by Welfare and Institutions Code section 14105.19. The trial court ruled for plaintiffs in each matter, ordering DHCS to recalculate rates for fiscal year 2003-04 for each of the four plans, and to recalculate rates for fiscal year 2002-03 for Santa Clara Health Authority and for fiscal year 2004-05 for Health Net of California. The state appealed all four matters (Court of Appeal, Third Appellate District, Case Nos. C068635, C068724, C068726, C068629). If these matters are resolved adversely to the state and the rates are recalculated, the state may be required to pay more under the contracts than would have been required under the originally calculated rates. The parties are currently engaged in mediation.

Local Government Mandate Claims and Actions

In *Department of Finance v. Commission on State Mandates* (Sacramento County Superior Court, Case No. 34-2010-80000529), the state is appealing a determination by the Commission on State

Mandates relating to whether the requirement for completion of a second science course for graduation from high school constitutes a reimbursable state-mandated program. Following court action on consolidated cases involving challenges to the State Controller's Office reduction of claims (*San Diego Unified School District, et al. v. Commission on State Mandates, et al.* (Sacramento County Superior Court, Case No. 03CS01401) and *Woodland Joint Unified School District v. Commission on State Mandates, et al.* (Sacramento County Superior Court, Case No. 05CS01401)), the Commission adopted revised parameters and guidelines which included a reasonable reimbursement methodology for claiming increased teacher costs. (CSM 41 81A, 04-PGA-30, 05-PGA-05, and 06-PGA-05). Historically, education-related state mandate claims are funded from moneys provided to meet the Proposition 98 guarantee. The Commission's adoption of the revised parameters and guidelines could result in a reimbursement requirement that exceeds the funding available through the Proposition 98 guarantee in any one fiscal year.

Actions Relating to Certain Tribal Gaming Compacts

In June 2004, the state entered into amendments to tribal gaming compacts (the "Amended Compacts") between the state and five Indian Tribes (the "Five Tribes"). Those Amended Compacts are being challenged in connection with three pending cases, as described below. A decision unfavorable to the state in the cases described below (or in any future litigation relating to the Amended Compacts) could eliminate future receipts of gaming revenues anticipated to result from the Amended Compacts, and could impair the state's ability to sell a portion of the revenue stream anticipated to be generated by these Amended Compacts.

In *Rincon Band of Luiseno Mission Indians of the Rincon Reservation v. Schwarzenegger, et al.* (U.S. District Court, Southern District, Case No. 04 CV 1151 W (WMc)) plaintiff (the "Rincon Band" or "Rincon") sought an injunction against implementation of the Amended Compacts on grounds that their execution and ratification by the state constituted an unconstitutional impairment of the state's compact with the Rincon Band. The Rincon Band asserts that its compact contains an implied promise that the state would not execute compacts or compact amendments with other tribes that would have an adverse impact on the Rincon Band's market share by allowing a major expansion in the number of permissible gaming devices in California. The complaint also asserts that the state breached Rincon's compact, principally by incorrectly calculating the total number of gaming device licenses the state is authorized to issue tribes with compacts identical to Rincon's compact and by failing to negotiate a compact amendment with the Rincon Band in good faith. The district court dismissed the impairment of contract claims, which Rincon did not appeal. The district court separately granted summary judgment for Rincon on its claim that the state failed to negotiate a compact amendment in good faith, finding that the state's request for revenue sharing to be deposited in the General Fund was a request for an unlawful tax. The Ninth Circuit affirmed and the U.S. Supreme Court denied the state's petition for a writ of certiorari (U.S. Supreme Court, Case No. 10-330). This part of the case has been remanded to the district court for further proceedings. The district court referred the parties to a court-appointed mediator who, following arbitration, selected the Rincon Band's proposed compact as that which best comports with federal law and the court's orders. If the state does not consent to the compact, the matter will be referred to the Secretary of the Department of the Interior to prescribe gaming procedures for the Rincon Band. The Amended Compacts, and at least ten other compacts and compact amendments, require the tribes' revenue sharing payments to the state to be deposited in the General Fund. The Ninth Circuit did not express an opinion regarding whether compacts in which the state and tribe mutually agreed on revenue sharing were lawful. The district court granted Rincon's partial motion for summary judgment on its remaining claim regarding the authorized number of gaming device licenses. The Ninth Circuit vacated the order, remanded to the district court for further proceedings (U.S. Court of Appeals, Ninth Circuit, Case No. 10-56461), and the district court dismissed this claim.

In *Pauma Band of Luiseno Mission Indians v. State of California, et al.* (U.S. District Court, Southern District, Case No. 09 CV 1955 AJB MDD), plaintiff seeks to rescind the Amended Compact it entered into in 2004 and restore its former 1999 Compact, based upon alleged violations of state law and the Indian Gaming Regulatory Act. Plaintiff's claims are based upon the decisions in other litigation matters, including Rincon, that more gaming device licenses were available under the 1999 Compacts and that the state's request for revenue sharing to be deposited into the General Fund was a demand for an unlawful tax. Should plaintiff's Amended Compact be rescinded, plaintiff will be relieved from paying $5.75 million annually to the state in revenue contributions through January 2023.

Prison Healthcare Reform and Reduction of Prison Population

The adult prison health care delivery system includes medical health care, mental health care and dental health care. There are two significant cases pending in federal district courts challenging the constitutionality of prison health care. *Plata v. Brown* (U.S. District Court, Northern District, Case No. C 01-1351 TEH) is a class action regarding the adequacy of medical health care; and *Coleman v. Brown* (U.S. District Court, Eastern District, Case No. CIV S-90-0520 LKK JFM P) is a class action regarding mental health care. A third case, *Perez v. Cate* (U.S. District Court, Northern District, Case No. C 05-05241 JSW), regarding dental health care has been dismissed. A fourth case, *Armstrong v. Brown* (U.S. District Court, Northern District, Case No. C 94-02307 CW) is a class action on behalf of inmates with disabilities alleging violations of the Americans with Disabilities Act and Section 504 of the Rehabilitation Act. In *Plata* the district court appointed a Receiver, who took office in April 2006, to run and operate the medical health care portion of the health care delivery system. The *Plata* Receiver and the Special Master appointed by the Coleman court, joined by the court representatives appointed by the *Perez* and *Armstrong* courts, meet routinely to coordinate efforts in these cases. To date, ongoing costs of remedial activities have been incorporated into the state's budget process. However, at this time, it is unknown what future financial impact this litigation may have on the state's General Fund.

In *Plata* and *Coleman*, discussed above, a three-judge panel was convened to consider plaintiffs' motion for a prisoner-release order. The motions alleged that prison overcrowding was the primary cause of unconstitutional medical and mental health care. After a trial, the panel issued a prisoner release order and ordered the state to prepare a plan for the reduction of approximately 40,000 prisoners over two years. The state filed its prisoner-reduction plan with the three-judge panel and filed an appeal in the U.S. Supreme Court. The U.S. Supreme Court affirmed the prisoner release order.

Actions Regarding Proposed Sale of State-Owned Properties

Two taxpayers filed a lawsuit seeking to enjoin the sale of state-owned office properties, which was originally scheduled to close in December 2010, on the grounds that the sale of certain of the buildings that house appellate court facilities required the approval of the Judicial Council, which had not been obtained, and that the entire sale constituted a gift of public funds in violation of the California Constitution and a waste of public funds in violation of state law. *Epstein, et al. v. Schwarzenegger, et al.* (San Francisco County Superior Court, Case. No. CGC-10-505436). Plaintiffs' request for a preliminary injunction was denied. In a second action filed after the state decided not to proceed with the sale, the prospective purchaser seeks to compel the state to proceed with the sale of the state-owned properties, or alternatively, for damages for breach of contract. *California First, LP v. California Department of General Services, et al.* (Los Angeles County Superior Court, Case No. BC457070). This matter has been transferred to San Francisco County Superior Court and coordinated with the *Epstein* matter.

BANK ARRANGEMENTS

The table immediately following the text of Appendix A, prior to the State Debt Tables, includes certain information relating to bank arrangements the state has entered into. See also "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements."

STATE DEBT TABLES

The tables which follow provide information on outstanding state debt, authorized but unissued general obligation bonds and commercial paper notes, debt service requirements for state general obligation and lease-revenue bonds, and authorized and outstanding state revenue bonds. The table titled "Bank Arrangements" contains certain information relating to letters of credit, liquidity facilities and other bank arrangements in connection with variable rate obligations. Also, see "STATE INDEBTEDNESS AND OTHER OBLIGATIONS." For purposes of these tables, "General Fund bonds," also known as "non-self liquidating bonds," are general obligation bonds expected to be paid from the General Fund without reimbursement from any other fund. Although the principal of general obligation commercial paper notes in the "non-self liquidating" category is legally payable from the General Fund, the state expects that principal of such commercial paper notes will be paid only from the issuance of new commercial paper notes or the issuance of long-term general obligation bonds to retire the commercial paper notes. Interest on "non-self liquidating" general obligation commercial paper notes is payable from the General Fund.

"Enterprise Fund bonds," also known as "self liquidating bonds," are general obligation bonds for which program revenues are expected to be sufficient to reimburse in full the General Fund for debt service payments, but any failure to make such a reimbursement does not affect the obligation of the state to pay principal and interest on the bonds from the General Fund.

"Special Revenue Fund bonds" also known as Economic Recovery Bonds or ERBs, are "self liquidating" general obligation bonds which are primarily secured by a pledge of a one-quarter cent statewide sales and use tax deposited in the Fiscal Recovery Fund. Debt service payments are made directly from the Fiscal Recovery Fund and not the General Fund. The Special Revenue Fund bonds are also general obligations of the state to which the full faith and credit of the state are pledged to the punctual payment of the principal of and interest thereon, if the sales tax revenues are insufficient.

As of August 1, 2012, there was $133.63 million of commercial paper notes outstanding.

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BANK ARRANGEMENTS
(See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS – Capital Facilities Financing – Bank Arrangements.")
As of July 1, 2012

Program	Series	Outstanding Par Amount[(a)]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO VRDOs	2003A 1	$50,000,000	JP Morgan Chase	12/1/2014	LOC	Daily
	2003A 2-3	$200,000,000	Bank of Montreal	12/1/2012	LOC	Daily
GO VRDOs	2003B 1-4	$250,000,000	JP Morgan Chase (60.0%)	11/21/2014	LOC	Weekly
			CA Public Employees' Retirement System (20.0%)			
			CA State Teachers Retirement Syst. (20.0%)			
GO VRDOs	2003C 1	$100,000,000	Bank of America, N.A.	12/1/2014	LOC	Weekly
	2003C 3-4	$100,000,000	Citibank, N.A.	12/1/2012	LOC	Weekly
GO VRDOs	2004A 1, 4 & 5	$200,000,000	Citibank, N.A. (75%)	10/15/2012	LOC	Daily
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004A 2 &3	$150,000,000	State Street Bank & Trust Company (75%)	10/15/2012	LOC	Daily
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004A 6, 7, 8 & 10	$200,000,000	Citibank, N.A. (75.0%)	10/15/2012	LOC	Weekly
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004 A 9	$50,000,000	State Street Bank & Trust Company (75%)	10/15/2012	LOC	Weekly
			CA State Teachers Retirement Syst. (25%)			
GO VRDOs	2004B 1-3	$165,000,000	Citibank, N.A.	10/15/2012	LOC	Daily
GO VRDOs	2004B 4-6	$135,000,000	Citibank, N.A.	10/15/2012	LOC	Weekly
GO VRDOs	2005A-1	$171,600,000	Royal Bank of Canada	11/12/2013	LOC	Weekly
GO VRDOs	2005A-2-1	$143,200,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005A-2-2	$28,400,000	Royal Bank of Canada	11/12/2013	LOC	Weekly
GO VRDOs	2005A-3	$49,100,000	Bank of America	11/10/2014	LOC	Weekly
GO VRDOs	2005B-1	$147,100,000	Bank of America	11/10/2014	LOC	Weekly
GO VRDOs	2005B-2	$98,100,000	JP Morgan Chase	11/10/2014	LOC	Weekly
GO VRDOs	2005B-3	$49,100,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005B-4	$49,100,000	JP Morgan Chase	11/10/2014	LOC	Weekly
GO VRDOs	2005B-5	$88,890,000	Barclays	4/11/2014	LOC	Weekly
GO VRDOs	2005B-7	$49,100,000	JP Morgan Chase	11/10/2014	LOC	Daily
ERB VRDOs	2004C-1	$100,000,000	Bank of America	6/13/2014	LOC	Daily
ERB VRDOs	2004C-2	$50,000,000	Bank of America	6/13/2014	LOC	Daily
ERB VRDOs	2004C-3	$100,000,000	Bank of America	6/13/2014	LOC	Daily
ERB VRDOs	2004C-4	$150,000,000	JP Morgan Chase	6/13/2014	LOC	Daily
ERB VRDOs	2004C-5	$100,000,000	Bank of America	6/13/2014	LOC	Daily

Program	Series	Outstanding Par Amount[(a)]	Credit Provider	Expiration	Type of Credit	Reset Mode
GO CP		$624,000,000	Wells Fargo Bank, N.A.(80.128%)	12/19/2014	LOC	Up to 90 days
			CA State Teachers Retirement Syst.(19.872%)			
GO CP		$500,000,000	Royal Bank of Canada	12/19/2014		Up to 90 days
GO CP		$200,000,000	JP Morgan Chase(50%)	12/20/2013		Up to 90 days
			CA Public Employees' Retirement System (25%)			
			CA State Teachers Retirement Syst(25%)			
GO CP		$150,000,000	Morgan Stanley	12/19/2014		Up to 90 days
GO CP		$125,000,000	US Bank	12/19/2014		Up to 90 days
GO CP		$50,000,000	Bank of America	12/19/2014		Up to 90 days
Total Par		**$4,622,690,000**				

(a) For commercial paper (CP), the total par outstanding represents the maximum commitment. The bank group is responsible for the total CP outstanding.
Source: State Treasurer's Office.

OUTSTANDING STATE DEBT
FISCAL YEARS 2007-08 THROUGH 2011-12
(Dollars in Thousands Except for Per Capita Information)

	2007-08	2008-09	2009-10	2010-11	2011-12
Outstanding Debt (a)					
General Obligation Bonds					
General Fund (Non-Self Liquidating).....................	$ 45,465,459	$ 59,037,759	$ 68,766,304	$ 71,283,705	$ 73,060,865
Enterprise Fund (Self Liquidating)........................	$ 1,905,490	$ 1,655,265	$ 1,475,440	$ 1,216,115	$ 1,115,935
Special Revenue Fund (Self Liquidating)..............	$ 9,120,285	$ 8,223,450	$ 7,720,220	$ 6,787,220	$ 5,910,480
Total General Obligation Bonds..............................	$ 56,491,234	$ 68,916,474	$ 77,961,964	$ 79,287,040	$ 80,087,280
Revenue Bonds					
Lease-Purchase Debt...	$ 7,833,069	$ 8,051,007	$ 9,887,600	$ 9,426,325	$ 11,330,355
Propsosition 1A Receivables Program………….	N/A	N/A	$ 1,895,000	$ 1,895,000	$ 1,895,000
Total Revenue Bonds…………..............................	$ 7,833,069	$ 8,051,007	$ 11,782,600	$ 11,321,325	$ 13,225,355
Total Outstanding General Obligation and Revenue Bonds...	$ 64,324,303	$ 76,967,481	$ 89,744,564	$ 90,608,365	$ 93,312,635
Bond Sales During Fiscal Year					
Non-Self Liquidating General Obligation Bonds....	$ 8,748,685	$ 13,934,985	$ 12,446,005	$ 4,525,000	$ 7,817,390
Self Liquidating General Obligation Bonds.............	$ 91,200	$ 0	$ 118,710	$ 0	$ 0
Proposition 1A Receivables Revenue Bonds…….	N/A	N/A	$ 1,895,000	$ 0	$ 0
Self Liquidating Special Fund Revenue Bonds.......	$ 3,179,260	$ 0	$ 3,435,615	$ 0	$ 438,635
Lease-Purchase Debt...	$ 489,700	$ 641,975	$ 2,269,235	$ 0	$ 2,627,115
Debt Service (b)					
Non-Self Liquidating General Obligation Bonds....	$ 3,649,507	$ 4,021,605	$ 5,035,363	$ 5,704,729	$ 5,782,240
Lease-Purchase Debt...	$ 791,371	$ 825,788	$ 881,994	$ 973,824	$ 980,862
General Fund Receipts (c)......................................	$ 103,416,171	$ 87,774,952	$ 88,654,941	$ 95,536,379	$ 87,769,787
Non-Self Liquidating General Obligation Bonds Debt Service as a Percentage of General Fund Receipts...	3.53%	4.58%	5.68%	5.97%	6.59%
Lease-Purchase Debt Service as a Percentage of General Fund Receipts.................	0.77%	0.94%	0.99%	1.02%	1.12%
Population (d)..	36,552,529	36,856,222	37,077,204	37,312,510	37,543,381
Non-Self Liquidating General Obligation Bonds Outstanding per Capita..	$ 1,243.84	$ 1,601.84	$ 1,854.68	$ 1,910.45	$ 1,946.04
Lease-Purchase Debt Outstanding per Capita..........	$ 214.30	$ 218.44	$ 266.68	$ 252.63	$ 301.79
Personal Income (e)...	$ 1,566,400,000	$ 1,610,698,000	$ 1,526,531,000	$ 1,587,404,000	$ 1,673,396,000
Non-Self Liquidating General Obligation Bonds Outstanding as Percentage of Personal Income.....	2.90%	3.67%	4.50%	4.49%	4.37%
Lease-Purchase Debt Outstanding as Percentage of Personal Income.............................	0.50%	0.50%	0.65%	0.59%	0.68%

(a) Principal outstanding as of July 1 of the next fiscal year. Includes the initial value of capital appreciation bonds rather than the accreted value.
(b) Calculated on a cash basis. The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service. Debt service costs of bonds issued in any fiscal year largely appear in subsequent fiscal years.
(c) Calculated on a cash basis. General Fund Receipts includes both revenues and nonrevenues, such as borrowings, the proceeds of which are deposited in the General Fund (e.g. tobacco securitization bonds and economic recovery bonds).
(d) As of July 1, the beginning of the fiscal year.
(e) Revised estimates as of June 27, 2012.

SOURCES: Population: State of California, Department of Finance.
Personal Income: United States, Department of Commerce, Bureau of Economic Analysis
Outstanding Debt, Bonds Sales During Fiscal Year and Debt Service: State of California, Office of the Treasurer.
General Fund Receipts: State of California, Office of the State Controller.

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2012
(Thousands)

		Voter Authorization Date	Voter Authorization Amount $	Long Term Bonds Outstanding (a) $	Long Term Bonds Unissued (b) $
GENERAL FUND BONDS (Non-Self Liquidating)					
+	1988 School Facilities Bond Act	11/08/88	797,745	53,620	0
+	1990 School Facilities Bond Act	06/05/90	797,875	124,755	0
+	1992 School Facilities Bond Act	11/03/92	898,211	341,360	0
	California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002	03/05/02	2,600,000	2,251,440	259,240
+	California Library Construction and Renovation Bond Act of 1988	11/08/88	72,405	17,880	0
*+	California Park and Recreational Facilities Act of 1984	06/05/84	368,900	16,370	0
*	California Parklands Act of 1980	11/04/80	285,000	3,580	0
	California Reading and Literacy Improvement and Public Library Construction and Renovation Bond Act of 2000	03/07/00	350,000	286,065	5,040
*+	California Safe Drinking Water Bond Law of 1976	06/08/76	172,500	3,640	0
*	California Safe Drinking Water Bond Law of 1984	11/06/84	75,000	2,380	0
*	California Safe Drinking Water Bond Law of 1986	11/04/86	100,000	28,495	0
	California Safe Drinking Water Bond Law of 1988	11/08/88	75,000	34,500	0
*+	California Wildlife, Coastal, and Park Land Conservation Act	06/07/88	768,670	148,995	0
	Children's Hospital Bond Act of 2004	11/02/04	750,000	670,680	47,445
	Children's Hospital Bond Act of 2008	11/04/08	980,000	528,865	449,240
	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (Higher Education)	11/03/98	2,500,000	1,963,010	0
	Class Size Reduction Kindergarten-University Public Education Facilities Bond Act of 1998 (K-12)	11/03/98	6,700,000	4,652,980	11,860
	Clean Air and Transportation Improvement Bond Act of 1990	06/05/90	1,990,000	940,980	38,945
*	Clean Water Bond Law of 1984	11/06/84	325,000	13,675	0
*	Clean Water and Water Conservation Bond Law of 1978	06/06/78	375,000	5,650	0
	Clean Water and Water Reclamation Bond Law of 1988	11/08/88	65,000	28,345	0
*	Community Parklands Act of 1986	06/03/86	100,000	3,940	0
*	County Correctional Facility Capital Expenditure Bond Act of 1986	06/03/86	495,000	28,590	0
	County Correctional Facility Capital Expenditure and Youth Facility Bond Act of 1988	11/08/88	500,000	103,745	0
	Disaster Preparedness and Flood Prevention Bond Act of 2006	11/07/06	4,090,000	2,252,925	1,818,652

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2012
(Thousands)

	Voter Authorization Date	Voter Authorization Amount $	Long Term Bonds Outstanding (a) $	Long Term Bonds Unissued (b) $
GENERAL FUND BONDS (Non-Self Liquidating)				
Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990	06/05/90	300,000	138,485	9,765
* Fish and Wildlife Habitat Enhancement Act of 1984	06/05/84	85,000	6,035	0
Higher Education Facilities Bond Act of 1988	11/08/88	600,000	30,205	0
Higher Education Facilities Bond Act of June 1990	06/05/90	450,000	65,865	540
Higher Education Facilities Bond Act of June 1992	06/02/92	900,000	405,225	1,305
Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006	11/07/06	19,925,000	8,932,560	10,850,440
Housing and Emergency Shelter Trust Fund Act of 2002	11/05/02	2,100,000	1,602,250	132,535
Housing and Emergency Shelter Trust Fund Act of 2006	11/07/06	2,850,000	1,543,280	1,258,990
Housing and Homeless Bond Act of 1990	06/05/90	150,000	2,395	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (Hi-Ed)	11/05/02	1,650,000	1,512,565	0
Kindergarten-University Public Education Facilities Bond Act of 2002 (K-12)	11/05/02	11,400,000	10,014,765	71,900
Kindergarten-University Public Education Facilities Bond Act of 2004 (Hi-Ed)	03/02/04	2,300,000	2,113,060	68,864
Kindergarten-University Public Education Facilities Bond Act of 2004 (K-12)	03/02/04	10,000,000	8,981,770	524,870
Kindergarten-University Public Education Facilities Bond Act of 2006 (Hi-Ed)	11/07/06	3,087,000	2,603,355	471,655
Kindergarten-University Public Education Facilities Bond Act of 2006 (K-12)	11/07/06	7,329,000	5,553,905	1,763,655
* Lake Tahoe Acquisitions Bond Act	08/02/82	85,000	600	0
* New Prison Construction Bond Act of 1986	11/04/86	500,000	11,810	0
New Prison Construction Bond Act of 1988	11/08/88	817,000	30,985	2,165
New Prison Construction Bond Act of 1990	06/05/90	450,000	40,805	605
Passenger Rail and Clean Air Bond Act of 1990	06/05/90	1,000,000	123,435	0
Public Education Facilities Bond Act of 1996 (Higher Education)	03/26/96	975,000	603,820	14,720
+ Public Education Facilities Bond Act of 1996 (K-12)	03/26/96	2,012,035	1,102,955	0
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act	03/07/00	1,970,000	1,554,450	135,844
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006	11/07/06	5,388,000	2,417,410	2,957,710
Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000	03/07/00	2,100,000	1,674,020	85,815
Safe, Clean, Reliable Water Supply Act	11/05/96	995,000	686,410	89,070
Safe, Reliable High-Speed Passenger Train Bond Act for the 21st Century	11/04/08	9,950,000	499,285	9,448,725
* School Building and Earthquake Bond Act of 1974	11/05/74	40,000	18,640	0

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2012
(Thousands)

	Voter Authorization Date	Voter Authorization Amount $	Long Term Bonds Outstanding (a) $	Long Term Bonds Unissued (b) $
GENERAL FUND BONDS (Non-Self Liquidating)				
School Facilities Bond Act of 1990	11/06/90	800,000	200,325	0
School Facilities Bond Act of 1992	06/02/92	1,900,000	725,000	10,280
Seismic Retrofit Bond Act of 1996	03/26/96	2,000,000	1,361,885	0
* State, Urban, and Coastal Park Bond Act of 1976	11/02/76	280,000	5,055	0
Stem Cell Research and Cures Bond Act of 2004	11/02/04	3,000,000	1,120,305	1,873,475
Veterans Homes Bond Act of 2000	03/07/00	50,000	39,190	975
Voting Modernization Bond Act of 2002	03/05/02	200,000	62,325	64,495
Water Conservation Bond Law of 1988	11/08/88	60,000	28,200	5,235
* Water Conservation and Water Quality Bond Law of 1986	06/03/86	150,000	41,270	13,730
Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002	11/05/02	3,440,000	2,700,500	586,909
Total General Fund Bonds		**127,519,341**	**73,060,865**	**33,074,694**
ENTERPRISE FUND BONDS (Self Liquidating)				
* California Water Resources Development Bond Act	11/08/60	1,750,000	358,375	167,600
Veterans Bond Act of 1986	06/03/86	850,000	106,230	0
Veterans Bond Act of 1988	06/07/88	510,000	92,905	0
Veterans Bond Act of 1990	11/06/90	400,000	67,625	0
Veterans Bond Act of 1996	11/05/96	400,000	240,375	0
Veterans Bond Act of 2000	11/07/00	500,000	250,425	238,610
Veterans Bond Act of 2008	11/04/08	900,000	0	900,000
Total Enterprise Fund Bonds		**5,310,000**	**1,115,935**	**1,306,210**

AUTHORIZED AND OUTSTANDING GENERAL OBLIGATION BONDS
As of July 1, 2012
(Thousands)

	Voter Authorization Date	Voter Authorization Amount $	Long Term Bonds Outstanding (a) $	Long Term Bonds Unissued (b) $
SPECIAL REVENUE FUND BONDS (Self Liquidating)				
* Economic Recovery Bond Act	04/10/04	15,000,000	5,910,480	0
Total Special Revenue Fund Bonds		**15,000,000**	**5,910,480**	**0**
TOTAL GENERAL OBLIGATION BONDS		**147,829,341**	**80,087,280**	**34,380,904**

(a) Includes the initial value of capital appreciation bonds rather than the accreted value.

(b) A portion of unissued bonds may be issued initially in the form of commercial paper notes, as authorized from time to time by the respective Finance Committees. A total of not more than $1.649 billion of commercial paper principal plus accrued interest may be owing at one time. See "STATE INDEBTEDNESS AND OTHER OBLIGATIONS - Capital Facilities Financing -- Commercial Paper Program" above. Bond acts marked with an asterisk (*) are not legally permitted to utilize commercial paper.

\+ SB 1018 (06/27/2012) reduced the voter authorized amount

SOURCE: State of California, Office of the Treasurer.

GENERAL OBLIGATION AND REVENUE BONDS
SUMMARY OF DEBT SERVICE REQUIREMENTS
As of July 1, 2012

	Total Debt		
	Interest	**Principal (a)**	**Total**
GENERAL OBLIGATION BONDS			
GENERAL FUND NON-SELF LIQUIDATING (b)			
Fixed Rate	$ 64,207,222,626.60	$ 69,884,075,000.00	$ 134,091,297,626.60
Variable Rate (c)	832,896,755.96	3,176,790,000.00	4,009,686,755.96
ENTERPRISE FUND SELF LIQUIDATING			
Fixed Rate	580,713,135.12	1,115,935,000.00	1,696,648,135.12
SPECIAL REVENUE FUND SELF LIQUIDATING (d)			
Fixed Rate	1,321,133,185.00	4,910,480,000.00	6,231,613,185.00
Variable Rate (e)	175,249,758.10	1,000,000,000.00	1,175,249,758.10
REVENUE BONDS			
GENERAL FUND LEASE-REVENUE			
Lease-Revenue	6,541,446,827.41	11,330,355,000.00	17,871,801,827.41
PROPOSITION 1A RECEIVABLES PROGRAM			
Revenue	90,800,000.00	1,895,000,000.00	1,985,800,000.00
General Fund and Lease-Revenue Total (f)	**$ 73,749,462,288.19**	**$ 93,312,635,000.00**	**$ 167,062,097,288.19**

(a) Includes scheduled mandatory sinking fund payments.
(b) Does not include outstanding commercial paper.
(c) The estimate of future interest payments is based on rates in effect as of July 1, 2012. The interest rates for the daily and weekly rate bonds range from 0.11 - 1.33%. The 2009 Stem Cell Bonds currently bear interest at a fixed rate of 5.65% until reset date, and are assumed to bear that rate from reset until maturity.
(d) Economic Recovery Bonds.
(e) The estimate of future interest payments is based on rates in effect as of July 1, 2012. The interest rates for the bonds range from 0.14 - 0.20%. $500,000,000 of the Series 2009B Economic Recovery Bonds bear interest at fixed rates ranging from 3.50 - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.
(f) Estimated interest included.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total	
2013	$ 3,815,124,209.34	$ 1,596,085,000.00	$ 5,411,209,209.34	(c)
2014	3,753,599,199.74	2,331,450,000.00	6,085,049,199.74	
2015	3,644,249,741.35	2,490,295,000.00	6,134,544,741.35	
2016	3,526,643,073.85	2,408,090,000.00	5,934,733,073.85	
2017	3,413,720,119.94	2,061,320,000.00	5,475,040,119.94	
2018	3,315,413,284.27	1,965,845,000.00	5,281,258,284.27	
2019	3,215,569,808.12	2,109,105,000.00	5,324,674,808.12	
2020	3,085,919,906.47	2,447,610,000.00	5,533,529,906.47	
2021	2,974,715,765.31	2,123,575,000.00	5,098,290,765.31	
2022	2,859,495,888.54	2,457,740,000.00	5,317,235,888.54	
2023	2,741,933,585.83	2,006,355,000.00	4,748,288,585.83	
2024	2,644,971,455.64	1,801,600,000.00	4,446,571,455.64	
2025	2,554,252,336.94	1,973,070,000.00	4,527,322,336.94	
2026	2,451,300,583.05	2,114,460,000.00	4,565,760,583.05	
2027	2,334,383,452.49	2,244,565,000.00	4,578,948,452.49	
2028	2,225,059,558.22	2,293,845,000.00	4,518,904,558.22	
2029	2,110,700,080.10	2,322,960,000.00	4,433,660,080.10	
2030	1,995,351,831.81	2,534,000,000.00	4,529,351,831.81	
2031	1,852,272,573.06	2,626,415,000.00	4,478,687,573.06	
2032	1,724,825,965.65	2,416,415,000.00	4,141,240,965.65	
2033	1,593,876,448.76	2,496,760,000.00	4,090,636,448.76	
2034	1,464,702,894.75	3,428,225,000.00	4,892,927,894.75	
2035	1,228,154,341.10	3,170,320,000.00	4,398,474,341.10	
2036	1,039,428,692.01	2,720,030,000.00	3,759,458,692.01	
2037	868,538,965.62	2,750,160,000.00	3,618,698,965.62	
2038	703,674,500.69	2,693,625,000.00	3,397,299,500.69	
2039	570,700,370.20	3,187,270,000.00	3,757,970,370.20	
2040	305,449,243.75	1,603,885,000.00	1,909,334,243.75	
2041	147,737,375.00	2,190,000,000.00	2,337,737,375.00	
2042	45,457,375.00	1,319,000,000.00	1,364,457,375.00	
Total	**$ 64,207,222,626.60**	**$ 69,884,075,000.00**	**$ 134,091,297,626.60**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR GENERAL FUND NON-SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt Interest (a)(b)	Current Debt Principal (c)	Current Debt Total	
2013	$ 34,618,095.97	$ -	$ 34,618,095.97	(d)
2014	34,577,981.53	-	34,577,981.53	
2015	34,577,981.53	-	34,577,981.53	
2016	34,597,936.64	32,000,000.00	66,597,936.64	
2017	34,441,974.63	326,945,000.00	361,386,974.63	
2018	33,625,001.05	431,245,000.00	464,870,001.05	
2019	32,574,478.13	197,450,000.00	230,024,478.13	
2020	32,017,531.17	184,250,000.00	216,267,531.17	
2021	31,547,556.16	108,600,000.00	140,147,556.16	
2022	31,353,222.05	58,000,000.00	89,353,222.05	
2023	31,223,970.16	88,200,000.00	119,423,970.16	
2024	31,037,416.59	270,600,000.00	301,637,416.59	
2025	30,546,000.16	174,200,000.00	204,746,000.16	
2026	30,209,060.85	318,000,000.00	348,209,060.85	
2027	29,690,922.47	46,100,000.00	75,790,922.47	
2028	29,579,344.61	49,700,000.00	79,279,344.61	
2029	29,451,485.75	70,900,000.00	100,351,485.75	
2030	29,283,740.16	73,800,000.00	103,083,740.16	
2031	29,099,081.70	76,700,000.00	105,799,081.70	
2032	28,914,458.59	79,800,000.00	108,714,458.59	
2033	28,720,419.86	82,700,000.00	111,420,419.86	
2034	28,536,596.63	1,600,000.00	30,136,596.63	
2035	28,534,190.00	-	28,534,190.00	
2036	28,534,197.32	-	28,534,197.32	
2037	28,534,182.68	-	28,534,182.68	
2038	28,534,190.00	-	28,534,190.00	
2039	28,534,190.00	505,000,000.00	533,534,190.00	
2040	1,549.57	1,000,000.00	1,001,549.57	
Total	**$ 832,896,755.96**	**$ 3,176,790,000.00**	**$ 4,009,686,755.96**	

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2012. The interest rates for the daily and weekly rate bonds range from 0.11 - 1.33%. The 2009 Stem Cell Bonds currently bear interest at a fixed rate of 5.65% until reset date, and are assumed to bear that rate from reset until maturity.

(b) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.

(c) Includes scheduled mandatory sinking fund payments for the 2009 Stem Cell Bonds.

(d) Total represents the remaining estimated debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR STATE OF CALIFORNIA PROPOSITION 1A RECEIVABLES PROGRAM[(a)]
REVENUE BONDS
Fixed Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt		
	Interest	**Principal**	**Total**
2013	$ 90,800,000.00	$ 1,895,000,000.00	$ 1,985,800,000.00 (b)
Total	**$ 90,800,000.00**	**$ 1,895,000,000.00**	**$ 1,985,800,000.00**

(a) Bonds were issued by the California Statewide Communities Development Authority pursuant to Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California.

(b) Total represents the remaining debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2013	$ 120,575,683.75	$ -	$ 120,575,683.75	(b)
2014	228,578,530.00	500,470,000.00	729,048,530.00	
2015	202,392,798.75	525,615,000.00	728,007,798.75	
2016	175,020,005.00	556,690,000.00	731,710,005.00	
2017	150,294,300.00	528,985,000.00	679,279,300.00	
2018	133,645,576.25	249,100,000.00	382,745,576.25	
2019	113,267,497.50	592,955,000.00	706,222,497.50	
2020	86,361,762.50	496,145,000.00	582,506,762.50	
2021	61,465,062.50	507,445,000.00	568,910,062.50	
2022	36,925,093.75	451,575,000.00	488,500,093.75	
2023	12,571,250.00	500,000,000.00	512,571,250.00	
2024	35,625.00	1,500,000.00	1,535,625.00	
Total	**$ 1,321,133,185.00**	**$ 4,910,480,000.00**	**$ 6,231,613,185.00**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS FOR SPECIAL REVENUE FUND SELF LIQUIDATING BONDS
Variable Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	**Principal (b)**	**Total**	
2013	$ 24,752,339.78	$ -	$ 24,752,339.78	(c)
2014	24,746,384.25	-	24,746,384.25	
2015	22,821,959.25	-	22,821,959.25	
2016	20,901,441.72	-	20,901,441.72	
2017	20,898,558.28	-	20,898,558.28	
2018	20,900,000.00	25,000,000.00	45,900,000.00	
2019	19,404,931.51	115,000,000.00	134,404,931.51	
2020	13,506,510.22	189,500,000.00	203,006,510.22	
2021	5,628,230.49	240,155,000.00	245,783,230.49	
2022	1,367,860.84	219,190,000.00	220,557,860.84	
2023	294,907.88	134,620,000.00	134,914,907.88	
2024	26,633.88	76,535,000.00	76,561,633.88	
Total	**$ 175,249,758.10**	**$ 1,000,000,000.00**	**$ 1,175,249,758.10**	

(a) The estimate of future interest payments is based on rates in effect as of July 1, 2012. The interest rates for the bonds range from 0.14 - 0.20%. $500,000,000 of the Series 2009B Economic Recovery Bonds bear interest at fixed rates ranging from 3.50 - 5.00% until reset date, and are assumed to bear interest at the rate of 4.00% from each reset date to maturity.

(b) Includes scheduled mandatory sinking fund payments.

(c) Total represents the remaining estimated debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR ENTERPRISE FUND SELF LIQUIDATING BONDS
Fixed Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt			
	Interest	Principal (a)	Total	
2013	$ 47,421,853.50	$ 78,195,000.00	$ 125,616,853.50	(b)
2014	44,406,243.75	104,110,000.00	148,516,243.75	
2015	41,128,748.08	77,565,000.00	118,693,748.08	
2016	38,115,191.63	75,620,000.00	113,735,191.63	
2017	35,414,507.50	61,895,000.00	97,309,507.50	
2018	32,727,509.65	60,655,000.00	93,382,509.65	
2019	29,906,176.16	62,930,000.00	92,836,176.16	
2020	27,765,621.25	28,865,000.00	56,630,621.25	
2021	26,402,666.25	20,320,000.00	46,722,666.25	
2022	25,453,306.28	14,380,000.00	39,833,306.28	
2023	24,811,378.75	12,160,000.00	36,971,378.75	
2024	24,174,391.25	16,075,000.00	40,249,391.25	
2025	23,316,391.05	21,135,000.00	44,451,391.05	
2026	22,292,511.05	22,805,000.00	45,097,511.05	
2027	21,181,948.65	24,695,000.00	45,876,948.65	
2028	19,997,457.80	25,835,000.00	45,832,457.80	
2029	18,377,697.80	42,275,000.00	60,652,697.80	
2030	16,216,908.69	48,325,000.00	64,541,908.69	
2031	13,861,787.28	50,490,000.00	64,351,787.28	
2032	11,371,757.50	53,235,000.00	64,606,757.50	
2033	8,761,341.25	55,095,000.00	63,856,341.25	
2034	6,889,425.00	22,940,000.00	29,829,425.00	
2035	5,786,720.00	23,560,000.00	29,346,720.00	
2036	4,731,100.00	21,210,000.00	25,941,100.00	
2037	3,670,842.50	23,885,000.00	27,555,842.50	
2038	2,756,210.00	15,590,000.00	18,346,210.00	
2039	2,028,212.50	16,330,000.00	18,358,212.50	
2040	1,257,530.00	17,110,000.00	18,367,530.00	
2041	450,087.50	17,925,000.00	18,375,087.50	
2042	28,050.00	350,000.00	378,050.00	
2043	9,562.50	375,000.00	384,562.50	
Total	**$ 580,713,135.12**	**$ 1,115,935,000.00**	**$ 1,696,648,135.12**	

(a) Includes scheduled mandatory sinking fund payments.
(b) Total represents the remaining debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

STATE PUBLIC WORKS BOARD AND
OTHER LEASE-REVENUE FINANCING
OUTSTANDING ISSUES
As of July 1, 2012

Name of Issue		Outstanding
GENERAL FUND SUPPORTED ISSUES:		
State Public Works Board		
California Community Colleges	$	401,100,000
California Department of Corrections and Rehabilitations		3,138,770,000
The Regents of the University of California (a)		2,457,810,000
Trustees of the California State University		866,425,000
Various State Facilities (b)		4,017,875,000
Total State Public Works Board Issues	**$**	**10,881,980,000**
Total Other State Facilities Lease-Revenue Issues (c)	$	448,375,000
Total General Fund Supported Issues	**$**	**11,330,355,000**
SPECIAL FUND SUPPORTED ISSUES:		
East Bay State Building Authority*	$	33,334,474
San Bernardino Joint Powers Financing Authority		34,170,000
San Francisco State Building Authority (d)		9,365,000
Total Special Fund Supported Issues	**$**	**76,869,474**
TOTAL	**$**	**11,407,224,474**

***** Includes the initial value of capital appreciation bonds rather than the accreted value.
(a) The Regents' obligations to the State Public Works Board are payable from lawfully available funds of The Regents which are held in The Regents' treasury funds and are separate from the State General Fund. A portion of The Regents' annual budget is derived from General Fund appropriations.
(b) This includes projects that are supported by multiple funding sources in addition to the General Fund.
(c) Includes $119,080,000 Sacramento City Financing Authority Lease-Revenue Bonds State of California - Cal/EPA Building, 1998 Series A, which are supported by lease rentals from the California Environmental Protection Agency; these rental payments are subject to annual appropriation by the State Legislature.
(d) The sole tenant is the California Public Utilities Commission.

SOURCE: State of California, Office of the Treasurer.

SCHEDULE OF DEBT SERVICE REQUIREMENTS
FOR LEASE-REVENUE DEBT
Fixed Rate
As of July 1, 2012

Fiscal Year Ending June 30	Current Debt			
	Interest (a)	Principal (b)	Total	
2013	$ 582,194,749.89	$ 495,885,000.00	$ 1,078,079,749.89	(c)
2014	562,355,180.33	545,525,000.00	1,107,880,180.33	
2015	535,011,882.69	600,455,000.00	1,135,466,882.69	
2016	505,478,008.53	608,010,000.00	1,113,488,008.53	
2017	475,165,753.43	624,125,000.00	1,099,290,753.43	
2018	443,957,917.82	649,110,000.00	1,093,067,917.82	
2019	411,617,282.80	622,425,000.00	1,034,042,282.80	
2020	380,238,821.61	607,945,000.00	988,183,821.61	
2021	350,749,241.58	561,295,000.00	912,044,241.58	
2022	322,076,167.33	549,065,000.00	871,141,167.33	
2023	295,580,984.50	501,755,000.00	797,335,984.50	
2024	270,538,728.63	433,195,000.00	703,733,728.63	
2025	247,881,520.06	456,025,000.00	703,906,520.06	
2026	224,236,418.32	461,710,000.00	685,946,418.32	
2027	199,342,898.85	486,595,000.00	685,937,898.85	
2028	173,311,225.88	496,905,000.00	670,216,225.88	
2029	147,477,551.29	456,180,000.00	603,657,551.29	
2030	122,654,635.59	443,935,000.00	566,589,635.59	
2031	98,331,119.99	406,260,000.00	504,591,119.99	
2032	75,086,453.99	398,175,000.00	473,261,453.99	
2033	54,223,334.95	285,255,000.00	339,478,334.95	
2034	36,028,902.23	270,050,000.00	306,078,902.23	
2035	18,051,878.37	239,130,000.00	257,181,878.37	
2036	6,518,031.25	64,080,000.00	70,598,031.25	
2037	3,338,137.50	67,265,000.00	70,603,137.50	
Total	**$ 6,541,446,827.41**	**$ 11,330,355,000.00**	**$ 17,871,801,827.41**	

(a) The amounts do not reflect any interest subsidy under the Build America Bonds program. Subsidy not pledged to the repayment of debt service.
(b) Includes scheduled mandatory sinking fund payments.
(c) Total represents the remaining debt service requirements from August 1, 2012 through June 30, 2013.

SOURCE: State of California, Office of the Treasurer.

STATE AGENCY REVENUE BONDS
AND CONDUIT FINANCING
As of June 30, 2012

Issuing Agency	Outstanding[(a)(b)]
State Revenue Bond Financing Programs:	
California Alternative Energy and Advanced Transportation Financing Authority	$ 16,000,000
California Department of Transportation - GARVEE	272,795,000
California Earthquake Authority	157,500,000
California Health Facilities Financing Authority	73,605,000
California Housing Finance Agency	6,071,924,383
California Infrastructure and Economic Development Bank	1,220,015,000
California State University	3,542,648,000
Department of Water Resources - Central Valley Project	2,342,845,000
Department of Water Resources - Power Supply Program	7,127,345,000
The Regents of the University of California	12,185,190,000
Veterans Revenue Debenture	471,880,000
Conduit Financing:	
California Alternative Energy and Advanced Transportation Financing Authority	58,877,941
California Educational Facilities Authority	4,381,328,079
California Health Facilities Financing Authority	11,955,128,248
California Housing Finance Agency	53,251,162
California Infrastructure and Economic Development Bank	3,782,818,774
California Pollution Control Financing Authority	3,817,714,626
California School Financing Authority	54,667,951
California Student Loan Authority	6,800,000
TOTAL	**$ 57,592,334,164**

(a) Totals for California Department of Transportation, California State University, Department of Water Resources and Veterans Revenue Debenture were provided by the State of California, Office of the Treasurer. All other totals were provided by the listed issuing agency.

(b) Does not include the Tobacco Settlement Revenue Bonds issued by Golden State Tobacco Securitization Corporation.

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STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

June 2012

JOHN CHIANG
California State Controller

JOHN CHIANG

California State Controller

July10, 2012

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2011 through June 30, 2012. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2011-12 fiscal year to cash flow estimates prepared by the Department of Finance for the 2011 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2011-12 fiscal year to cash flow estimates published in the 2012-13 May Revision Budget. These cash flow estimates are predicated on projections and assumptions made by the Department of Finance in preparation of the May Revision Budget.

Attachment B compares actual receipts and disbursements for the 2011-12 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2011 Budget Act.

These statements are also available on the Internet at the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to George Lolas, Division Chief of Accounting and Reporting, at (916) 322-7407.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2012-13 May Revision Estimates
(Amounts in thousands)

	July 1 through June 30				
	2012				**2011**
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -	-	$ -
Add Receipts:					
Revenues	83,473,884	83,143,362	330,522	0.4	93,232,854
Nonrevenues	4,295,903	4,214,523	81,380	1.9	2,303,525
Total Receipts	87,769,787	87,357,885	411,902	0.5	95,536,379
Less Disbursements:					
State Operations	24,431,344	24,318,217	113,127	0.5	26,898,481
Local Assistance	64,579,659	65,163,401	(583,742)	(0.9)	65,433,216
Capital Outlay	190,873	200,806	(9,933)	(4.9)	42,813
Nongovernmental	(3,262)	121,736	(124,998)	(102.7)	1,404,198
Total Disbursements	89,198,614	89,804,160	(605,546)	(0.7)	93,778,708
Receipts Over / (Under) Disbursements	(1,428,827)	(2,446,275)	1,017,448	-	1,757,671
Net Increase / (Decrease) in Temporary Loans	1,428,827	2,446,274	(1,017,447)	(41.6)	(1,757,671)
GENERAL FUND ENDING CASH BALANCE	-	-	-	-	-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	$ -	$ -	$ -	-	$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 20,824,299	$ 20,223,100	$ 601,199 (d)	3.0	$ 18,193,253
Outstanding Loans (b)	9,593,291	10,610,738	(1,017,447)	(9.6)	8,164,464
Unused Borrowable Resources	$ 11,231,008	$ 9,612,362	$ 1,618,646	16.8	$ 10,028,789

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2011-12 fiscal year was prepared by the Department of Finance for the 2012-13 May Revision. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $9.6 billion is comprised of $9.6 billion of internal borrowing and no external borrowing. Current balance is comprised of $8.2 billion carried forward from June 30, 2011 plus current year Net Increase/(Decrease) in Temporary Loans of $1.4 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) On September 22, 2011, $5.4 billion of Revenue Anticipation Notes (RANs) proceeds were received. The $5.4 billion interim RANs issued on July 28, 2011 were repaid on September 22, 2011. On February 22, 2012, Supplemental RAN proceeds of $1.0 billion were received, and were fully repaid on June 28, 2012, as scheduled. $500 million RAN proceeds were repaid on May 24 and the remaining $4.9 billion were repaid on June 26, 2012, as scheduled.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30					
			2012					2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate			Actual
					Amount	%		
REVENUES								
Alcoholic Beverage Excise Tax	$ 22,860	$ 29,037	$ 338,178	$ 330,767	$ 7,411	2.2		$ 333,633
Corporation Tax	1,664,304	2,322,955	8,051,423	8,359,818	(308,395)	(3.7)		9,804,193
Cigarette Tax	8,290	8,276	100,906	98,687	2,219	2.2		95,691
Estate, Inheritance, and Gift Tax	478	227	3,991	3,217	774	24.1		8,243
Insurance Companies Tax	348,161	367,916	2,187,463	2,148,678	38,785	1.8		2,061,933
Personal Income Tax	6,914,343	6,480,514	50,699,002	50,216,702	482,300	1.0		50,401,571
Retail Sales and Use Taxes	1,781,338	2,676,766	19,438,408	19,543,394	(104,986)	(0.5)		27,171,866
Vehicle License Fees	1,104	78,761	83,406	82,790	616	0.7		1,352,875
Pooled Money Investment Interest	4,691	6,166	25,605	24,954	651	2.6		38,461
Not Otherwise Classified	635,030	394,875	2,545,502	2,334,355	211,147	9.0		1,964,388
Total Revenues	**11,380,599**	**12,365,493**	**83,473,884**	**83,143,362**	**330,522**	**0.4**		**93,232,854**
NONREVENUES								
Transfers from Special Fund for Economic Uncertainties	-	-	715,854	647,711	68,143	10.5		180,291
Transfers from Other Funds	338,557	(98,070)	2,348,551	2,415,196	(66,645)	(2.8)		1,442,803
Miscellaneous	75,018	75,123	1,231,498	1,151,616	79,882	6.9		680,431
Total Nonrevenues	**413,575**	**(22,947)**	**4,295,903**	**4,214,523**	**81,380**	**1.9**		**2,303,525**
Total Receipts	**$ 11,794,174**	**$ 12,342,546**	**$ 87,769,787**	**$ 87,357,885**	**$ 411,902**	**0.5**		**$ 95,536,379**

See notes on page A1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 101,831	$ 102,072	$ 1,253,131	$ 1,327,415	$ (74,284)	(5.6)	$ 1,382,862
State and Consumer Services	50,175	44,159	590,961	619,093	(28,132)	(4.5)	538,237
Business, Transportation and Housing	989	34,707	26,876	25,569	1,307	-	412,017
Resources	26,455	38,710	929,868	1,061,602	(131,734)	(12.4)	925,538
Environmental Protection Agency	3,910	10,481	35,694	43,159	(7,465)	(17.3)	59,212
Health and Human Services:							
Health Services	20,666	13,186	222,734	224,908	(2,174)	(1.0)	192,898
Mental Health	93,712	68,293	1,232,235	1,271,576	(39,341)	(3.1)	1,169,480
Other Health and Human Services	(12,771)	829	967,807	839,657	128,150	15.3	590,688
Education:							
University of California	651,602	687,207	2,277,772	2,294,126	(16,354)	(0.7)	2,912,074
State Universities and Colleges	(56)	44,809	1,999,976	2,000,192	(216)	(0.0)	2,577,665
Other Education	11,547	12,679	164,030	110,618	53,412	48.3	166,748
Dept. of Corrections and Rehabilitation	560,848	842,838	7,991,944	8,001,414	(9,470)	(0.1)	9,161,540
General Government	165,271	153,135	1,914,058	1,858,695	55,363	3.0	1,864,586
Public Employees Retirement System	(142,535)	(140,146)	(6,331)	(253,388)	247,057	-	(23,207)
Debt Service	432,064	184,508	4,744,822	4,836,010	(91,188)	(1.9)	4,757,649
Interest on Loans	83,548	146,545	85,767	57,571	28,196	49.0	210,494
Total State Operations	**2,047,256**	**2,244,012**	**24,431,344**	**24,318,217**	**113,127**	**0.5**	**26,898,481**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	570,189	522,491	29,269,540	29,756,669	(487,129)	(1.6)	29,796,246
Community Colleges	100,095	115,069	3,284,018	3,295,294	(11,276)	(0.3)	3,945,758
Debt Service-School Building Bonds	-	-	-	(675)	675	-	-
Contributions to State Teachers' Retirement System	-	-	1,316,108	1,316,108	-	-	1,257,341
Other Education	34,209	64,551	3,482,653	3,565,824	(83,171)	(2.3)	3,125,702
School Facilities Aid Program	-	-	-	675	(675)	(100.0)	-
Dept. of Corrections and Rehabilitation	1,837	4,164	234,339	230,341	3,998	1.7	202,475
Dept. of Alcohol and Drug Program	(18,487)	4,493	53,548	57,770	(4,222)	(7.3)	171,177
Dept. of Health Services:							
Medical Assistance Program	579,231	1,502,802	15,096,282	15,459,092	(362,810)	(2.3)	12,300,969
Other Health Services	(24,746)	(40,385)	24,062	146,006	(121,944)	(83.5)	247,991
Dept. of Developmental Services	42,600	204,683	2,097,430	1,859,782	237,648	12.8	2,503,708
Dept. of Mental Health	148,745	(39,565)	357,495	276,139	81,356	29.5	470,221
Dept. of Social Services:							
SSI/SSP/IHSS	391,185	334,485	4,497,175	4,432,136	65,039	1.5	4,603,353
CalWORKs	95,818	56,295	1,744,646	1,707,026	37,620	2.2	2,674,751
Other Social Services	28,148	89,406	827,068	803,415	23,653	2.9	1,528,406
Tax Relief	-	-	433,008	427,607	5,401	1.3	438,083
Other Local Assistance	82,048	(18,145)	1,862,287	1,830,191	32,096	1.8	2,167,035
Total Local Assistance	**2,030,872**	**2,800,344**	**64,579,659**	**65,163,401**	**(583,742)**	**(0.9)**	**65,433,216**

See notes on page A1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**5,800**	**4,203**	**190,873**	**200,806**	**(9,933)**	**(4.9)**	**42,813**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for							
Economic Uncertainties	-	-	-	-	-	-	935,206
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	81,149	52,451	339,670	363,675	(24,005)	(6.6)	400,613
Transfer to Revolving Fund	(38,286)	(16,028)	(44,495)	12,763	(57,258)	(448.6)	(17,455)
Advance:						-	
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax						-	
Administration Program	(31,995)	(13,358)	6,459	38,454	(31,995)	(83.2)	(26,385)
Social Welfare Federal Fund	29,000	21,588	(39,483)	(43,898)	4,415	(10.1)	103,687
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	275,732	541,145	(265,413)	(249,258)	(16,155)	6.5	8,532
Total Nongovernmental	**315,600**	**585,798**	**(3,262)**	**121,736**	**(124,998)**	**(102.7)**	**1,404,198**
Total Disbursements	**$ 4,399,528**	**$ 5,634,357**	**$ 89,198,614**	**$ 89,804,160**	**$ (605,546)**	**(0.7)**	**$ 93,778,708**
TEMPORARY LOANS							
Special Fund for Economic							
Uncertainties	$ -	$ -	$ (715,854)	$ (647,711)	$ (68,143)	10.5	$ 754,915
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,494,646)	1,041,811	2,144,681	3,093,985	(949,304)	(30.7)	(2,512,586)
Revenue Anticipation Notes	(5,900,000)	(7,750,000)	-	-	- (d)	-	-
Net Increase / (Decrease) Loans	**(7,394,646)**	**$ (6,708,189)**	**$ 1,428,827**	**$ 2,446,274**	**$ (1,017,447)**	**(41.6)**	**$ (1,757,671)**

See notes on page A1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through June 30			
	General Fund		Special Funds	
	2012	2011	2012	2011
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 338,178	$ 333,633	$ -	$ -
Corporation Tax	8,051,423	9,804,193	-	-
Cigarette Tax	100,906	95,691	855,784	811,716
Estate, Inheritance, and Gift Tax	3,991	8,243	36	-
Insurance Companies Tax	2,187,463	2,061,933	250,547	237,155
Motor Vehicle Fuel Tax:				
Gasoline Tax	-	-	5,203,059	4,991,209
Diesel & Liquid Petroleum Gas	-	-	404,312	493,801
Jet Fuel Tax	-	-	2,536	2,309
Vehicle License Fees	83,406	1,352,875	1,967,890	1,853,901
Motor Vehicle Registration and Other Fees	-	-	3,894,213	3,493,245
Personal Income Tax	50,699,002	50,401,571	-	900,614
Retail Sales and Use Taxes	19,438,408	27,171,866	12,047,491	6,448,695
Pooled Money Investment Interest	25,605	38,461	314	364
Total Major Taxes, Licenses, and Investment Income	**80,928,382**	**91,268,466**	**24,626,182**	**19,233,009**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	3,538	2,850	53,967	53,877
Electrical Energy Tax	-	-	788,020	831,863
Private Rail Car Tax	8,041	6,203	-	-
Penalties on Traffic Violations	-	-	80,652	87,711
Health Care Receipts	39,237	1,166	-	-
Revenues from State Lands	480,831	362,646	-	-
Abandoned Property	(520,294)	(77,591)	-	-
Trial Court Revenues	55,070	60,530	1,715,152	1,737,395
Horse Racing Fees	1,176	1,357	15,746	13,271
Miscellaneous	2,477,903	1,607,227	6,755,288	10,760,496
Not Otherwise Classified	**2,545,502**	**1,964,388**	**9,408,825**	**13,484,613**
Total Revenues, All Governmental Cost Funds	**$ 83,473,884**	**$ 93,232,854**	**$ 34,035,007**	**$ 32,717,622**

See notes on page A1.

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2011 Budget Act
(Amounts in thousands)

	July 1 through June 30					
	2012					2011
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount		%	Actual
GENERAL FUND BEGINNING CASH BALANCE	$ -	$ -	$ -		-	$ -
Add Receipts:						
Revenues	83,473,884	88,411,680	(4,937,796)	(d)	(5.6)	93,232,854
Nonrevenues	4,295,903	3,823,216	472,687		12.4	2,303,525
Total Receipts	87,769,787	92,234,896	(4,465,109)		(4.8)	95,536,379
Less Disbursements:						
State Operations	24,431,344	27,284,216	(2,852,872)		(10.5)	26,898,481
Local Assistance	64,579,659	61,391,831	3,187,828		5.2	65,433,216
Capital Outlay	190,873	103,191	87,682		85.0	42,813
Nongovernmental	(3,262)	487,642	(490,904)		(100.7)	1,404,198
Total Disbursements	89,198,614	89,266,880	(68,266)		(0.1)	93,778,708
Receipts Over / (Under) Disbursements	(1,428,827)	2,968,016	(4,396,843)		(148.1)	1,757,671
Net Increase / (Decrease) in Temporary Loans	1,428,827	(2,968,016)	4,396,843		(148.1)	(1,757,671)
GENERAL FUND ENDING CASH BALANCE	-	-	-		-	-
Special Fund for Economic Uncertainties	-	-	-		-	-
TOTAL CASH	$ -	$ -	$ -		-	$ -

BORROWABLE RESOURCES						
Available Borrowable Resources	$ 20,824,299	$ 17,405,014	$ 3,419,285	(e) (f)	19.6	$ 18,193,253
Outstanding Loans (b)	9,593,291	5,196,448	4,396,843		84.6	8,164,464
Unused Borrowable Resources	$ 11,231,008	$ 12,208,566	$ (977,558)		(8.0)	$ 10,028,789

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2011-12 fiscal year was prepared by the Department of Finance for the 2011 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $9.6 billion is comprised of $9.6 billion of internal borrowing and no external borrowing. Current balance is comprised of $8.2 billion carried forward from June 30, 2011 plus current year Net Increase/(Decrease) in Temporary Loans of $1.4 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.
(d) The Not Otherwise Classified revenue estimated amount includes $4.0 billion unallocated revenue increase projected for the 2011-12 fiscal year.
(e) On September 22, 2011, $5.4 billion of Revenue Anticipation Notes (RANs) proceeds were received. The $5.4 billion interim RANs issued on July 28, 2011 were repaid on September 22, 2011. On February 22, Supplemental RAN proceeds of $1.0 billion were received, and were fully repaid on June 28, 2012, as scheduled. $500 million RAN proceeds were repaid on May 24 and the remaining $4.9 billion were repaid on June 26, 2012, as scheduled. Enactment of SB 95 on February 2, 2012 and other administrative actions, allowed for additional internal borrowable resources.
(f) In December 2011, the Payroll Revolving Fund was classified as borrowable, which provided $1.3 billion more Available Borrowable Resources than anticipated.
(g) Estimated "Other Local Assistance" amount includes $5.004 billion year-to-date of unallocated savings attributed to 2011 Realignment.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of June		July 1 through June 30					
			2012					2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%		Actual
REVENUES								
Alcoholic Beverage Excise Tax	$ 22,860	$ 29,037	$ 338,178	$ 327,000	$ 11,178		3.4	$ 333,633
Corporation Tax	1,664,304	2,322,955	8,051,423	9,214,000	(1,162,577)		(12.6)	9,804,193
Cigarette Tax	8,290	8,276	100,906	93,000	7,906		8.5	95,691
Estate, Inheritance, and Gift Tax	478	227	3,991	-	3,991		-	8,243
Insurance Companies Tax	348,161	367,916	2,187,463	1,893,000	294,463		15.6	2,061,933
Personal Income Tax	6,914,343	6,480,514	50,699,002	50,698,000	1,002		0.0	50,401,571
Retail Sales and Use Taxes	1,781,338	2,676,766	19,438,408	19,612,000	(173,592)		(0.9)	27,171,866
Vehicle License Fees	1,104	78,761	83,406	150,000	(66,594)		(44.4)	1,352,875
Pooled Money Investment Interest	4,691	6,166	25,605	39,000	(13,395)		(34.3)	38,461
Not Otherwise Classified	635,030	394,875	2,545,502	6,385,680	(3,840,178)	(d)	-	1,964,388
Total Revenues	**11,380,599**	**12,365,493**	**83,473,884**	**88,411,680**	**(4,937,796)**		**(5.6)**	**93,232,854**
NONREVENUES								
Transfers from Special Fund for Economic Uncertainties	-	-	715,854	647,711	68,143		10.5	180,291
Transfers from Other Funds	338,557	(98,070)	2,348,551	2,598,729	(250,178)		(9.6)	1,442,803
Miscellaneous	75,018	75,123	1,231,498	576,776	654,722		113.5	680,431
Total Nonrevenues	**413,575**	**(22,947)**	**4,295,903**	**3,823,216**	**472,687**		**12.4**	**2,303,525**
Total Receipts	**$ 11,794,174**	**$ 12,342,546**	**$ 87,769,787**	**$ 92,234,896**	**$ (4,465,109)**		**(4.8)**	**$ 95,536,379**

See notes on page B1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 101,831	$ 102,072	$ 1,253,131	$ 1,600,207	$ (347,076)	(21.7)	$ 1,382,862
State and Consumer Services	50,175	44,159	590,961	639,741	(48,780)	(7.6)	538,237
Business, Transportation and Housing	989	34,707	26,876	262,562	(235,686)	(89.8)	412,017
Resources	26,455	38,710	929,868	1,266,092	(336,224)	(26.6)	925,538
Environmental Protection Agency	3,910	10,481	35,694	41,418	(5,724)	(13.8)	59,212
Health and Human Services:							
Health Services	20,666	13,186	222,734	227,794	(5,060)	(2.2)	192,898
Mental Health	93,712	68,293	1,232,235	1,109,698	122,537	11.0	1,169,480
Other Health and Human Services	(12,771)	829	967,807	470,163	497,644	105.8	590,688
Education:							
University of California	651,602	687,207	2,277,772	2,393,646	(115,874)	(4.8)	2,912,074
State Universities and Colleges	(56)	44,809	1,999,976	2,141,273	(141,297)	(6.6)	2,577,665
Other Education	11,547	12,679	164,030	261,727	(97,697)	(37.3)	166,748
Dept. of Corrections and Rehabilitation	560,848	842,838	7,991,944	9,850,932	(1,858,988)	(18.9)	9,161,540
General Government	165,271	153,135	1,914,058	1,929,121	(15,063)	(0.8)	1,864,586
Public Employees Retirement System	(142,535)	(140,146)	(6,331)	12,267	(18,598)	(151.6)	(23,207)
Debt Service	432,064	184,508	4,744,822	4,789,175	(44,353)	(0.9)	4,757,649
Interest on Loans	83,548	146,545	85,767	288,400	(202,633)	(70.3)	210,494
Total State Operations	**2,047,256**	**2,244,012**	**24,431,344**	**27,284,216**	**(2,852,872)**	**(10.5)**	**26,898,481**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	570,189	522,491	29,269,540	29,905,156	(635,616)	(2.1)	29,796,246
Community Colleges	100,095	115,069	3,284,018	3,129,707	154,311	4.9	3,945,758
Debt Service-School Building Bonds	-	-	-	(682)	682	(100.0)	-
Contributions to State Teachers' Retirement System	-	-	1,316,108	1,316,108	-	-	1,257,341
Other Education	34,209	64,551	3,482,653	3,082,816	399,837	13.0	3,125,702
School Facilities Aid Program	-	-	-	682	(682)	(100.0)	
Dept. of Corrections and Rehabilitation	1,837	4,164	234,339	169,131	65,208	38.6	202,475
Dept. of Alcohol and Drug Program	(18,487)	4,493	53,548	242,061	(188,513)	(77.9)	171,177
Dept. of Health Services:							
Medical Assistance Program	579,231	1,502,802	15,096,282	14,820,238	276,044	1.9	12,300,969
Other Health Services	(24,746)	(40,385)	24,062	451,515	(427,453)	(94.7)	247,991
Dept. of Developmental Services	42,600	204,683	2,097,430	2,039,388	58,042	2.8	2,503,708
Dept. of Mental Health	148,745	(39,565)	357,495	170,287	187,208	109.9	470,221
Dept. of Social Services:							
SSI/SSP/IHSS	391,185	334,485	4,497,175	4,126,397	370,778	9.0	4,603,353
CalWORKs	95,818	56,295	1,744,646	2,790,436	(1,045,790)	(37.5)	2,674,751
Other Social Services	28,148	89,406	827,068	1,489,054	(661,986)	(44.5)	1,528,406
Tax Relief	-	-	433,008	442,185	(9,177)	(2.1)	438,083
Other Local Assistance	82,048	(18,145)	1,862,287	(2,782,648)	4,644,935 (g)	-	2,167,035
Total Local Assistance	**2,030,872**	**2,800,344**	**64,579,659**	**61,391,831**	**3,187,828**	**5.2**	**65,433,216**

See notes on page B1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of June		July 1 through June 30				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**5,800**	**4,203**	**190,873**	**103,191**	**87,682**	**85.0**	**42,813**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	935,206
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	81,149	52,451	339,670	523,092	(183,422)	(35.1)	400,613
Transfer to Revolving Fund	(38,286)	(16,028)	(44,495)	-	(44,495)	-	(17,455)
Advance:							
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax						-	
Administration Program	(31,995)	(13,358)	6,459	-	6,459	-	(26,385)
Social Welfare Federal Fund	29,000	21,588	(39,483)	-	(39,483)	-	103,687
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	275,732	541,145	(265,413)	(35,450)	(229,963)	648.7	8,532
Total Nongovernmental	**315,600**	**585,798**	**(3,262)**	**487,642**	**(490,904)**	**(100.7)**	**1,404,198**
Total Disbursements	**$ 4,399,528**	**$ 5,634,357**	**$ 89,198,614**	**$ 89,266,880**	**$ (68,266)**	**(0.1)**	**$ 93,778,708**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ (715,854)	$ (647,711)	$ (68,143)	10.5	$ 754,915
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	(1,494,646)	1,041,811	2,144,681	(2,320,305)	4,464,986	(192.4)	(2,512,586)
Revenue Anticipation Notes	(5,900,000)	(7,750,000)	-	-	- (e)	-	-
Net Increase / (Decrease) Loans	**(7,394,646)**	**$ (6,708,189)**	**$ 1,428,827**	**$ (2,968,016)**	**$ 4,396,843**	**(148.1)**	**$ (1,757,671)**

See notes on page B1.

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STATEMENT of GENERAL FUND CASH RECEIPTS and DISBURSEMENTS

July 2012

JOHN CHIANG

California State Controller

JOHN CHIANG
California State Controller

August 13, 2012

Users of the Statement of General Fund Cash Receipts and Disbursements:

Enclosed is the Statement of General Fund Cash Receipts and Disbursements for the period July 1, 2012 through July 31, 2012. This statement reflects the State of California's General Fund cash position and compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates prepared by the Department of Finance for the 2012 Budget Act. The statement is prepared in compliance with Provision 7 of Budget Act item 0840-001-0001, using records compiled by the State Controller. Prior year actual amounts are also displayed for comparative purposes.

Attachment A compares actual receipts and disbursements for the 2012-13 fiscal year to cash flow estimates prepared by the Department of Finance based upon the 2012 Budget Act.

These statements are also available on the Internet at the State Controller's website at www.sco.ca.gov under the category Monthly Financial Reports.

Any questions concerning this report may be directed to George Lolas, Division Chief of Accounting and Reporting, at (916) 322-7407.

Sincerely,
Original signed by:

JOHN CHIANG
California State Controller

STATEMENT OF GENERAL FUND CASH RECEIPTS AND DISBURSEMENTS
A Comparison of Actual to 2012 Budget Act
(Amounts in thousands)

	July 1 through July 31				
	2012				2011
	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	Actual Over or (Under) Estimate %	Actual
GENERAL FUND BEGINNING CASH BALANCE	**$ -**	**$ -**	**$ -**	-	$ -
Add Receipts:					
Revenues	4,242,974	4,718,000	(475,026)	(10.1)	4,711,802
Nonrevenues	274,487	523,436	(248,949)	(47.6)	766,673
Total Receipts	4,517,461	5,241,436	(723,975)	(13.8)	5,478,475
Less Disbursements:					
State Operations	1,491,787	1,939,529	(447,742)	(23.1)	1,987,580
Local Assistance	11,453,403	9,727,812	1,725,591	17.7	6,682,244
Capital Outlay	304	70,319	(70,015)	(99.6)	167,995
Nongovernmental	35,758	(1,339)	37,097	-	(436,171)
Total Disbursements	12,981,252	11,736,321	1,244,931	10.6	8,401,648
Receipts Over / (Under) Disbursements	(8,463,791)	(6,494,885)	(1,968,906)	-	(2,923,173)
Net Increase / (Decrease) in Temporary Loans	8,463,791	6,494,885	1,968,906	30.3	2,923,173
GENERAL FUND ENDING CASH BALANCE	**0**	**0**	**0**		-
Special Fund for Economic Uncertainties	-	-	-	-	-
TOTAL CASH	**$ 0**	**$ 0**	**$ 0**		$ -

BORROWABLE RESOURCES					
Available Borrowable Resources	$ 22,290,362	$ 19,601,957	$ 2,688,405	13.7	$ 22,910,113
Outstanding Loans (b)	18,057,082	16,088,176	1,968,906	12.2	11,087,637
Unused Borrowable Resources	$ 4,233,280	$ 3,513,781	$ 719,499	20.5	$ 11,822,476

General Note:
This report is based upon funded cash. Funded cash is cash reported to and recorded in the records of the State Controller's Office. Amounts reported as funded cash may differ from amounts in other reports to the extent there are timing differences in the recording of in-transit items.

Footnotes:
(a) A Statement of Estimated Cash Flow for the 2012-13 fiscal year was prepared by the Department of Finance for the 2012 Budget Act. Any projections or estimates are set forth as such and not as representation of facts.
(b) Outstanding loan balance of $18.1 billion is comprised entirely of internal borrowing and No external borrowing. Current balance is comprised of $9.6 billion carried forward from June 30, 2012 plus current year Net Increase/(Decrease) in Temporary Loans of $8.5 billion.
(c) Negative amounts are the result of repayments received that are greater than disbursements made.

SCHEDULE OF CASH RECEIPTS
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
REVENUES							
Alcoholic Beverage Excise Tax	$ 8,486	$ 34,853	$ 8,486	$ 33,000	$ (24,514)	(74.3)	$ 34,853
Corporation Tax	265,066	291,496	265,066	208,000	57,066	27.4	291,496
Cigarette Tax	1,721	7,722	1,721	8,000	(6,279)	(78.5)	7,722
Estate, Inheritance, and Gift Tax	932	313	932	-	932	-	313
Insurance Companies Tax	(4,859)	10,185	(4,859)	16,000	(20,859)	(130.4)	10,185
Personal Income Tax	3,311,202	3,154,988	3,311,202	3,299,000	12,202	0.4	3,154,988
Retail Sales and Use Taxes	586,962	977,624	586,962	882,000	(295,038)	(33.5)	977,624
Vehicle License Fees	869	23,015	869	1,000	(131)	(13.1)	23,015
Pooled Money Investment Interest	973	524	973	2,000	(1,027)	(51.4)	524
Not Otherwise Classified	71,622	211,082	71,622	269,000	(197,378)	-	211,082
Total Revenues	**4,242,974**	**4,711,802**	**4,242,974**	**4,718,000**	**(475,026)**	**(10.1)**	**4,711,802**
NONREVENUES							
Transfers from Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfers from Other Funds	252,629	735,504	252,629	514,675	(262,046)	(50.9)	735,504
Miscellaneous	21,858	31,169	21,858	8,761	13,097	149.5	31,169
Total Nonrevenues	**274,487**	**766,673**	**274,487**	**523,436**	**(248,949)**	**(47.6)**	**766,673**
Total Receipts	**$ 4,517,461**	**$ 5,478,475**	**$ 4,517,461**	**$ 5,241,436**	**$ (723,975)**	**(13.8)**	**$ 5,478,475**

See notes on page 1.

SCHEDULE OF CASH DISBURSEMENTS
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2012				2011
					Actual Over or (Under) Estimate		
	2012	2011	Actual	Estimate (a)	Amount	%	Actual
STATE OPERATIONS (c)							
Legislative/Judicial/Executive	$ 168,056	$ 164,788	$ 168,056	$ 143,881	$ 24,175	16.8	$ 164,788
State and Consumer Services	46,841	43,559	46,841	57,453	(10,612)	(18.5)	43,559
Business, Transportation and Housing	141	4,306	141	119	22	-	4,306
Resources	122,728	123,518	122,728	92,481	30,247	32.7	123,518
Environmental Protection Agency	688	1,123	688	3,438	(2,750)	(80.0)	1,123
Health and Human Services:							
Health Services	44,354	46,805	44,354	53,110	(8,756)	(16.5)	46,805
Mental Health	105,195	89,588	105,195	70,000	35,195	50.3	89,588
Other Health and Human Services	11,912	93,779	11,912	84,301	(72,389)	(85.9)	93,779
Education:							
University of California	2,561	55,879	2,561	57,133	(54,572)	(95.5)	55,879
State Universities and Colleges	137,301	173,000	137,301	183,679	(46,378)	(25.2)	173,000
Other Education	21,456	19,659	21,456	15,152	6,304	41.6	19,659
Dept. of Corrections and Rehabilitation	408,559	804,181	408,559	724,462	(315,903)	(43.6)	804,181
General Government	169,647	153,719	169,647	162,455	7,192	4.4	153,719
Public Employees Retirement System	276,924	279,040	276,924	276,172	752	0.3	279,040
Debt Service	(31,410)	(75,815)	(31,410)	6,693	(38,103)	(569.3)	(75,815)
Interest on Loans	6,834	10,451	6,834	9,000	(2,166)	-	10,451
Total State Operations	**1,491,787**	**1,987,580**	**1,491,787**	**1,939,529**	**(447,742)**	**(23.1)**	**1,987,580**
LOCAL ASSISTANCE (c)							
Public Schools - K-12	7,309,530	2,260,736	7,309,530	5,747,359	1,562,171	27.2	2,260,736
Community Colleges	878,813	919,580	878,813	986,139	(107,326)	(10.9)	919,580
Debt Service-School Building Bonds	-	-	-	-	-	-	-
Contributions to State Teachers' Retirement System	224,968	193,685	224,968	224,967	1	0.0	193,685
Other Education	283,374	765,924	283,374	86,183	197,191	228.8	765,924
Dept. of Corrections and Rehabilitation	10,980	24,670	10,980	14,214	(3,234)	(22.8)	24,670
Dept. of Alcohol and Drug Program	11,856	6,239	11,856	25,767	(13,911)	(54.0)	6,239
Dept. of Health Services:							
Medical Assistance Program	1,223,680	924,906	1,223,680	1,175,244	48,436	4.1	924,906
Other Health Services	25,401	23,131	25,401	32,283	(6,882)	(21.3)	23,131
Dept. of Developmental Services	586,182	392,052	586,182	482,455	103,727	21.5	392,052
Dept. of Mental Health	596	12,869	596	800	(204)	(25.5)	12,869
Dept. of Social Services:							
SSI/SSP/IHSS	743,588	673,983	743,588	674,381	69,207	10.3	673,983
CalWORKs	47,802	331,446	47,802	111,900	(64,098)	(57.3)	331,446
Other Social Services	(39,696)	(32,577)	(39,696)	(24,128)	(15,568)	-	(32,577)
Tax Relief	-	-	-	944	(944)	(100.0)	-
Other Local Assistance	146,329	185,600	146,329	189,305	(42,976)	(22.7)	185,600
Total Local Assistance	**11,453,403**	**6,682,244**	**11,453,403**	**9,727,812**	**1,725,591**	**17.7**	**6,682,244**

See notes on page 1.

(Continued)

SCHEDULE OF CASH DISBURSEMENTS (Continued)
(Amounts in thousands)

	Month of July		July 1 through July 31				
			2012				2011
	2012	2011	Actual	Estimate (a)	Actual Over or (Under) Estimate Amount	%	Actual
CAPITAL OUTLAY	**304**	**167,995**	**304**	**70,319**	**(70,015)**	**(99.6)**	**167,995**
NONGOVERNMENTAL (c)							
Transfer to Special Fund for Economic Uncertainties	-	-	-	-	-	-	-
Transfer to Budget Stabilization Account	-	-	-	-	-	-	-
Transfer to Other Funds	284,702	136,007	284,702	290,548	(5,846)	(2.0)	136,007
Transfer to Revolving Fund	(24,970)	(18,545)	(24,970)	-	(24,970)	-	(18,545)
Advance:						-	
MediCal Provider Interim Payment	-	-	-	-	-	-	-
State-County Property Tax						-	
Administration Program	27,715	25,464	27,715	-	27,715	-	25,464
Social Welfare Federal Fund	(35,957)	(37,952)	(35,957)	-	(35,957)	-	(37,952)
Local Governmental Entities	60,000	-	60,000	-	60,000	-	-
Tax Relief and Refund Account	-	-	-	-	-	-	-
Counties for Social Welfare	(275,732)	(541,145)	(275,732)	(291,887)	16,155	-	(541,145)
Total Nongovernmental	**35,758**	**(436,171)**	**35,758**	**(1,339)**	**37,097**	**-**	**(436,171)**
Total Disbursements	**$ 12,981,252**	**$ 8,401,648**	**$ 12,981,252**	**$ 11,736,321**	**$ 1,244,931**	**10.6**	**$ 8,401,648**
TEMPORARY LOANS							
Special Fund for Economic Uncertainties	$ -	$ -	$ -	$ -	$ -	-	$ -
Budget Stabilization Account	-	-	-	-	-	-	-
Outstanding Registered Warrants Account	-	-	-	-	-	-	-
Other Internal Sources	8,463,791	(2,476,827)	8,463,791	6,494,885	1,968,906	-	(2,476,827)
Revenue Anticipation Notes	-	5,400,000	-	-	-	-	5,400,000
Net Increase / (Decrease) Loans	**8,463,791**	**$ 2,923,173**	**$ 8,463,791**	**$ 6,494,885**	**$ 1,968,906**	**30.3**	**$ 2,923,173**

See notes on page 1.

(Concluded)

COMPARATIVE STATEMENT OF REVENUES RECEIVED
All Governmental Cost Funds
(Amounts in thousands)

	July 1 through July 31			
	General Fund		Special Funds	
	2012	2011	2012	2011
MAJOR TAXES, LICENSES, AND INVESTMENT INCOME:				
Alcoholic Beverage Excise Taxes	$ 8,486	$ 34,853	$ -	$ -
Corporation Tax	265,066	291,496	-	-
Cigarette Tax	1,721	7,722	13,324	60,970
Estate, Inheritance, and Gift Tax	932	313	-	-
Insurance Companies Tax	(4,859)	10,185	1,613	-
Motor Vehicle Fuel Tax:				
Gasoline Tax		-	438,136	441,198
Diesel & Liquid Petroleum Gas		-	9,338	46,432
Jet Fuel Tax		-	201	197
Vehicle License Fees	869	23,015	138,482	161,291
Motor Vehicle Registration and Other Fees	-	-	265,964	275,551
Personal Income Tax	3,311,202	3,154,988	65,561	62,461
Retail Sales and Use Taxes	586,962	977,624	396,554	236,475
Pooled Money Investment Interest	973	524	(70)	5
Total Major Taxes, Licenses, and Investment Income	**4,171,352**	**4,500,720**	**1,329,103**	**1,284,580**
NOT OTHERWISE CLASSIFIED:				
Alcoholic Beverage License Fee	172	365	5,163	6,989
Electrical Energy Tax	-	-	1	2,857
Private Rail Car Tax	-	-	-	-
Penalties on Traffic Violations	-	-	-	-
Health Care Receipts	3,044	1,513	-	-
Revenues from State Lands	25	4,547	-	-
Abandoned Property	528	(160,636)	-	-
Trial Court Revenues	4,756	4,818	100,394	104,742
Horse Racing Fees	78	82	429	1,413
Miscellaneous	63,019	360,393	591,652	430,469
Not Otherwise Classified	**71,622**	**211,082**	**697,639**	**546,470**
Total Revenues, All Governmental Cost Funds	**$ 4,242,974**	**$ 4,711,802**	**$ 2,026,742**	**$ 1,831,050**

See notes on page 1.

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APPENDIX B-1

THE CALIFORNIA STATE UNIVERSITY, ITS PROJECTS AND THE 2012E LEASED PROPERTIES

THE TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

General

The 25-member Board of Trustees (the "Trustees") is responsible for the oversight of the California State University (the "CSU"). The Trustees adopt rules, regulations, and policies governing the CSU and has authority over curricular development, use of property, development of facilities, and fiscal and human resources management.

The Trustees meet seven times per year. Board meetings allow for communication among the Trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council.

Created in 1961 under the state Master Plan for Higher Education, the CSU is the nation's largest university system, with 23 campuses and 7 off-campus centers, over 346,000 full-time equivalent students, and 47,000 faculty and staff. The CSU system, stretching from Humboldt in the north to San Diego in the south, draws its students from the top third of California's high school graduates and is the state's primary undergraduate teaching institution.

Each CSU campus has its own identity, with distinct student populations and programs. Yet all share the same mission—to provide a practical, affordable higher education to meet the changing workforce of California. The CSU carries out this mission by offering more than 1,800 bachelor's and master's degree programs in some 357 subject areas, as well as teaching credential programs, independent and joint doctoral degrees offered jointly with the University of California or with private universities in California.

The California State University and The 2012D Projects

The Art Center and Satellite Plant Project

CSU Bakersfield ("CSUB") opened in September 1970 and is located on a 375-acre site in metropolitan Bakersfield. Some 7,800 undergraduate and graduate students attend CSUB at either the main campus in Bakersfield (the "Main Campus") or the off-campus center in the Antelope Valley. More than 90% of CSUB's tenured/tenure-track faculty has doctoral degrees in their respective fields. CSUB has majors in 31 undergraduate degree programs, seven credential programs in education, and 17 graduate degree programs.

The *Art Center and Satellite Plant Project* (the "Art Center and Satellite Plant Project") consists of the construction on the Main Campus of a new art center building, the renovation of space to provide faculty offices, the expansion of the central plant by adding a satellite plant, and the extension of the Main Campus sewer line. After completion, the art center building will be a 16,181 square foot building in the western section of the Main Campus, and the satellite plant will be a 2,600 square foot satellite central plant.

The art center building will be configured as a single story, slab on grade, high bay structure with steel columns and wood trusses, concrete block sheer walls and durable interior and exterior finishes of metal, glass, and composite materials. The art center building will be u-shaped with drawing and photo labs that frame a central courtyard and face the future humanities complex quad to the north. The building interior will be designed to provide flexible and functional environments for five programmatic lab areas using indoor-outdoor studio areas, a large covered patio, and exhibit areas that flow into the adjoining courtyard. The building will be orientated for northern exposure to take advantage of natural lighting and will utilize clerestory windows and sky lighting integrated with strategically placed high windows and window walls. The satellite plant will house a new chiller and cooling tower.

The Art Center and Satellite Plant Project is expected to go out to bid in September 2012. Construction of the Art Center and Satellite Plant Project is expected to commence in February 2013. Construction is expected to last 19 months with occupancy expected in August 2014. The total Art Center and Satellite Plant Project cost is estimated to be $18,068,000, of which approximately $17,156,722 is expected to be financed from the 2012D Bonds. The balance of the Art Center and Satellite Plant Project costs will be paid for from cash by the CSU.

The issuance of the 2012D Bonds for the Art Center and Satellite Plant Project has been authorized by Chapters 268 and 269, Statutes of 2008, Item 6610-301-0660(1), as reappropriated by the Budget Acts of 2009 and 2012.

<u>The Physical Education Replacement Project</u>

The *California Maritime Academy* ("Cal Maritime"), located on 87 acres in Vallejo, is a unique and specialized campus in the CSU system and the only degree-granting maritime academy on the West Coast. Cal Maritime academic programs focus on intellectual learning, applied technology, leadership development and global awareness. Cal Maritime students take part in at least one two-month summer training cruise on the Pacific Ocean aboard the 500-foot Golden Bear training ship. Cal Maritime's mission is to be a leading educational institution recognized for excellence in the policy, business, engineering, and operations of the transportation and related industries of the Pacific Rim and beyond.

The *Physical Education Replacement Project* (the "Physical Education Replacement Project") will consist of the construction of a two level 38,601 square foot building at the campus entrance that will include an outdoor aquatics survival training pool. The first level will house training spaces, with the main gym, pool deck, multipurpose room, and weight and wellness rooms adjacent to a central locker area. The second level will include primarily administrative, faculty, and support spaces. The structural system will be comprised of steel brace frames with metal deck and concrete fill. The building will be clad in white precast concrete panels interspersed with translucent glass and will be visually supported by brick walls that reference the historic building material and color of the main campus. Portions of the perimeter will be supported with cast in place concrete retaining walls. Some noteworthy sustainable features will be the high performance exterior envelope and enclosure insulation with high performance glazing and building materials utilizing recycled content and regionally obtained materials.

The Physical Education Replacement Project is expected to go out to bid in October 2012. Construction of the Physical Education Replacement Project is expected to commence in February 2013. Construction is expected to last 19 months with occupancy expected in August 2014. The total Physical Education Replacement Project cost is estimated to be $34,751,000, of which approximately $32,685,000 is expected to be financed from the 2012D Bonds. The balance of the Physical Education Replacement Project costs will be paid for from cash by the Trustees.

The issuance of the 2012D Bonds for the Physical Education Replacement Project has been authorized by Chapters 268 and 269, Statutes of 2008, Item 6610-301-0660(2), as reappropriated by the Budget Acts of 2009 and 2012.

The Spartan Complex Renovation Project

San Jose State University ("SJSU") is located on 154 acres in downtown San José and in the heart of Silicon Valley. SJSU offers more than 134 bachelor's and master's degrees with 110 concentrations. Its distinctive character has been forged by its long history, by its location, and by its vision - a blend of the old and the new, of the traditional and the innovative. The SJSU mission emphasizes broad understanding of the sciences, social sciences, humanities, and the arts with active participation in professional, artistic, and ethnic communities.

The *Spartan Complex Renovation Project* (the "Spartan Complex Renovation Project") will consist of the retrofitting of the existing Spartan Complex, which is a series of buildings constructed in the 1930s and 1950s, and will include the Uchida Hall/Natatorium, Uchida Hall Annex, Spartan Complex East, and Spartan Complex Central. The Spartan Complex Renovation Project will include the renovation of these buildings to meet the current requirements for seismic, Americans with Disabilities Act ("ADA"), and life safety code, as well as the replacement of the building systems. The Spartan Complex Renovation Project will add 8,850 square feet to accommodate an elevator and bridge to address ADA access requirements. The Spartan Complex Renovation Project will also include the conversion of a training facility into a two-level facility to provide laboratory, lecture, locker rooms and research space.

The renovation will, among other things, include the conversion of space to make more efficient use of the constituent buildings and meet the needs of the SJSU campus, such as adding locker rooms, and a 155-seat smart lecture classroom. Electrical systems will be upgraded to provide power, data and fire alarm to meet the needs of the programs and to provide a code compliant system. The Spartan Complex Renovation Project will also include new HVAC systems to provide air conditioning to the offices and laboratories, while the gymnasiums and locker rooms will receive upgraded air handler systems. Sustainable features will include the reuse of the existing Spartan Complex buildings and greater energy efficiency than required by current California law. The design will incorporate products with recycled content, low emitting materials, controllability of space lighting, sustainable roofing elements, and increased insulation.

The Spartan Complex Renovation Project is expected to go out to bid in September 2012. Construction of the Spartan Complex Renovation Project is expected to commence in April 2013. Construction is expected to last 21 months with occupancy expected in January 2015. The total Spartan Complex Renovation Project cost is estimated to be $51,479,000, all of which is expected to be financed from the 2012D Bonds.

The issuance of the 2012D Bonds for the Spartan Complex Renovation Project has been authorized by Chapter 33, Statutes of 2011, Item 6610-301-0668(5), as reappropriated by the Budget Act of 2012.

The California State University, the 2012E Leased Properties and the 2012E Project

The *California State University, East Bay* ("CSUEB") campus occupies 364 acres of land in the East Bay foothills, approximately two miles from downtown Hayward. Of this campus land area, about 180 acres are actually developed and in use for academic and associated uses.

The 2012E Leased Properties

The *Wayne and Gladys Valley Business and Technology Center* (the "Business and Technology Center") is a 64,960 square foot instructional and research facility on CSUEB's campus. The Business and Technology Center, completed in 2006, consists of a three-story west wing and a two-story east wing connected via a bridge. The west wing provides modern faculty offices, laboratories, lecture space, and a digital media and telecommunications laboratory. The east wing houses departmental and teaching labs for the School of Business and Economics, as well as a 255 seat presentation center. The structure is located on bedrock near the campus core and is supported on a shallow foundation system using spread footings and slab-on grade. The structural system is braced steel framing, with composite floor decks utilizing light-weight concrete fill. The exterior consists of insulated metal panels, store front and curtain wall glass systems. The cooling system utilizes an air-cooled water chiller with supply air distributed via variable air volume boxes.

The *Student Services Replacement Building* (the "Student Services Building," and, together with the Business and Technology Center, the "2012E Leased Properties"), completed in 2009, consists of a 100,000 square foot facility on CSUEB's campus that houses the student services and administrative functions of the university, including the President's office, the Provost, campus data center and phone switch, academic, administrative and business services offices. The Student Services Building is located on the east-west pedestrian axis in the campus core and is a four-story steel braced frame structure with concrete filled metal decks. The exterior is finished in a combination of insulated metal panel and high performance vision glass, with a glass curtain-wall at the building's main entry point. Sustainable features incorporated into the Student Services Building include the low emission rated glass, energy efficient lighting, recycled interior finish materials, and water efficient landscaping.

There have not been any major renovations to any of the 2012E Leased Properties since the completion of their initial construction. A valuation was completed by an independent consultant in February 2012 for the 2012E Leased Properties, valuing the 2012E Leased Properties at $60,700,000.

The proceeds of the 2012E Bonds will be used to fund the design and construction of the 2012E Project, which is different than the above mentioned buildings. **Neither the Board nor the 2012E Bondholders have any security interest or remedies with respect to the 2012E Project. All remedies under the 2012E Facility Lease for failure to pay rental apply only to the 2012E Leased Properties.**

The 2012E Project

The *Warren Hall Replacement Building Project* (the "Warren Hall Project") will consist of the demolition of the existing twelve-story Warren Hall, completed in 1973, and the construction of a replacement office building on the existing site. Due to seismic safety concerns, Warren Hall was vacated and closed in May 2011, and faculty and staff were moved to available space throughout CSUEB's campus. The four-story Warren Hall Project will provide 113 administrative and faculty offices in a 67,000 square foot facility and will accommodate most of the previously-displaced faculty and staff.

The issuance of the 2012E Bonds for the Warren Hall Replacement Building Project has been authorized by Chapter 33, Statutes of 2011, Item 6610-301-0668(3), as reappropriated by the Budget Act of 2012.

The California State University Budget

Under the state's budget process, appropriations for rental payments for all of the CSU's facility leases will be included in appropriations made for the CSU's annual operating budget. Total annual rental payments under all currently existing facility leases of the CSU securing lease revenue bonds issued by the Board, including the Facility Leases relating to the 2012D Projects and the 2012E Leased Properties, are estimated to be approximately $80.6[*] million or approximately 4.0%[*] of its approximately $2,011 billion state operating budget for fiscal year 2012-13. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Budgeting for Rental Payments." The CSU's operating budget is one of many line items in the state's annual budget. For more information regarding the state's finances and budgetary process, see APPENDIX A — "STATE OF CALIFORNIA — STATE FINANCES" and " — THE BUDGET PROCESS."

[*] Preliminary, subject to change.

Seismicity

Generally, within the state, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity.

Although there can be no assurance that the 2012D Projects or the 2012E Leased Properties will not suffer significant damage in an earthquake, the state has adopted design standards set forth in the state's building codes that are intended to withstand earthquakes of the magnitude anticipated at the locations of the 2012D Projects and the 2012E Leased Properties. According to geotechnical reports acquired by the CSU, the Art Center and Satellite Plant Project is located greater than approximately 10 miles away from any known faults; the Physical Education Replacement Project is located near four known faults, with the closest being the West Napa fault approximately 6 miles from the Site of the Physical Education Replacement Project; the Spartan Complex Renovation Project is located near four known faults, with the closest being the Monte Vista-Shannon fault approximately 6 miles from the Site of the Spartan Complex Renovation Project; and, the 2012E Leased Properties are located near four known faults, with the closest being the Hayward Fault less than one mile away from the 2012E Leased Properties. Standards and procedures are used or, in the case of the 2012E Leased Properties, were used, so that the 2012D Projects are, and, in the case of the 2012E Leased Properties, were, designed and constructed to meet or exceed the seismic standards required by the state's building codes. An earthquake may cause damage to the 2012D Facilities when completed and the 2012E Leased Properties which could result in abatement of Base Rental under the 2012D Facility Leases or the 2012E Facility Lease, as applicable. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Abatement." Neither the Trustees nor the Board expects to purchase earthquake insurance in connection with any of the 2012D Projects. Additionally, neither the Trustees nor the Board has purchased or expects to purchase earthquake insurance for the 2012E Leased Properties.

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APPENDIX B-2

THE UNIVERSITY OF CALIFORNIA AND THE 2012F LEASED PROPERTIES

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

General

For information regarding The Regents of the University of California, see APPENDIX C — "THE UNIVERSITY OF CALIFORNIA — GENERAL."

The 2012F Leased Properties

All of the 2012F Leased Properties are located on the campus of the *University of California, Los Angeles* ("UCLA"). UCLA was established in 1919 as the southern branch of the University of California's ("UC") began by offering two-year undergraduate degrees and a teachers training program. Opened formally as a campus in 1929, today UCLA is the largest of the 10 UC campuses and the largest research university in the state, with an enrollment of approximately 39,000 undergraduate and graduate students and over 14 million square feet of program space in its buildings, including its hospitals and clinics. UCLA offers more than 318 degree programs through the College of Letters and Science and 11 professional schools: Arts and Architecture, Dentistry, Medicine, Management, Law, Education and Information, Engineering and Applied Sciences, Nursing, Public Health, Public Affairs, and Theatre, Film and Television. Situated on 419 acres in the Westwood area of Los Angeles, the campus is diverse in its architectural character, blending the Romanesque style of its historic core with new buildings of modern design.

The five 2012F Leased Properties include the real property and the buildings, structures, fixtures and related improvements that are located on the related real property. The 2012F Leased Properties include any and all additions, betterments, extensions and improvements thereto and consist of the following:

The *Doris Stein Research Center* is a four-story medical office building that was completed in 1989. It contains 84,756 gross square feet of classroom, office, laboratory, patient exam and support, conference, and support library space.

The *Fowler Museum* is a three-story museum that was completed in 1990. It contains 101,715 gross square feet of lecture, office, laboratory, museum exhibit, and storage space.

The *Gonda Molecular Neuroscience Research Center* is a seven-story research laboratory facility that was completed in 1998. It contains 122,725 gross square feet of laboratory and laboratory support, conference rooms, faculty/staff/clerical support, and storage space.

The *MacDonald Medical Research Laboratory* is a seven-story research laboratory facility that was completed in 1991. It contains 136,500 gross square feet of laboratory and laboratory support, conference rooms, and faculty/staff/clerical support space.

The *Southern Regional Library Phase 2* is a single-story library collection storage facility that was completed in 1996. It contains 96,879 gross square feet of high-density library stacks.

None of the museum exhibits or moveable property currently located in the Leased Properties constitutes a part of the 2012F Leased Properties.

When the 2002A Bonds were originally issued, the then replacement values of the 2012F Leased Properties, which are the same properties that were subject to the Original 2002A Facility Lease, were sufficient to sustain the Base Rental to be paid under the Original 2002A Facility Lease. Upon the issuance of the 2012F Bonds, The Regents will certify that the replacement values of the 2012F Leased Properties are still sufficient to support the Base Rental to be paid under the 2012F Facility Lease, which, depending upon the pricing results of the 2012F Bonds, may include Remaining 2002A Bonds.

The proceeds of the 2002A Bonds that are being partially or fully refunded by the 2012F Bonds were used to fund the design and construction of the 2002A Project, which is different than the above mentioned buildings. **Neither the Board nor the 2012F Bondholders have any security interest or remedies with respect to the 2002A Project. All remedies under the 2012F Facility Lease for failure to pay rental apply only to the 2012F Leased Properties.**

The 2002A Project

The 2002A Project consisted of seismic improvements to the buildings, structures, works and related improvements located at the facilities described below.

Westwood Replacement Hospital (Ronald Reagan UCLA Medical Center)

The Westwood Replacement Hospital project on the Los Angeles campus replaced seismically hazardous facilities with a newly constructed acute-care inpatient facility to house the UCLA Medical Center, the Mattel Children's Hospital, and the UCLA Neuropsychiatric Hospital.

Santa Monica/Orthopedic Replacement Hospital

The Santa Monica/Orthopedic Replacement Hospital is located in Santa Monica, California, and is part of the UCLA Medical Center. The facility provided replacement space for seismically hazardous facilities at the existing Santa Monica hospital site, as well as space for functions relocated from the seismically hazardous Center for Health Sciences in Westwood (also a part of the UCLA Medical Center).

The University of California State Budget

Under the state's budget process, appropriations for rental payments for all of the UC facility leases will be included in appropriations made in the state budget for the UC's annual state operating budget (one component of the UC's total operating budget). Total annual rental payments under all currently existing facility leases of the UC securing lease revenue bonds issued by the Board, including the 2012F Facility Lease, are estimated to be approximately $210.0* million or approximately 8.8%* of its approximately $2,378 billion state operating budget for fiscal year 2012-13. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Rental Payments — *Budgeting for Rental Payments*." For more information regarding the state's finances and budgetary process, see APPENDIX A — "STATE OF CALIFORNIA — STATE FINANCES" and " — THE BUDGET PROCESS." For more information regarding The Regents' budgetary process and finances, see APPENDIX C—"THE UNIVERSITY OF CALIFORNIA."

Seismicity

Generally, within the state, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to property located at or near the center of such seismic activity.

Although there can be no assurance that the 2012F Leased Properties will not suffer significant damage in an earthquake, the 2012F Leased Properties were designed to meet or exceed the seismic standards required by the state's building code or local seismic requirements (whichever requirements are more stringent) in force at the time of design approval and used design standards which are intended to result in buildings designed to withstand earthquake forces of the magnitude anticipated at the respective locations. Some of the standards and procedures for ensuring that 2012F Leased Properties were designed and constructed to seismic standards include the following: (i) detailed geotechnical reports were prepared to identify and address the seismic characteristics of the Site upon which each 2012F Leased Property is located; (ii) the buildings were then designed and engineered to meet the seismic standards of then applicable

* Preliminary, subject to change.

general building and life-safety codes in force at the time of design; (iii) an independent seismic engineering peer review was performed during the design phase and (iv); field inspections and testing was performed by certified inspectors familiar with applicable codes and regulations. An earthquake may cause damage to the 2012F Leased Properties which could result in abatement of Base Rental under the 2012F Facility Lease. See "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Abatement." Neither The Regents nor the Board expects to purchase earthquake insurance in connection with any of the 2012F Leased Properties.

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APPENDIX C

THE UNIVERSITY OF CALIFORNIA

GENERAL

The University of California (the "University") is the public institution of higher education designated by the State of California (the "State") in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Since it was chartered in 1868, the University has conferred over 1,991,945 higher education degrees, as of June 30, 2011. The University's administrative offices are located in Oakland, California.

The University is governed by a 26-member Board of Regents, 18 of whom are appointed by the Governor and approved by a majority vote of the State Senate (currently for a 12-year term), one student Regent, who is appointed by the board to a one-year term, and seven ex officio Regents who are members of the board by virtue of their elective or appointed positions. The ex officio Regents are the Governor of the State, Lieutenant Governor of the State, Speaker of the Assembly, State Superintendent of Public Instruction, President of the Alumni Associations of the University, Vice President of the Alumni Associations of the University, and the President of the University.

Classes began at Berkeley in 1873 and the University currently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and more than 200 laboratories, research stations and institutes, affiliated schools, activity locations, and a statewide Division of Agriculture and Natural Resources. The Education Abroad Program of the University is offered at many different host institutions around the world.

The University is engaged in numerous sponsored research projects, in addition to operating one major laboratory and being a member in a joint venture that manages two other laboratories for the United States Department of Energy, which conduct broad and diverse basic and applied research in nuclear science, energy production, national defense, and in environmental and health areas. The University operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. In connection with the University's five medical schools and other health science disciplines, the University operates five academic medical centers with a total of 3,220 licensed beds and 3,038 available beds as of March 31, 2012.

The University has a pre-eminent regular teaching faculty of approximately 10,000 members. Fifty-seven researchers affiliated with the University have been awarded 58 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 25 of the Nobel Prizes have been won since 1995. Current faculty includes 25 Nobel laureates. No U.S. public university has won more Nobel Prizes than the University. University affiliated researchers have received 63 National Medals of Science – about 13 percent of the medals presented – since Congress created the award in 1959. More than 360 current University researchers are members of the prestigious National Academy of Sciences. The University has more members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, approximately 82 faculty, researchers, artists and others affiliated with the University have been awarded these prestigious $500,000 grants. Also, more Guggenheim fellowships, approximately 1,494, have been awarded to University faculty than to any other university or college.

As of April 2012, in addition to the teaching faculty, the University employed, on a full-time and part-time basis, approximately 47,000 other academic personnel and approximately 133,000 staff and management personnel.

During the year ended June 30, 2012, the University provided instruction to approximately 237,000 full time equivalent undergraduate and graduate students. The following table shows enrollments (computed on the basis of full-time equivalents) of the University by campus for the general campus and for health science students across campuses for fiscal years 2008 to 2012. Further information on University enrollment can be found at http://budget.ucop.edu/enroll.html.

UNIVERSITY OF CALIFORNIA
FULL-TIME EQUIVALENT ENROLLMENTS [1] FOR FISCAL YEARS 2008 TO 2012

	2007-08	2008-09	2009-10	2010-11	2011-12
Berkeley	34,229	34,732	35,362	35,510	36,075
Davis	28,199	29,021	29,363	29,469	29,726
Irvine	26,924	27,763	26,864	26,797	27,153
Los Angeles	34,290	34,945	35,157	34,765	35,805
Merced	1,903	2,775	3,472	4,488	5,317
Riverside	17,238	18,028	19,185	20,240	20,327
San Diego	26,641	27,487	28,375	28,667	28,147
Santa Barbara	21,919	22,589	23,250	22,920	22,298
Santa Cruz	16,012	16,809	17,160	17,437	17,583
Total General Campus	**207,355**	**214,149**	**218,188**	**220,293**	**222,431**
Health Sciences [2]	13,958	14,176	14,425	14,579	14,625
Total University	**221,313**	**228,325**	**232,613**	**234,872**	**237,056**

(1) Does not include students in self-supporting programs. Includes graduate and undergraduate students, and State supported summer enrollment.
(2) Includes San Francisco campus enrollment.

Source: University of California Office of the President ("UCOP"), Budget Office.

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INDEBTEDNESS OF THE REGENTS

The Regents of the University of California ("The Regents") has outstanding various revenue bonds, as listed below, maturing from 2012 through 2050 (excluding the final maturity of 2112 for the General Revenue Bonds, 2012 Series AD). These revenue bonds are secured by and payable from revenues of the facilities financed, investment income, student fees, rental payments and other revenues. The following table lists the public indebtedness issued by The Regents outstanding as of July 1, 2012.

BONDS ISSUED AND OUTSTANDING[1]
As of July 1, 2012 (dollars in thousands)

	Amount Issued	Amount Outstanding
General Revenue Bonds		
2003 Series A	$ 914,270	$ 552,980
2003 Series B	385,835	245,955
2005 Series C	252,270	165,390
2005 Series D	31,160	4,565
2005 Series E	111,610	38,165
2005 Series F	446,815	383,775
2005 Series G	308,450	206,605
2005 Series H	23,830	1,400
2005 Series I	20,540	4,690
2007 Series J	1,123,935	1,051,280
2007 Series K	241,600	199,875
2008 Series L	208,025	202,290
2008 Series M	36,845	29,085
2008 Series N	3,990	2,550
2009 Series O	732,630	709,755
2009 Series P	61,590	35,735
2009 Series Q	300,620	295,620
2009 Series R	1,022,275	1,022,275
2010 Series S	75,395	75,395
2010 Series T	10,100	10,100
2010 Series U	144,025	142,530
2010 Series V	200,000	200,000
2011 Series W	3,725	3,510
2010 Series X	48,700	48,700
2011 Series Y	500,000	500,000
2011 Series Z	150,000	150,000
2011 Series AA-2	286,515	286,515
2011 Series AB	354,875	352,830
2011 Series AC	44,840	43,665
2012 Series AD	860,000	860,000
SUBTOTAL	**$8,904,465**	**$7,825,235**
Limited Project Revenue Bonds		
2004 Series A	$ 371,590	$ 240,335
2005 Series B	600,480	483,245
2007 Series D	415,355	408,840
2010 Series E	195,675	191,810
2010 Series F	486,130	486,130
SUBTOTAL	**$2,069,230**	**$1,810,360**

Hospital Revenue Bonds		
UCLA Medical Center, Series 2004 A	$ 165,000	$ 57,660
UCLA Medical Center, Series 2004 B	91,165	23,135
SUBTOTAL	**$ 256,165**	**$ 80,795**
Medical Center Pooled Revenue Bonds		
2007 Series A	$ 441,170	$ 429,940
2007 Series B	96,155	83,115
2007 Series C-1	7,255	7,255
2007 Series C-2	189,775	149,025
2008 Series D	322,980	266,530
2009 Series E	94,755	88,960
2009 Series F	429,150	429,150
2010 Series G	48,140	42,995
2010 Series H	700,000	700,000
2010 Series I	9,175	8,345
SUBTOTAL	**$ 2,338,555**	**$ 2,205,315**
Total	$13,568,415	$11,921,705

(1) Does not include commercial paper notes, capital leases, bank loans and indebtedness issued by conduit public entities. The University issued Limited Project Revenue Bonds, 2012 Series G ($899,275,000) and 2012 Series H ($100,420,000) on August 9, 2012. The Limited Project Revenue Bonds, 2012 Series G and 2012 Series H financed new money projects and defeased $787.77 million of Limited Project Revenue Bonds and $66.165 million of General Revenue Bonds

Source: UCOP, Capital Markets Finance

In addition to revenue bonds, there is also outstanding commercial paper notes, capital leases, bank loans, and indebtedness issued by conduit public entities. These other obligations are described below.

Commercial Paper. The Regents has established a commercial paper program in an authorized amount of up to $2 billion. As of July 1, 2012, approximately $1,323,000,000 of commercial paper was outstanding.

Bank Loans/Capital Leases. The Regents had outstanding principal on loans and private placements with various financial institutions of approximately $168 million as of July 1, 2012, which includes a draw on a $215 million revolving credit agreement with a syndicate of lenders. From time to time, The Regents may enter into additional credit agreements. In addition, capital leases of The Regents, typically for equipment, totaled approximately $39.7 million as of June 30, 2011.

Conduit Issuer Bonds. The California Infrastructure and Economic Development Bank (the "Infrastructure Bank") issued bonds to finance capital improvements for the University. These bonds include revenue bonds issued in the aggregate principal amount of $207,670,000 ($207,670,000 outstanding as of July 1, 2012) to finance the costs of Neurosciences Building 19A for the San Francisco campus. Through a capital lease, The Regents is required to make base rent payments that equal the debt service on those bonds. In addition, the Infrastructure Bank issued revenue bonds in the aggregate principal amount of $62,000,000 ($60,915,000 outstanding as of July 1, 2012) to finance the costs of a stem cell research facility for a consortium of institutions conducting stem cell research, including the San Diego campus. Through a debt service payment agreement, The Regents is required to pay any debt service shortfall on these bonds.

The California Statewide Communities Development Authority issued bonds in an aggregate principal amount of $524,495,000 ($419,910,000 outstanding as of July 1, 2012) to finance the costs of certain student housing projects for the Irvine campus. The Regents leased the site on which the student housing projects are situated to a special purpose, limited liability company that owns the projects and applies project revenues to repay these revenue bonds.

State Public Works Board Bonds. The State Public Works Board of the State of California (the "SPWB") has issued various lease revenue bonds, maturing from 2012 through 2037, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University's operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of July 1, 2012:

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State Public Works Board of the State of California	**Amount Outstanding (in 000s)**
Lease Revenue Bonds:	
1993 Series B (Various University of California Projects)	$ 11,065
2002 Series A (UCLA Replacement Hospital)	114,350
2003 Series A (UC Davis MIND Institute)	24,755
2004 Series A (UC Davis Medical Center Tower II)	12,880
2004 Series F (Various University of California Projects)	113,940
2005 Series C (Various University of California Institute Projects)	105,945
2005 Series D (Various University of California Projects)	290,175
2005 Series L (Various University of California Projects)	136,685
2006 Series E (University of California Research Project)	75,520
2008 Series A (UC Irvine Medical Center Replacement Hospital)	241,920
2008 Series B (San Francisco Moffitt and Long Hospital Seismic Upgrade)	23,430
2008 Series C (Natural Sciences Unit 2 - McGaugh Hall Expansion)	11,725
2009 Series E (Various University of California Projects)	153,705
2009 Series F (UC San Diego Medical Center – Hillcrest Seismic)	37,845
2010 Series C (Various University of California Projects)	
Subseries C-1 (Tax-Exempt Bonds)	70,385
Subseries C-2 (Federally Taxable Build America Bonds)	149,620
2010 Series D (Helios Energy Research Facility Project)	50,485
2011 Series G (Various University of California Projects)	295,200
2012 Series B (Business Unit at the Irvine Campus)	42,050
Lease Revenue Refunding Bonds:	
1993 Series A (Various University of California Projects)	45,765
1997 Series A (Various University of California Projects)	89,975
1997 Series B (Various University of California Projects)	13,680
1998 Series B (Various University of California Projects)	16,015
1998 Series C (Various University of California Projects)	6,120
2001 Series A (Various University of California Projects)	16,900
2007 Series A (Various University of California Projects)	166,125
2007 Series B (Various University of California Projects)	49,850
2007 Series C (Various University of California Projects)	91,700
Total Outstanding	**$2,457,810**

Source: UCOP, Capital Markets Finance

The Regents has never defaulted in the payment of maturing principal of or interest on any of its loans, bonds, notes, or certificates or in the payment of rental due under capital leases of its facilities.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

The Constitution of the State of California provides that the University shall be a public trust administered by the corporation, “The Regents of the University of California,” which is vested with full powers of organization and government subject only to such legislative control as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds and such competitive bidding procedures as may be applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services. The Regents is a board composed of both ex officio members and members appointed by the Governor and approved by the Senate.

The members of the Board of Regents and the Officers of The Regents as of July 1, 2012 are listed below. There are currently 3 vacancies on the Board. Additional information and a current list of Regents can be obtained at http://www.universityofcalifornia. edu/regents/contact.html.

Appointed Regents:

Richard C. Blum

William De La Peña, M.D.

Russell S. Gould

Eddie Island

George Kieffer

Sherry L. Lansing

Monica C. Lozano

Hadi Makarechian

Norman J. Pattiz

Bonnie Reiss

Frederick Ruiz

Leslie Tang Schilling

Jonathan Stein[(1)]

Bruce D. Varner

Paul Wachter

Charlene Zettel

[(1)] Appointed by the Board of Regents.

Ex Officio Regents:

Jerry Brown
Governor of California

Gavin Newsom
Lieutenant Governor

John A. Pérez
Speaker of the Assembly

Tom Torlakson
State Superintendent of
Public Instruction

Ron Rubenstein
Alumni Regent
(President of the
Alumni Associations of the
University of California)

Alan Mendelson
Alumni Regent
(Vice President of the
Alumni Associations of the
University of California)

Mark G. Yudof
President of the
University of California

The Officers of The Regents:

President
Jerry Brown
Governor of California

Chairman
Sherry L. Lansing

Vice Chair
Bruce D. Varner

Acting Treasurer
Marie N. Berggren

General Counsel
Charles F. Robinson

Secretary and Chief of Staff
Marsha Kelman

Chief Compliance and Audit Officer
Sheryl Vacca

FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2011. See "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2010-2011" attached to this Appendix C.

INVESTMENTS

As of the most recent period ended June 30, 2012, the market values and investment returns for the fiscal year are as follows:

	Market Value (in 000's) [1]	**Investment Return**[1]
Short Term Investment Pool[2]	$9,793,940	2.38%
Total Return Investment Pool	4,292,027	6.67%
General Endowment Pool	6,399,840	(0.67%)
University of California Retirement Plan[3]	41,437,693	0.33%

(1) Unaudited, pending Regents' review.
(2) Also includes loans in the total amount of approximately $560 million in the University's Mortgage Origination Program.
(3) Includes approximately $135 million invested in the Short Term Investment Pool.

Source: University of California Office of the President

For additional information concerning the investments of the University, see "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2010-2011" attached to this Appendix C.

Senate Bill No. 79 ("SB 79"), which became effective on August 1, 2011, provides for the establishment of a State Agency Investment Fund (the "SAIF") in the State of California Treasury. SB 79 allows the University to deposit not less than $500 million into the SAIF, to receive an investment return equal to the State's Pooled Money Investment Account rate of return plus an enhancement amount to be determined by the State Director of Finance and with such other terms and conditions as may be agreed upon by the University and the Director of Finance in consultation with the State Treasurer. On September 26, 2011 the University invested $1 billion of eligible University funds in the SAIF and on February 29, 2012 the University invested an additional $200 million in the SAIF. The $200 million February 2012 University investment was repaid to the University on April 16, 2012.

AUDITS AND COMPLIANCE REVIEWS

At all times, there are audits and compliance reviews that arise in the normal course of the University's activities. Such audits and compliance reviews may relate to any activity at the University, and may be conducted by persons within or outside the University, including but not limited to the Senior Vice President—Chief Compliance and Audit Officer of the University, the California Bureau of State Audits and a variety of other federal and state governmental agencies. Such reviews could identify improper actions by University personnel or others affecting expenditures by The Regents, and in some cases, its revenues. University management is not aware of any pending audit or review concerning matters that are likely to have a material adverse effect on The Regents' ability to pay the principal of, premium, if any, and interest on the 2012F Bonds when due.

BUDGETARY PROCESS

The following is a description of the budgetary process for the University. Because the process for developing, negotiating and allocating the capital budget differs from the operating budget, the capital budget is described below under "—Capital Budget".

Budget Consultation: Administrators from the Office of the President meet regularly with faculty and student groups to keep them informed of budget developments and seek their input on budget issues. Further, there is a budget discussion at the monthly meeting of the Council of Chancellors, and budget discussions at the monthly meetings of the Council of Executive Vice Chancellors, at the quarterly meetings of campus Vice Chancellors for Planning and Budget, and with various other groups within the University.

The Regents' Budget: The Regents' Budget is the annual budget statement for the ten-campus system. It provides a description of the existing budget, including income and expenditures from all fund sources, and serves as the budget request to the State for the next fiscal year, describing in some detail the need for additional funds from State appropriations. The budget is presented to the Board of Regents each year for approval.

State Budget: The Governor's proposed budget is released each year around the 10th of January and then revised in early May. Each February, the Legislative Analyst publishes an analysis of, and recommendations for legislative actions on, the Governor's proposed budget. The Governor's proposed budget is debated during legislative hearings and subsequently the Legislature sends its own recommended budget back to the Governor. Following the Governor's approval of the Legislature's recommended budget, it becomes final as the "State Budget Act."

For the most part, the State Budget Act appropriates funds for the operating budget of the University in a lump sum, although amounts for a few programs of particular interest to the State are appropriated by line item. Operating funds received from the State are allocated by the President of the University to the campuses and to the Office of the President after consultation with the Chancellors, Vice Presidents, and faculty groups.

Capital Budget: Annually, the University prepares a multi-year State and non-State funded capital plan. Development of the capital plan is an interactive process with the campuses. After compilation and review of campus submittals by the Office of the President, discussions are held with campus representatives regarding project need, justification, priority and likelihood of funding A line-item capital budget request is submitted annually to the State for approval, along with a 10-year State and non-State funded capital plan for context. Major capital projects (over $750,000) that are State funded are approved by the State on a line-item basis; any funds requested for minor capital projects (under $750,000) are approved on a lump-sum basis.

In addition to State funds, the University also uses gift funds, certain fees and reserves, and other funds available to The Regents for capital projects. Non-State funded capital projects are advanced to The Regents for approval based on project schedules, or they are approved by the Chancellor of the campus consistent with delegated approval authority.

Recent State Support for the University: The State's support for the University during the past six fiscal years has been inconsistent, with substantial budget cuts in recent years exceeding modest funding increases in earlier years. The following table sets forth State appropriations for Fiscal Year 2006-07 through Fiscal Year 2011-12.

STATE APPROPRIATIONS

Fiscal Year	State Appropriations To University*
2006-07	$3.069 billion[(1)]
2007-08	3.257 billion[(2)]
2008-09	2.687 billion[(3)]
2009-10	3.039 billion[(4)]
2010-11	3.017 billion[(5)]
2011-12	2.272 billion[(6)]

*Includes certain federal economic stimulus fund pass-through payments as described further below. Includes appropriations for lease purchase payments, state grants and direct payments to the Retirement Plan for pledges from 1990.

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(1) Included additional amounts to fund nursing and math/science teachers initiatives.
(2) Included additional amounts to fund nursing and medical school enrollment growth.
(3) Included $115.5 million net reduction, plus one-time assistance of approximately $268.5 million from federal economic stimulus funds.
(4) Included $637 million net reduction (when compared against the State Budget Act adopted in September 2008 for Fiscal Year 2008-09), plus one-time assistance of approximately $448.0 million from federal economic stimulus funds.
(5) Included restoration of $199 million of prior cuts on a permanent basis; $106.6 million on a one-time basis through federal economic stimulus fund; and $65.4 million on a permanent basis to support economic growth and retiree health care benefits.
(6) Included $650 million in cuts included in the 2011 Budget Act plus an additional $100 million reduction triggered in mid-year when the State did not realize revenue estimates assumed in the budget.

As provided by legislation (AB 5 (8X)), for Fiscal Year 2010-11, the State deferred its July, August and September payments to the University totaling $500 million to June 2011. An additional $352 million was deferred for its September and October payments to December 2010. The University's $188 million Cal Grant funding from the State, normally paid in August and September, was deferred until December 2010. For Fiscal Year 2011-12, the University's July, August and September State payments totaling $500 million were deferred in accordance with AB 5 (8X). In addition, for Fiscal Year 2012-13, the University's July, August and September State payments totaling $500 million will be deferred to June 2013.

University's Response to Reduced State Support and Unfunded Mandatory Cost Increases: In response to reduced State support and the increase in unfunded mandatory costs in such areas as purchased utilities, faculty merits, collective bargaining agreements, enrollment growth, etc. The Regents has implemented a number of measures. Tuition and fees have increased in recent years as follows: 8.1% in Fiscal Year 2007-08; 7.4% in Fiscal Year 2008-09; 25.7% in Fiscal Year 2009-10; 15% in Fiscal Year 2010-11; and 18.3% in Fiscal Year 2011-12 (percentage increases represent year over year comparisons for annual fees, although some increases were implemented mid-year or in two stages). The Regents approved a declaration of fiscal emergency effective September 1, 2009 to August 31, 2010, during which the University implemented a furlough/salary reduction plan which reduced salaries on a sliding scale from 4% to 10% for most employees. In addition, the fiscal crisis has led to campus and systemwide layoffs, programmatic reductions, other systemwide savings such as debt restructuring, program consolidated, elimination of low demand programs, and delayed faculty hiring and equipment purchases. The University also began a multi-year plan to curtail new student enrollment growth. While the goal was to reduce California resident freshmen by 3,800 (FTE) to be offset somewhat by an increase in California Community College transfers of 1,000 (FTE), campuses only reached a portion of the goal, with a curtailment of 2,300 (FTE) freshmen and an increase of 1,500 (FTE) California Community College transfers. Campuses are expecting enrollment of California residents to remain somewhat flat between 2011-12 and 2012-13.

An initiative launched in July 2010, called Working Smarter, seeks to achieve $500 million of positive fiscal impact through efficiencies, savings, cost avoidance, and revenue raising measures in a wide variety of areas over a five-year period. This initiative had a positive impact of approximately $132 million in its second year of implementation.

State Budget for the University for FY 2011-12: While some of the earlier cuts in State support imposed on the University in 2008-09 and 2009-10 were restored in 2010-11, the University continued to face significant mandatory cost increases and a significant budget shortfall for 2011-12. In November 2010, in addition to requesting further restoration of support, support for contributions to the Retirement Plan, and funding to cover the costs of unfunded enrollments from the State, the University implemented an 8% student tuition and fee increase for 2011-12.

Despite the University's request for an increase in funding, in January 2011, the Governor proposed a $500 million reduction in State support for the University and in spring 2011 the Legislature approved this reduction to the University's budget for 2011-12. On June 28, 2011 the Legislature adopted a second budget package for 2011-12 that included additional targeted reductions for many State programs, including $150 million in additional reductions to the University and California State University budgets, and a trigger mechanism for more cuts mid-year if certain revenue projections were not realized. The revenue projections were not realized, and the University was cut an additional $100 million in December 2011.

With the additional trigger cut, the University's State support was cut by a total of $750 million for 2011-12. This represents a decrease from a high of $3.25 billion in 2007-08 to $2.27 billion in 2011-12. Between 2010-11 and 2011-12, state support to the University (excluding Federal ARRA funds) decreased 21.8%. The University also faced $362.5 million in unfunded mandatory costs, bringing the University's total budget gap for 2011-12 to more than $1.1 billion.

In addition to the 8% tuition and fee increase approved at the November 2010 meeting mentioned above, at its July 2011 meeting, The Regents approved another increase in mandatory systemwide charges of 9.6% to offset the additional reduction in State support of $150 million proposed at the end of the budget process. The revenue from both increases offset about 26% of the University's $1.1 billion budget shortfall (leaving a shortfall of approximately $846.7 million).

State Budget for the University for FY 2012-13: For the University, the 2012-13 budget includes no further cuts to the base budget and provides an augmentation of $89.1 million toward the State's share of the employer contribution to the University's retirement plan. The Governor had proposed $90 million in his January budget recommendations (including $89.1 million for the University and $900,000 for Hastings), but he lowered the number to $52 million in the May Revise with a promise that the remaining $38 million would be provided to the University in 2013-14. The final budget adopted by the Legislature includes the full $89.1 million, however. The budget also includes an augmentation of $5.2 million for annuitant health benefits and $11.6 million for lease revenue bond debt service. The new State funding base for the University in 2012-13 will be $2.378 billion, up from $2.272 billion in 2011-12.

The State Budget also provides the University an additional $125.4 million in the 2013-14 budget if the Governor's revenue-raising initiative passes in November 2012 and if the University does not implement the 6 percent tuition increase the University had expected to implement in 2012-13.

The funding levels adopted in the State Budget are dependent on the passage of the Governor's revenue-raising initiative in the November election. If the Governor's revenue-raising initiative does not pass or is superseded by a competing initiative, the budget calls for a reduction of $250 million to the University's budget. This trigger budget reduction would lower the University's State-funded budget to $2.128 billion in 2012-13, down $1.129 billion from a high of $3.257 billion in 2007-08.

The University has been engaged in discussions with the Governor about a possible multi-year funding agreement. Such an agreement would provide greater funding stability to the University's budget over the next several years. Provisions in the agreement under discussion include, among others, (i) specified annual increases to the prior year base budget for FY 2013-2014 through 2016-2017 conditioned upon passage of the revenue-raising initiative in November 2012; (ii) the manner in which capital projects are funded and debt service paid: and (iii) tuition increases and projected enrollment levels. Any agreement reached by the Governor and the University would be subject to future implementation by the Legislature through the budget act.

EMPLOYER–EMPLOYEE RELATIONS

The Higher Education Employee Relations Act (HEERA), the law that provides for collective bargaining in higher education, became effective July 1, 1979. Currently, the University negotiates with seven unions representing twelve systemwide bargaining units and with nine unions representing fourteen local bargaining units over terms and conditions of employment for approximately 65,000 of the University's employees, excluding student employees who are primarily employed during the academic year.

The following table shows the membership of each systemwide employee bargaining unit as of March 2012 and the date the current labor contract expires as of July 2012:

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University of California
Systemwide Employee Organizations[1]

Union	Bargaining Unit	Head Count	Contract Expiration
CUE-Teamsters Coalition of University Employees	CX - Clerical & Allied Services	12,382	11/30/16
AFSCME American Federation of State, County and Municipal Employees, AFL-CIO Local 3299	EX - Patient Care Technical	12,359	9/30/12[3]
UPTE University Professional & Technical Employees, CWA, Local 9119	HX - Residual Health Care Professionals	3,293	2/17/12[2]
UC-AFT American Federation of Teachers	IX – Non Senate Instructional	2,565	9/30/14
UC – AFT American Federation of Teachers	LX – Professional Librarians	348	9/30/12[3]
CNA California Nurses Association	NX – Registered Nurses	11,513	6/30/13
FUPOA Federated University Police Officers Association	PA – Police Officers	256	9/30/12[3]
UAW Local 5810 International Union, United Automobile, Aerospace and Agricultural Implement Workers of America	PX – Post Doctoral Scholars	5,907	9/30/15
UPTE University Professional & Technical Employees, CWA, Local 9119	RX – Research Support Professionals	4,966	6/30/13
AFSCME American Federation of State, County and Municipal Employees, AFL-CIO Local 3299	SX – Service	8,116	1/31/13
UPTE University Professional & Technical Employees, CWA, Local 9119	TX – Technical	3,640	6/30/13

(1) Excludes the collective bargaining unit for student employees. The number of student employees varies greatly during the academic calendar year.
(2) Contract negotiations currently in process.

Union	Bargaining Unit	Head Count	Contract Expiration

(3) In anticipation of expiring contracts, the University has begun negotiations for a successor contract.

Source: University of California Department of Labor Relations

It is always difficult to determine with assurance the future course of employer–employee relations. Nevertheless, at the present time, The Regents does not anticipate that the future labor relations climate within the University will have a material adverse impact upon the ability of The Regents to make payment on its outstanding indebtedness.

RETIREMENT PLAN FUNDS

Administration: The Regents maintains the University of California Retirement Plan (the "Retirement Plan"), a governmental defined benefit pension plan, which provides lifetime retirement income, disability protection, death benefits, and pre-retirement survivor benefits to eligible employees of the University. The Retirement Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members.

The Regents is the trustee of the Retirement Plan, and the President of the University is the Administrator of the Retirement Plan. The University of California Human Resources and Benefits Department is responsible for the day-to-day management and operation of the Retirement Plan.

Membership: The following table shows the membership in the Retirement Plan for each Fiscal Year from July 1, 2007 through July 1, 2011:

RETIREMENT PLAN MEMBERSHIP

July 1	Active Vested Members	Active Nonvested Members	Terminated Vested Members(1)	Retired Members	Ratio of Retirees to Actives
2007	67,966	50,919	59,056	47,682	0.40
2008	64,027	50,215	64,566	50,171	0.44
2009	65,805	49,940	54,883	51,653	0.45
2010	67,587	47,341	55,037	53,902	0.47
2011	69,979	45,589	60,903	56,296	0.49

(1) Inactive members entitled to, but not yet receiving, benefits.

Funding Policy: The Retirement Plan's independent actuary annually prepares an actuarial valuation of the Retirement Plan. The purpose of the annual actuarial valuation is to disclose the Retirement Plan's funded position as of the beginning of the current Fiscal Year, analyze the preceding Fiscal Year's experience and determine the total funding policy contribution rates for the following Fiscal Year. The actuarial valuation includes economic assumptions based on the experience of the Retirement Plan. As of July 1, 2011, these economic assumptions include a long-term investment earnings assumption of 7.50% per year, projected salary increases ranging from 4.30-6.75% per year and projected inflation of 3.5% per year.

The independent actuary annually determines the total funding policy contribution rate based upon methods selected by the University as follows:

First, the normal cost (the "Normal Cost") is established for the Retirement Plan. The Normal Cost represents the portion of the actuarial present value of the benefits that the Retirement Plan will be expected to fund that is attributable to the current year's employment. The Retirement Plan uses the entry age normal cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities, designed to fund benefits over the average life of the Retirement Plan members.

Second, the contribution calculation takes into account the amortization of a portion of the amount by which the actuarial value of the Retirement Plan liabilities exceeds the actuarial value of the Retirement Plan assets (the "UAAL"). If the actuarial value of the assets exceeds the actuarial value of liabilities, this surplus is amortized as a level dollar amount over 30 years pursuant to The Regents' funding policy.

There are a number of assumptions and calculation methods that impact the UAAL. On the asset side, the actuarial value of the Retirement Plan assets is calculated using a five-year smoothing technique, so that the difference between actual and expected returns on a market value basis is recognized over a five-year period. The technique will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the aggregate remaining amount to be smoothed is either a net gain or a net loss. In calculating the pension benefit liability, certain assumptions are made about future costs of pension benefits to generate an overall liability amount. If the Retirement Plan's results are better or worse than assumed, the result is an actuarial gain or loss. Pursuant to an amendment to The Regents' funding policy effective July 1, 2010, the amortization period for any such gain or loss was increased from 15 years to 30 years in order to establish a funding policy that is more closely aligned with a realistically attainable actual contribution rate. If the estimated liabilities change due to changes in assumptions or the asset smoothing method, the effect of such changes is amortized over 15 years pursuant to The Regents' funding policy.

The terms of the Retirement Plan provide for periodic experience studies to compare the expected experience under the Retirement Plan to actual experience. The independent actuary has completed an experience study covering the period from July 1, 2006 through June 30, 2010 and issued recommendations regarding the Retirement Plan's actuarial assumptions. At its July 2011 meeting, The Regents adopted the actuary's recommendations for the July 1, 2011 actuarial valuation (effective for contributions in fiscal year 2012-13). The recommendations included, among other things, a change in mortality assumptions. The net financial impact of the changes in assumptions modeled on the most recent actuarial valuation included (i) an increase of 1% ($14 million) in the Normal Cost; (ii) an increase of 3.7% ($1.77 billion) in the actuarial accrued liability; and (iii) an increase in the total funding policy contribution rate from 23.25% to 25.50% of covered payroll.

While the independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

Funding Status: Prior to April 2010, University and member contributions to the Retirement Plan had generally not been required since November 1, 1990 for most membership classifications. Member pretax contributions otherwise made to the Retirement Plan were redirected to the University of California Defined Contribution Plan on a mandatory basis.

The total funding policy contributions related to campuses and medical centers in the July 1, 2009 actuarial valuation (effective for fiscal year 2010-11) and the July 1, 2010 actuarial valuation (effective for fiscal year 2011-12) are $1.6 billion and $1.9 billion, respectively. The total funding policy contributions in the July 1, 2009 and July 1, 2010 actuarial valuations represent 20.40 percent and 23.25 percent of covered compensation, respectively. Effective April 15, 2010, the University started contributing 4 percent and employees started contributing 2 percent of covered compensation to the Retirement Plan. Employer contributions for fiscal year 2010-11 and 2009-10 were approximately $1.4 billion and $65 million, respectively, for the campuses and the medical centers. Employer contributions of $1.4 billion include $1.1 billion funded at the discretion of the President of the University, discussed below.

At its September 2010 meeting, The Regents approved increasing the employer and employee contribution rates to the Retirement Plan. Contributions by members were increased to 3.5 percent of covered compensation in July 2011 and were increased to 5 percent in July 2012 and contributions by the University were increased to 7 percent of covered compensation in July 2011 and were increased to 10 percent in July 2012. The Regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55, but retain many of the current features of the Retirement Plan. The new tier would not offer lump sum cashouts, inactive member Cost of Living Adjustments (COLAs), or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees. At its November 2011 meeting, The Regents approved an increase in the employee and employer contribution rates to the Retirement Plan to 6.5 percent and 12 percent, respectively, effective July 2013.

In addition to the approved employer/employee contributions to the Retirement Plan, The Regents delegated to the President of the University the authority and discretion to fully fund the unfunded portion of the Normal Cost and interest on the UAAL (the "modified ARC") through a combination of transfers from the Short Term Investment Pool, sale of long-term debt and restructuring of existing debt. In March 2011, The Regents approved a $2.1 billion funding plan for the Retirement Plan and in April 2011, $1.1 billion from the Short Term Investment Pool was transferred to the Retirement Plan. On July 27, 2011, The Regents issued $1.2 billion of General Revenue Bonds, 2011 Series Y, 2011 Series Z and 2011 Series AA and approximately $935 million of the proceeds of those bonds were applied to fund a portion of the annual required contribution (the "ARC").

Additionally, shared employer and employee contributions to the Retirement Plan at Lawrence Berkeley National Laboratory resumed at the same rates and on the same timetable as the University's campus and medical center contributions, subject to the terms of the University's contract with the U.S. Department of Energy and subject to collective bargaining, if applicable, for represented members at Lawrence Berkeley National Laboratory. Based upon a contractual agreement, the U.S. Department of Energy is required to make required contractual contributions to the Retirement Plan on behalf of Los Alamos National Laboratory and Lawrence Livermore National Laboratory retirees as determined by the annual actuarial valuation of each National Laboratory segment. Effective with the July 1, 2010 actuarial valuations of the Los Alamos National Laboratory and Lawrence Livermore National Laboratory Retirement Plan segments, approximately $70 million and $154 million, respectively, in contractual contributions are required to be made.

The table below shows the fair market value of assets held in trust for payment of pension benefits; the value of assets held in trust adjusted according to the Retirement Plan's actuarial methods as summarized above; the actuarial accrued liability of the Retirement Plan; the funded ratio on an actuarial and market value basis; the annual covered member payroll and the unfunded accrual actuarial liability or surplus as a percentage of covered payroll as of July 1, 2007 through July 1, 2011.

Retirement Plan Funding
(dollars in millions)

Actuarial Valuation Date	Market Value of Assets	Actuarial Value of Assets	Actuarial Accrued Liability	Actuarial (Deficit) Surplus	Funded Ratio (Actuarial Basis)	Funded Ratio (Market Basis)	Annual Covered Payroll	Actuarial (Deficit) Surplus of Annual Covered Payroll
July 1, 2007	$48,105.3	$43,434.0	$41,436.6	$1,997.4	104.8%	116.1%	$7,612.7	26.2%
July 1, 2008	42,023.2	43,840.3	42,576.8	1,263.5	103.0%	98.7%	7,468.9	16.9%
July 1, 2009	32,258.5	42,798.8	45,160.5	(2,361.7)	94.8%	71.4%	7,873.7	(30.0%)
July 1, 2010	34,574.5	41,195.3	47,504.3	(6,309.0)	86.7%	72.8%	7,995.4	(78.9%)
July 1, 2011	41,872.7	42,757.3	51,831.3	(9,074.0)	82.5%	80.8%.	8,163.0	(111.2%)

Source: University of California Office of the President and University of California Retirement Plan Annual Financial Report

The funded ratio of the Retirement Plan (actuarial value of assets divided by actuarial accrued liability) decreased from 86.7% as of July 1, 2010 to 82.5% as of July 1, 2011 primarily as a result of recognizing investment losses from prior years that were less than the assumed annual rate of return of 7.5% and actual contributions that were less than the total funding policy contributions for the year ending June 30, 2010. The UAAL will likely continue to increase, and the funded ratio of the Retirement Plan will likely continue to decrease, in future fiscal years due in part to the multi-year strategy under which University and employee contributions increase gradually over time and in part to the recognition of investment losses from the recent years when the Retirement Plan's actual investment returns were less than the assumed rate of return.

Asset Management Plan: The Regents, as the governing board and as trustee, is responsible for the oversight of the Retirement Plan's investments and establishes investment policy, which is carried out by the Chief Investment Officer. The Chief Investment Officer has primary responsibility for investing the Retirement Plan's assets consistent with the policies established by The Regents.

Over the past ten years, the asset allocation targets have been adjusted periodically to increase the diversification of the assets over multiple asset classes, investing styles and strategies, and investment organizations. The net result has been a movement away from a single, concentrated source of risk (primarily U.S. equities) toward a balance across global assets, risk factors less correlated with global growth, and the premium derived from holding illiquid or less liquid assets (e.g., private equity, real estate, and hedge funds). Currently, the assets of the Retirement Plan are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Retirement Plan holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private real assets (commodities, natural resources, infrastructure), hedge funds, private equity and venture capital limited partnerships.

For more information on the University's pension plan funds, see "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2010-2011" attached to this Appendix C, including – "Management's Discussion and Analysis – The University of California Retirement System (UCRS)" and – "Required Supplementary Information"

RETIREE HEALTH PLAN FUNDS

Description: The University administers the Retiree Health Benefit Program (the "Retiree Health Plan"). The Retiree Health Plan is a single-employer health and welfare plan 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 contribution requirements of the University and eligible retirees are established and may be amended by the University.

Membership in the Retirement Plan is required to become eligible for retiree health benefits. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. 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 implemented a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

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.

On July 1, 2007, The Regents established the University of California Retiree Health Benefit Trust (the "Trust"). While the University does not currently pre-fund retiree health benefits, if pre-funding occurs in the future, the Trust will be used as the funding vehicle. As of June 30, 2011, the balance in the Trust was $71 million.

The actuarial methods and assumptions used in the most recent actuarial valuation (as of July 1, 2010) include the entry age normal actuarial cost method; a 5.50% discount rate (investment return assumption); health care cost trend rate ranging from 10-12% initially, depending on the type of plan, reduced by increments to an ultimate rate of 5% over nine years; amortization of the initial UAAL and any UAAL due to assumption changes over 30 years; and amortization of any UAAL due to gains or losses, including changes due to contributions different from the ARC and experience different from expected, over 15 years.

Funding Status: As of July 1, 2010 and July 1, 2011, the Retiree Health Plan's independent actuary reported that the UAAL of the Retiree Health Plan for campuses and medical centers was approximately $15.4 billion and $14.6 billion, respectively. The following table sets forth the ARC; ARC as a percentage of payroll; UAAL; Pay-as-you-go-costs; and Net OPEB Obligation as of July 1, 2010 and July 1, 2011:

Retiree Health Plan
Actuarial Valuation Highlights
Campuses and Medical Centers
(Dollars in Millions)

Valuation Date	**July 1, 2010**	**July 1, 2011**
Actuarial Valuation Results		
1. Annual Required Contribution (ARC)[1]		
a. Normal Cost	$ 685	$ 562
b. Amortization Cost	1,238	1,195
c. Total	$ 1,923	$ 1,757
2. ARC as % of Payroll		
a. Normal Cost	8.9%	7.1%
b. Amortization Cost	16.0%	15.2%
c. Total	24.9%	22.3%
3. Unfunded Accrued Actuarial Liability (UAAL)	$15,383	$14,615
4. Pay-As-You-Go Cash Costs[2]	$ 255	$ 260
5. Net OPEB Obligation		
a. Beginning of the Year	$ 3,669	$ 5,099
b. End of the Year	$ 5,099	$ 6,282

[1] The ARC and its components are expressed as of the end of the fiscal year.
[2] Historical cash costs are actual amounts paid; current year cash costs are projected.

The Regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

For more information on the Retiree Health Plan and Trust, see "THE UNIVERSITY OF CALIFORNIA ANNUAL FINANCIAL REPORT 2010-2011 – Management's Discussion and Analysis – The University of California Retiree Health Benefit Trust (UCRHBT)" attached to this Appendix C.

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UNIVERSITY
OF
CALIFORNIA

Annual Financial Report

10/11

The world's premier public research university system, working for the people of California.

10
Extraordinary Campuses

3
Discovery-driven National Laboratories

5
Quality-defining Medical Centers

234,000
Motivated Students

208,000
Dedicated Faculty and Staff

1,600,000
Living Alumni

143
Years of Teaching, Research and Public Service

UNIVERSITY OF CALIFORNIA

10/11 Annual Financial Report

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Letter from the President

In 1869, the University of California opened its doors to 38 undergraduate scholars and 10 professors on the eastern shores of the San Francisco Bay. Today, a student body of 234,000 is educated by a faculty of more than 18,000 at 10 campuses spread across California. The University's reach extends far beyond the classroom as well, providing access to medical care to millions of underserved Californians through its five medical centers and conducting nearly $5 billion in critical research at 800 centers, institutes, laboratories and programs around the state and globe.

Since its beginnings 143 years ago, UC has confronted countless challenges. Few have tested this great institution more than the current epoch of year-upon-year severe state funding cuts. Sadly, the fall of 2011 will mark the first time in University history that students will bear a larger share of their educational costs than the state.

Indeed, the University has changed.

One thing, however, has not changed: an unflinching commitment to excellence.

Our university has always grown in a steady state of evolution. It continues to do so, despite the stubborn fiscal strains. We are the world leader among public research universities. We add volumes to the body of human knowledge and discovery that will spawn the ideas of tomorrow. We care for and protect thousands who entrust in us their health and well-being. And we will never, ever, sacrifice excellence.

Thank you for your ongoing support of the University of California. With deep appreciation, I am

Sincerely yours,

MARK G. YUDOF
PRESIDENT
UNIVERSITY OF CALIFORNIA

Letter from the Executive Vice President, CFO

A year ago, amid the third-straight year of extraordinarily harsh budget cuts, amid the third-straight year of sacrifices in every corner of the University, this 143-year-old institution changed course. There simply was no other choice. To deal with such severe budget trauma, the University embarked upon one of the biggest, gutsiest, thorniest, most complex and painstaking initiatives conceivable: The University began to change its culture, while maintaining its core values.

It started with a simple commitment. Last year, we promised to start applying the same standard of excellence to our business that we have always applied to our teaching and research. But there was also a catch: We promised to not let it be a one-time fix. We said we would take a long-term stand on this issue, that we would make excellence a permanent fixture of UC business. We said that we would set operational excellence on a path toward becoming an immovable pillar of UC culture, the way that academic and research excellence already are. We have begun to make good on that promise.

In the last 12 months, buoyed by invaluable support from across the UC community including students, faculty, staff, alumni, donors and parents, and bolstered by strong leadership from our Chancellors and Regents, we were collectively able see our business in a new light. We started questioning our methods, our policies, our procedures, our day-to-day activities, the things we do when we walk in the door each morning. We started questioning everything. We began looking at our business differently, peeling back each layer and asking, "Is it effective? Is it relevant? Is it appropriate? Is it serving us well? Is it sufficiently flexible and nimble? Does it make the same sense today that it made in the past? Is it the highest and best use of University resources? Is it the highest and best use of University talent? Are our core values and goals being compromised in any way? Fundamentally, is it the best possible way that we could be doing it?"

Suddenly we were looking at our business in full color, and it unleashed a flood of positive momentum and opportunity in the administrative, financial and operational areas of the University, both at the campus level and the system level. That subtle shift in the University's approach enabled the creation and launch of *Working Smarter*, the wide-ranging systemwide efficiency initiative that pledges to redirect $500 million of positive fiscal impact to UC's core missions by fiscal year 2013-14. In its inaugural year just-ended, *Working Smarter* generated $157 million of demonstrable positive fiscal impact, derived primarily from superior

Enterprise Risk Management programs (about $90 million) as well as new asset management practices (about $40 million). In sum, the initiative's first year equates to a total of $157 million in efficiency gains that will help protect and sustain the University's teaching and research missions going forward.

These kinds of results make UC's full-color perspective on business more vivid, helping to connect the dots between operational excellence and the success that UC experiences in its unparalleled, unbeatable academic, research and healthcare enterprises. Eight of our campuses still rank among the top public schools in the United States. Six of our campuses still rank among the top 50 of all research-oriented public and private institutions nationwide. Our researchers still conduct over $5 billion in cutting-edge research annually, making discoveries and advances that benefit the state, country and world. Our medical professionals still deliver outstanding care to thousands of patients every year, creating a standard of healthcare access and quality in California that is not enjoyed in many other places on the planet. This is why a culture of operational excellence matters. This is the legacy — the gift — that we have the privilege to enjoy and the responsibility to preserve.

On the business side of the house, we will do everything in our power to preserve that legacy; shifting culture is part of the formula. Looking back on the last year, I believe we are making good on that aim, but it's not over. Achieving excellence is no quick task, and the work we have ahead of us is not insignificant. I am convinced we will not only meet our challenges, but we will conquer them. I remain 100 percent committed to working together in furthering our achievements, and I am looking forward to sharing more positive news in the coming year.

Thank you for your interest in the University of California.

Fiat lux,

PETER J. TAYLOR
EXECUTIVE VICE PRESIDENT, CFO
UNIVERSITY OF CALIFORNIA

Facts in Brief

	2011	2010	2009	2008	2007
STUDENTS					
Undergraduate fall enrollment	179,581	177,788	173,078	167,693	163,302
Graduate fall enrollment	54,883	54,065	52,962	52,341	50,996
Total fall enrollment	**234,464**	**231,853**	**226,040**	**220,034**	**214,298**
University Extension enrollment	302,179	309,818	307,781	291,631	294,976
FACULTY AND STAFF *(full-time equivalents)*	**136,145**	**134,644**	**134,912**	**131,568**	**127,368**

SUMMARY FINANCIAL INFORMATION *(in thousands of dollars, except for participant information)*

UNIVERSITY OF CALIFORNIA	2011	2010	2009	2008	2007
PRIMARY REVENUE SOURCES					
Student tuition and fees, net[1]	$ 2,811,121	$ 2,401,323	$ 2,096,817	$ 1,921,918	$ 1,737,597
Grants and contracts, net	5,249,094	4,939,155	4,506,157	4,344,401	4,167,076
Medical centers, educational activities and auxiliary enterprises, net	9,406,993	8,551,817	8,100,207	7,415,491	6,788,289
State educational, financing and capital appropriations	3,042,795	3,088,905	2,889,563	3,532,333	3,243,492
Federal Pell grants	352,469	298,584	201,427	170,465	148,519
Private gifts, net	816,291	794,244	664,103	733,966	681,277
Capital gifts and grants, net	247,259	189,617	154,998	245,305	216,783
Department of Energy laboratories	976,294	910,194	667,983	1,048,580	2,188,475
OPERATING EXPENSES BY FUNCTION					
Instruction	4,925,863	4,677,830	4,266,250	4,126,929	3,520,435
Research	4,249,411	4,143,448	3,740,604	3,495,821	3,156,541
Public service	582,868	545,544	491,121	482,487	420,760
Academic support	1,716,006	1,574,329	1,492,017	1,451,004	1,188,204
Student services	701,800	660,779	614,093	601,896	499,791
Institutional support	1,242,786	1,084,967	1,054,529	1,076,854	857,733
Operation and maintenance of plant	582,315	602,425	564,781	568,585	475,638
Student financial aid[2]	600,713	544,280	458,474	425,985	406,520
Medical centers	6,078,510	5,827,790	5,225,712	4,757,958	4,085,642
Auxiliary enterprises	1,012,309	985,639	969,652	955,701	807,271
Depreciation and amortization	1,404,837	1,267,134	1,197,404	1,093,620	1,049,008
Impairment of capital assets		22,803			
Department of Energy laboratories	970,054	903,926	661,863	1,039,330	2,169,750
Other	86,252	87,665	105,276	78,866	86,416
INCREASE (DECREASE) IN NET ASSETS	413,693	(524,584)	(2,252,036)	(234,664)	2,004,157
FINANCIAL POSITION					
Investments, at fair value	18,258,665	15,952,930	13,403,572	14,828,023	14,210,035
Capital assets, at net book value	23,710,277	22,463,051	21,276,915	19,593,214	18,105,332
Outstanding debt, including capital leases	13,577,911	12,534,930	10,323,945	10,024,982	9,363,730
Obligations for pension and retiree health benefits	6,982,866	5,381,625	2,445,824	1,118,754	
Net assets	19,764,772	19,351,079	19,875,663	22,127,699	22,404,180

Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

[1] *Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net assets.*

[2] *Includes only financial aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.*

	2011	2010	2009	2008	2007
SUMMARY FINANCIAL INFORMATION *(in thousands of dollars, except for participant information)*					
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	$ 880,889	$ 422,643	$ 372,908	$ 533,548	$ 457,814
PRIMARY EXPENSES					
Grants to campuses	496,704	565,952	444,730	527,572	451,290
INCREASE (DECREASE) IN NET ASSETS	1,226,285	353,332	(640,513)	99,336	696,626
FINANCIAL POSITION					
Investments, at fair value	5,151,869	4,037,367	3,524,622	4,158,911	4,036,489
Pledges receivable, net	553,900	386,910	401,771	420,745	450,342
Net assets	5,409,935	4,183,650	3,830,318	4,470,831	4,371,495
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	223,867	221,852	228,550	225,225	225,623
Retirees and beneficiaries currently receiving payments	53,902	51,531	50,051	47,575	47,682
PRIMARY REVENUE SOURCES					
Contributions[3]	$ 2,693,892	$ 1,106,774	$ 928,984	$ 1,037,898	$ 1,061,968
Interest, dividends and other investment income, net	1,316,306	1,187,713	1,506,855	1,881,884	1,860,845
Net appreciation (depreciation) in the fair value of investments	8,541,574	4,243,820	(11,324,769)	(4,979,955)	7,863,875
PRIMARY EXPENSES					
Benefit payments	2,047,747	1,905,939	1,755,211	1,797,103	1,630,244
Participant and member withdrawals	939,338	711,380	709,683	1,007,055	939,768
INCREASE (DECREASE) IN NET ASSETS	9,529,389	3,887,875	(11,385,008)	(6,461,435)	6,732,403
FINANCIAL POSITION					
Investments, at fair value	54,218,018	45,855,690	42,352,723	52,532,169	59,685,467
Members' defined benefit pension plan benefits	41,940,183	34,633,878	32,315,482	42,099,498	48,191,497
Participants' defined contribution plan benefits	16,275,615	14,052,531	12,483,052	14,084,044	14,453,480
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	41,195,318	42,685,564	43,727,521	43,328,050	41,872,844
Actuarial accrued liability	47,504,309	45,041,066	42,467,742	41,335,935	40,207,322
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan membership	146,524	146,588	144,556	141,230	
Retirees and beneficiaries currently receiving benefits	33,530	32,278	31,473	31,247	
PRIMARY REVENUE SOURCES					
Contributions	$ 287,842	$ 254,037	$ 251,010	$ 243,144	
Interest, dividends and other investment income, net	84	97	528	691	
PRIMARY EXPENSES					
Insurance premiums	284,010	257,605	225,967	191,192	
INCREASE (DECREASE) IN NET ASSETS	1,919	(5,016)	23,566	50,804	
FINANCIAL POSITION					
Investments, at fair value	27,795	32,509	38,384	19,773	
Net assets for retiree health benefits	71,273	69,354	74,370	50,804	
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	74,450	76,893	51,221		
Actuarial accrued liability—campuses and medical centers	15,493,742	14,541,529	13,302,506	12,074,689	

[3] *Total contributions to the University of California Retirement Plan and the University of California Retirement Savings Plan.*

Campus Facts in Brief

	BERKELEY	DAVIS	IRVINE	LOS ANGELES	MERCED	RIVERSIDE
STUDENTS						
Undergraduate fall enrollment	25,540	24,847	22,071	26,162	4,138	18,293
Graduate fall enrollment	10,298	7,443	5,605	13,431	243	2,453
Total fall enrollment	**35,838**	**32,290**	**27,676**	**39,593**	**4,381**	**20,746**
University Extension enrollment	30,540	48,600	28,495	100,769		23,592
DEGREES CONFERRED[1]						
Bachelor	7,092	6,369	5,962	7,543	350	3,190
Advanced	3,291	1,756	1,604	4,394	35	633
Cumulative	571,089	223,161	143,810	492,603	807	83,645
FACULTY AND STAFF *(full-time equivalents)*	13,873	21,330	12,809	29,856	1,207	4,880
LIBRARY COLLECTIONS[2] *(volumes)*	11,545,418	4,175,047	3,223,679	9,210,939	726,868	3,066,630
CAMPUS LAND AREA *(in acres)*	6,679	7,309	1,526	419	7,045	1,931
CAMPUS FINANCIAL FACTS[3] *(in thousands of dollars)*						
OPERATING EXPENSES BY FUNCTION						
Instruction	$ 565,944	$ 564,234	$ 456,856	$1,240,220	$ 28,389	$177,457
Research	533,340	510,754	238,685	702,469	15,048	97,165
Public service	60,122	58,466	19,047	100,161	5,001	5,983
Academic support	137,238	147,116	129,980	348,284	12,013	28,788
Student services	119,254	83,355	66,348	68,902	9,540	45,531
Institutional support	134,754	87,719	41,987	137,720	27,955	42,583
Operation & maintenance of plant	65,687	92,802	39,630	78,931	12,863	30,147
Student financial aid	115,447	65,576	85,694	59,277	9,784	58,717
Medical centers		1,104,892	568,937	1,284,846		
Auxiliary enterprises	119,126	86,455	105,101	252,277	11,752	56,961
Depreciation & amortization	153,714	217,380	159,499	270,561	19,552	57,125
Other[4]	21,713	4,462	8,551	19,687	742	3,141
Total	**2,026,339**	**3,023,211**	**1,920,315**	**4,563,335**	**152,639**	**603,598**
GRANTS AND CONTRACTS REVENUE						
Federal government	$405,165	$394,215	$235,513	$659,594	$14,489	$77,665
State government	104,333	107,126	23,854	70,180	22,540	14,165
Local government	3,956	10,578	4,068	38,344	(1)	3,364
Private	177,389	137,454	60,260	182,833	2,098	19,394
Total	**690,843**	**649,373**	**323,695**	**950,951**	**39,126**	**114,588**
UNIVERSITY ENDOWMENTS						
Endowments	$1,991,932	$523,502	$58,985	$1,309,302	$21,717	$43,884
Annual income distribution	75,385	20,323	2,624	32,265	1,290	1,648
CAMPUS FOUNDATIONS' ENDOWMENTS						
Endowments	$945,318	$182,481	$191,839	$1,110,981	$5,087	$76,887
CAPITAL ASSETS						
Capital assets, at net book value	$3,193,078	$3,096,709	$2,585,567	$4,873,361	$417,308	$1,007,038
Capital expenditures	434,774	296,816	177,602	520,792	44,267	55,049

[1] As of academic year 2009–10.
[2] As of June 30, 2010.
[3] Excludes DOE laboratories.
[4] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

	SAN DIEGO	SAN FRANCISCO	SANTA BARBARA	SANTA CRUZ	SYSTEMWIDE[5]
STUDENTS					
Undergraduate fall enrollment	23,663		19,199	15,668	
Graduate fall enrollment	6,236	4,636	3,019	1,519	
Total fall enrollment	**29,899**	**4,636**	**22,218**	**17,187**	
University Extension enrollment	55,292		3,557	11,334	
DEGREES CONFERRED[1]					
Bachelor	5,857		5,005	3,488	
Advanced	1,929	851	902	421	
Cumulative	146,278	48,352	194,080	88,120	
FACULTY AND STAFF *(full-time equivalents)*	19,887	19,211	6,030	4,510	2,552
LIBRARY COLLECTIONS[2] *(volumes)*	3,832,417	637,503	3,004,471	2,115,882	
CAMPUS LAND AREA *(in acres)*	2,141	255	1,055	6,088	16
CAMPUS FINANCIAL FACTS[3] *(in thousands of dollars)*					
OPERATING EXPENSES BY FUNCTION					
Instruction	$ 561,284	$ 239,542	$198,489	$123,884	$ 769,564
Research	700,292	698,020	161,680	108,225	483,733
Public service	20,664	104,568	7,479	12,521	188,856
Academic support	236,464	295,213	39,090	27,711	314,109
Student services	75,855	19,475	68,348	50,420	94,772
Institutional support	85,663	107,217	34,882	36,293	506,013
Operation & maintenance of plant	62,855	62,501	33,115	27,394	76,390
Student financial aid	82,651	16,903	74,865	31,158	641
Medical centers	793,331	1,631,346			695,158
Auxiliary enterprises	112,199	31,112	73,011	80,674	83,641
Depreciation & amortization	195,303	190,130	72,049	53,123	16,401
Other[4]	3,048	8,563	9,583	8,205	(1,443)
Total	**2,929,609**	**3,404,590**	**772,591**	**559,608**	**3,227,835**
GRANTS AND CONTRACTS REVENUE					
Federal government	$692,035	$ 636,733	$142,737	$108,975	$20,963
State government	50,682	74,161	11,706	10,160	39,636
Local government	13,145	131,756	1,612	227	4,272
Private	204,003	263,359	40,752	20,390	13,214
Total	**959,865**	**1,106,009**	**196,807**	**139,752**	**78,085**
UNIVERSITY ENDOWMENTS					
Endowments	$187,145	$906,148	$93,227	$63,250	$1,143,125
Annual income distribution	6,221	34,054	3,612	2,674	37,263
CAMPUS FOUNDATIONS' ENDOWMENTS					
Endowments	$340,694	$492,755	$107,990	$46,856	
CAPITAL ASSETS					
Capital assets, at net book value	$3,009,587	$3,131,499	$1,214,742	$1,035,123	$146,265
Capital expenditures	530,618	470,275	57,435	97,893	39,392

[1] As of academic year 2009 –10.

[2] As of June 30, 2010.

[3] Excludes DOE laboratories.

[4] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

[5] Includes expenses for Systemwide education and research programs, Systemwide support services and administration. Full-time equivalents count, as of fall 2010 includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.


UCSF Orthopaedics
SFGH Trauma

Management's Discussion and Analysis *(Unaudited)*

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2009, 2010, 2011, 2012, etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), the University of California campus foundations (campus foundations), the University of California Retirement System (UCRS) and the University of California Retiree Health Benefit Trust (UCRHBT) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' and trust's fiduciary net assets and the statements of changes in plans' and trust's fiduciary net assets, present the financial position and operating activities for UCRS and UCRHBT. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $23.7 billion and encompasses ten campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy.

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses, except San Francisco, offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to graduate and professional education in health sciences.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 16 health professional schools on six campuses. Our health programs include five medical centers, two dental schools, three nursing schools, two public health schools and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

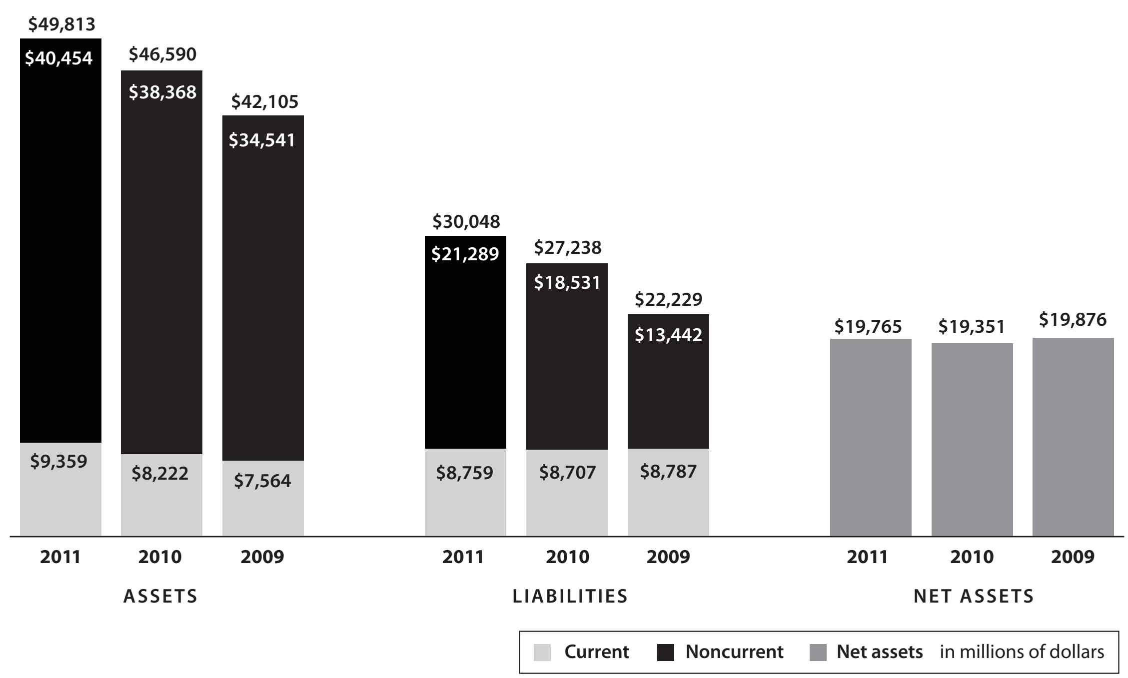
Law schools. The University has law schools at Berkeley, Davis and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, at nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers almost 20,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS), that operate and manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

The University's Financial Position



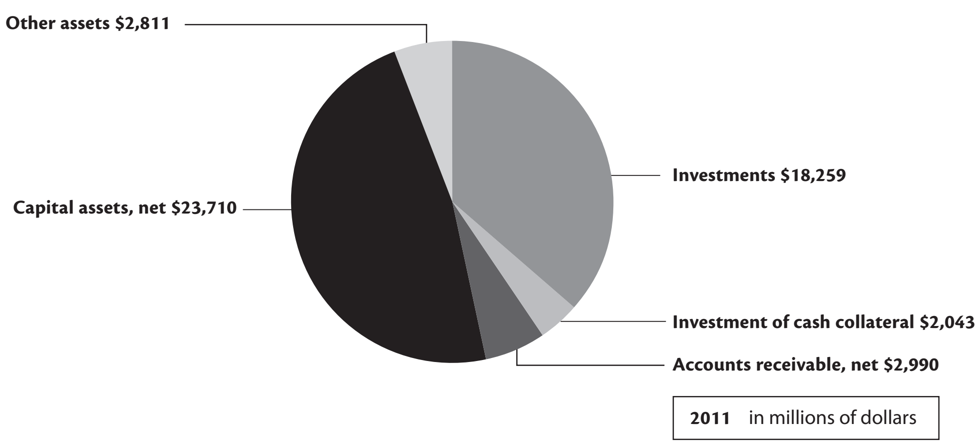
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets.

The major components of the assets, liabilities and net assets as of 2011, 2010 and 2009 are as follows:

(in millions of dollars)

	2011	2010	2009
ASSETS			
Investments	$18,259	$ 15,953	$ 13,404
Investment of cash collateral	2,043	2,538	2,191
Accounts receivable, net	2,990	3,043	2,682
Capital assets, net	23,710	22,463	21,277
Other assets	2,811	2,593	2,551
Total assets	**49,813**	**46,590**	**42,105**
LIABILITIES			
Debt, including commercial paper	14,378	12,943	10,989
Securities lending collateral	2,043	2,539	2,199
Obligation to UCRP	1,725	1,608	69
Obligations for retiree health benefits	5,257	3,774	2,377
Other liabilities	6,645	6,374	6,595
Total liabilities	**30,048**	**27,238**	**22,229**
NET ASSETS			
Invested in capital assets, net of related debt	11,162	10,794	10,822
Reserved for minority interests	31	19	
Restricted:			
Nonexpendable	1,035	997	947
Expendable	5,944	5,024	4,558
Unrestricted	1,593	2,517	3,549
Total net assets	**$19,765**	**$19,351**	**$19,876**

The University's Assets



The University's total assets have grown to $49.8 billion in 2011, compared to $46.6 billion in 2010 and $42.1 billion in 2009. Generally, over the past two years, capital assets have increased while investments have fluctuated consistent with market performance.

Investments

Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) with a maturity date within one year. Noncurrent investments include securities in the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in STIP and TRIP with a maturity date beyond one year. The TRIP, established in 2009, is managed to a total return objective and is intended to supplement STIP. Cash for operations and construction expenditures is invested in STIP.

The financial markets, both domestically and internationally, have been volatile in recent years and have affected the valuation of investments. The Regents of the University of California (The Regents) utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The GEP portfolio return was 20.2 percent in 2011 and 11.3 percent in 2010. TRIP had a positive return of 11.2 percent in 2011 and 14.0 percent in 2010. STIP had positive returns of 2.5 percent and 2.7 percent in 2011 and 2010, respectively. The University uses STIP to meet operational liquidity needs.

Investment of cash collateral

The University participates in a securities lending program incorporating securities owned by both the University and UCRS as a means to augment income. It is managed as a single program. Cash collateral fluctuates in response to changes in demand from borrowers and the availability of securities based upon the University's asset allocation mix.

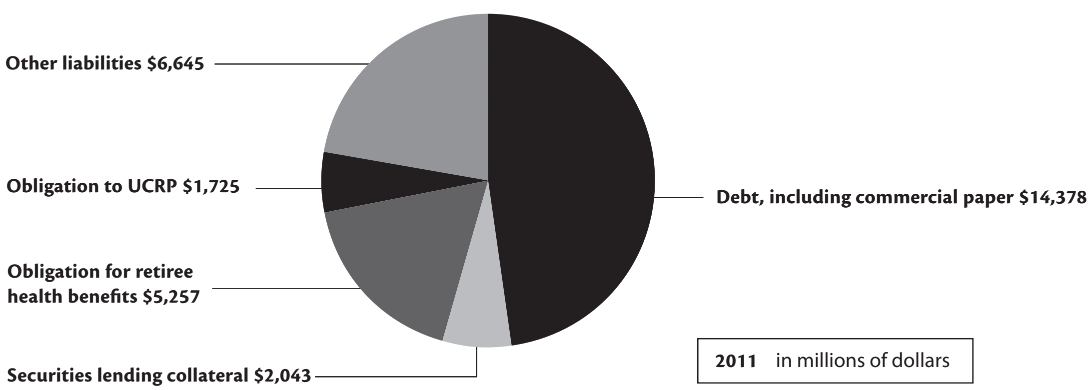
Capital assets, net

Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's teaching, research and public service mission and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure, and remote centers for educational outreach, research and public service. Total additions of capital assets were $2.7 billion in 2011 as compared to $2.5 billion in 2010 and $2.9 billion in 2009.

Other assets

Other assets include cash, investments held by trustees, pledge receivables, note and mortgage receivables, inventories and a receivable from the DOE.

The University's Liabilities



The University's liabilities grew to $30.0 billion in 2011, compared to $27.2 billion in 2010 and $22.2 billion in 2009, principally as a result of debt issued to finance capital expenditures and increases in the obligations for retiree pensions and health benefits.

Debt, including commercial paper

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, bank loans, leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing.

Outstanding debt increased by $1.4 billion in 2011 and $2.0 billion in 2010. A summary of the activity follows:

(in millions of dollars)

	2011	2010
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$ 396	$ 1,408
Medical Center Pooled Revenue Bonds	757	523
Limited Project Revenue Bonds	682	
Capital leases	40	330
Other borrowings	32	197
Blended Component Unit Revenue Bonds		270
Commercial Paper	392	
Bond premium, net	45	36
Additions to outstanding debt	**2,344**	**2,764**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(413)	(167)
Scheduled principal payments	(370)	(339)
Commercial paper		(258)
Payments on other borrowings	(86)	(40)
Other, including deferred financing costs, net	(40)	(6)
Reductions to outstanding debt	**(909)**	**(810)**
Net increase in outstanding debt	**$1,435**	**$1,954**

The University's debt, which is used to finance capital assets, includes $800 million of commercial paper outstanding at the end of 2011, $408 million of commercial paper outstanding at the end of 2010 and $666 million at the end of 2009, and grew to $14.4 billion at the end of 2011, compared to $12.9 billion at the end of 2010 and $11.0 billion at the end of 2009.

In 2011, $2.3 billion of debt was issued. General Revenue Bonds of $396 million, Limited Project Revenue Bonds of $682 million and Medical Center Pooled Revenue Bonds of $757 million were issued to finance and refinance certain facilities and projects of the University. Reductions to outstanding debt in 2011 were $909 million, including $413 million for one-time principal payments for the refinancing or refunding of previously outstanding debt. Commercial paper borrowings increased by $392 million in 2011 and decreased by $258 million in 2010. The refinancing and refunding of previously outstanding debt resulted in gross savings of $19.1 million. Commercial paper fluctuates as funds are used for interim financing on capital projects. In July 2011, subsequent to year-end, the University issued General Revenue Bonds totaling $1.3 billion to finance pension contributions to UCRP and operating costs on an interim basis.

In 2010, $2.8 billion of debt was issued. General Revenue Bonds of $1.4 billion and Medical Center Pooled Revenue Bonds of $523 million were issued to finance and refinance certain facilities and projects of the University. The University issued tax-exempt bonds and taxable "Build America Bonds" which include an expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. Other borrowings included $271 million under a lease-purchase agreement with the state, $59 million in equipment leases, $197 million in interim financing loans and $270 million issued by two legally separate, non-profit corporations for the construction of research facilities. Reductions to outstanding debt in 2010 were $810 million, including $167 million for one-time principal payments for refinancing and refunding of previously outstanding debt. Commercial paper borrowings decreased by $258 million due to the favorable interest rate market in 2010 and the opportunity to refinance commercial paper borrowings with long-term revenue bonds.

The University's General Revenue Bond ratings are currently affirmed at Aa1 with a stable outlook by Moody's Investors Service, AA+ by Fitch with a stable outlook and AA by Standard & Poor's with a stable outlook. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa2 with a stable outlook by Moody's Investors Service and AA- by Standard & Poor's with a stable outlook.

Commercial paper is classified as a current liability. Commercial paper has been used as interim financing for construction projects and equipment financing. In 2011 and 2010, commercial paper was used for operations during the period the state deferred appropriation payments to the University. In April 2010, the University entered into a $250 million revolving credit agreement with a major financial institution for the purpose of providing additional liquidity support for the commercial paper program.

Securities lending collateral

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. The amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Obligations to UCRP and for retiree health benefits

The University has financial responsibility to UCRP for pension benefits associated with its defined benefit plan and for retiree health benefits. LBNL participates in the University's defined benefit pension plan, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation to UCRP. In addition, under certain circumstances the University makes contributions to UCRP on behalf of LANL and LLNL retirees based upon contractual arrangements with the DOE, and is reimbursed by the DOE.

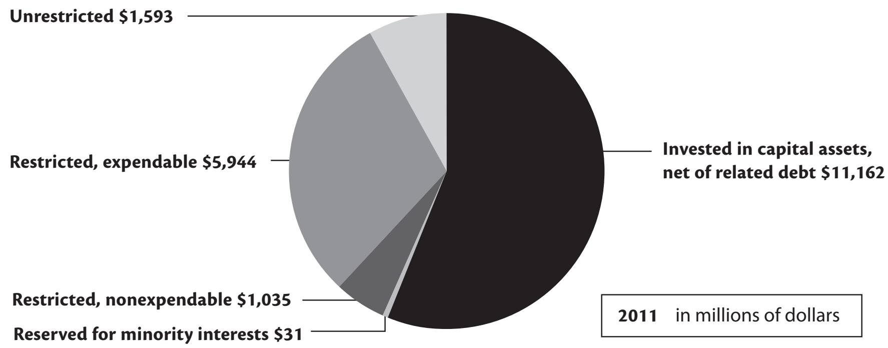
The University's obligation to UCRP represents the unfunded portion of the actuarial determined annual required contributions under the University's funding policy. The University did not have any obligations to UCRP for pension benefits prior to 2009. The funding policy contributions for 2011 were $1.9 billion, which represents 23.3 percent of covered compensation. The funding policy contributions for 2010 were $1.6 billion, which represents 20.4 percent of covered compensation. Effective April 15, 2010, the University reinstated contributions to UCRP, with the University contributing 4 percent and employees contributing 2 percent of covered compensation. In 2011, the University contributed an additional $1.1 billion to UCRP. Total contributions to UCRP for 2011 and 2010 were $1.4 billion and $65 million, respectively. Since the 2010 contributions were below the required contributions under the University's funding policy, the obligation for pension benefits increased by $1.5 billion in 2010.

The University's obligation for retiree health benefits is based upon an actuarial determination of the annual retiree health benefit expense. The University funds the retiree health expense through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. The increase of $1.5 billion and $1.4 billion in both 2011 and 2010, respectively, in the obligation for retiree health benefits is due to the impact of amortizing the University's unfunded obligation. The unfunded liability for the campuses and medical centers as of the July 1, 2010 actuarial valuation was $15.4 billion.

Other liabilities

Other liabilities consist of accounts payable, accrued salaries, other employee benefits, deferred revenue, funds held for others, DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements.

The University's Net Assets



Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets are $19.8 billion in 2011, compared to $19.4 billion in 2010 and $19.9 billion in 2009. Net assets are reported in the following categories: invested in capital assets, net of related debt; reserved for minority interests; restricted, nonexpendable; restricted, expendable; and unrestricted.

Invested in capital assets, net of related debt

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, is $11.2 billion in 2011, compared to $10.8 billion in 2010 and $10.8 billion in 2009. The University continues to invest in its physical facilities.

Restricted, nonexpendable

Restricted, nonexpendable net assets include the corpus of the University's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2011 and 2010, the increases in nonexpendable net assets were principally due to investment performance in excess of the income distribution.

Restricted, expendable

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third party receipts. In 2011 and 2010, the increases in restricted, expendable funds are principally due to unrealized appreciation in the fair value of investments related to restricted gifts and funds functioning as endowments.

Unrestricted

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are allocated for academic and research initiatives or programs and for capital and other purposes. Unrestricted net assets decreased in 2011 due to pension plan contributions and an increase in the obligation for retiree health benefits. Unrestricted net assets decreased in 2010 principally due to the increases in the obligations for pension and retiree health benefits.

The University's Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

A summarized comparison of the operating results for 2011, 2010 and 2009, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

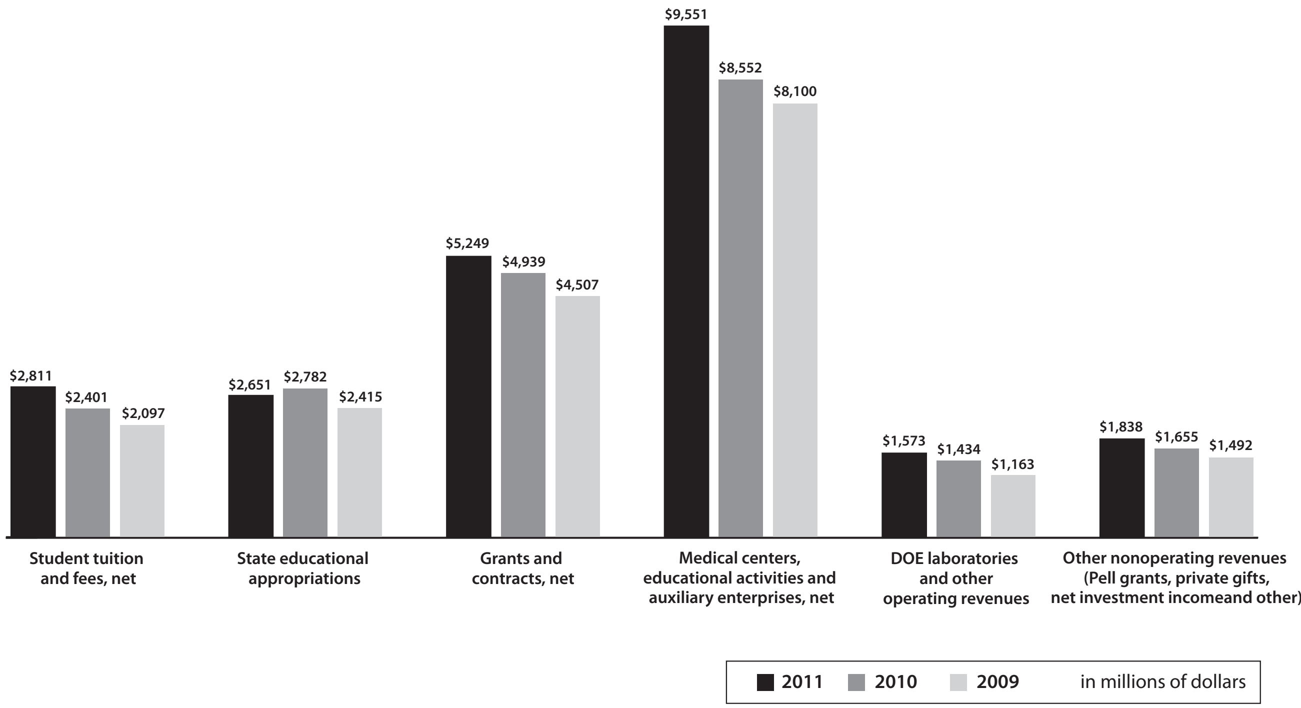
	2011			2010			2009		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$ 2,811		$ 2,811	$ 2,401		$ 2,401	$ 2,097		$ 2,097
State educational appropriations		$2,651	2,651		$ 2,782	2,782		$ 2,415	2,415
Pell grants		352	352		298	298		201	201
Grants and contracts, net	5,249		5,249	4,939		4,939	4,507		4,507
Medical centers, educational activities and auxiliary enterprises, net	9,407	144	9,551	8,552		8,552	8,100		8,100
Department of Energy laboratories	977		977	910		910	668		668
Private gifts, net		816	816		794	794		664	664
Investment income, net		407	407		392	392		466	466
Other revenues	596	263	859	524	171	695	495	161	656
Revenues supporting core activities	**19,040**	**4,633**	**23,673**	**17,326**	**4,437**	**21,763**	**15,867**	**3,907**	**19,774**
EXPENSES									
Salaries and benefits	15,764		15,764	15,003		15,003	13,212		13,212
Scholarships and fellowships	597		597	531		531	451		451
Utilities	281		281	285		285	310		310
Supplies and materials	2,108		2,108	2,186		2,186	2,210		2,210
Depreciation and amortization	1,405		1,405	1,267		1,267	1,198		1,198
Department of Energy laboratories	970		970	904		904	662		662
Interest expense		572	572		460	460		356	356
Other expenses	3,029	68	3,097	2,752	31	2,783	2,799	29	2,828
Expenses associated with core activities	**24,154**	**640**	**24,794**	**22,928**	**491**	**23,419**	**20,842**	**385**	**21,227**
Income (loss) from core activities	**$ (5,114)**	**$3,993**	**(1,121)**	**$ (5,602)**	**$ 3,946**	**(1,656)**	**$(4,975)**	**$ 3,522**	**(1,453)**
OTHER NONOPERATING ACTIVITIES									
Net appreciation (depreciation) in fair value of investments			1,082			771			(1,278)
Loss before other changes in net assets			**(39)**			**(885)**			**(2,731)**
OTHER CHANGES IN NET ASSETS									
State capital appropriations			190			160			313
Capital gifts and grants, net			247			189			155
Permanent endowments			16			11			11
Increase (decrease) in net assets			**414**			**(525)**			**(2,252)**
NET ASSETS									
Beginning of year			19,351			19,876			22,128
End of year			**$19,765**			**$ 19,351**			**$ 19,876**

Revenues Supporting Core Activities

Revenues to support the University's core activities, including those classified as nonoperating revenues, were $23.7 billion, $21.8 billion and $19.8 billion in 2011, 2010 and 2009, respectively. These diversified sources of revenue increased by $1.9 billion in 2011 and by $2.0 billion in 2010.

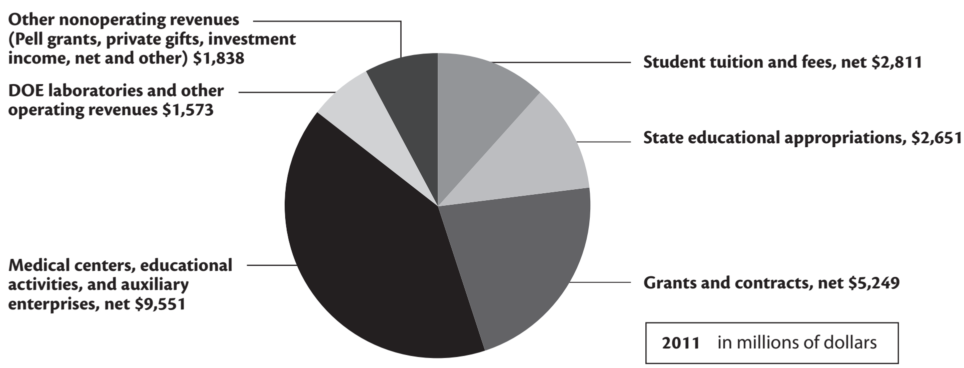
State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Revenues in the various categories have increased and decreased over the last three years as follows:



A major financial strength of the University includes a diverse source of revenues, including those from the state of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years given the effects of the state's financial crisis that required reductions in both instructional and non-instructional programs.

Categories of both operating and nonoperating revenue that supported the University's core activities in 2011 are as follows:



Student tuition and fees, net

Student tuition and fees revenue, net of scholarship allowances, increased by $410 million and $304 million in 2011 and 2010, respectively. Scholarship allowances were $830 million in 2011, $666 million in 2010 and $566 million in 2009. The increases in student tuition and fees over the past several years have generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on low-income students.

In 2011 and 2010, enrollment grew by 1.1 percent and 2.6 percent, respectively. Mandatory tuition and fees for resident undergraduates were increased 8.0 percent, 15.0 percent and 9.3 percent effective summer 2011, 2010 and 2009, respectively. Additional mid-year increases in tuition of 9.6 percent effective fall 2011 and 15.0 percent effective winter 2010 were approved in response to reductions in state educational appropriations. Nonresident undergraduates and both resident and nonresident graduate students also experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline, although most programs increased supplemental tuition levels in 2011 and 2010.

State educational appropriations

Educational appropriations from the state of California were $2.7 billion, $2.8 billion and $2.4 billion in 2011, 2010 and 2009, respectively. State educational appropriations decreased in 2011 by $132 million and increased by $367 million in 2010. State educational appropriations from the state of California include general fund allocations and federal pass-through funds as follows:

(in millions of dollars)

	2011	2010	2009
State general support	$2,544	$ 2,334	$ 2,147
Federal pass-through stimulus funds	107	448	268
State educational appropriations	**$2,651**	**$2,782**	**$2,415**

The state's fiscal crisis in 2010 and 2009 necessitated budget reductions, both one-time and permanent, over the last few years. In 2008, the University received state general support of $3.0 billion. Although partially offset by federal pass-through stimulus funds, permanent and one-time cuts to the University's budget for 2010 totaled $637.1 million and $814.1 million for 2009 (when compared to the level of state funding in 2008), essentially erasing the gains made over the previous years. In 2011, the University received $371 million as partial restoration of 2010 cuts and for enrollment growth of 5,000 students. State resources for enrollment growth, faculty and staff increases, and other inflationary cost increases were not available, leading to an increase in student tuition and fees.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts—including an overall facilities and administration cost recovery of $992 million, $921 million and $825 million in 2011, 2010 and 2009, respectively—increased in both 2011 and 2010.

In 2011, federal grants and contracts revenue, including the federal facilities and administration cost recovery of $752 million, grew by $252 million, or 8.0 percent. This revenue is from a variety of federal agencies as indicated below:

(in millions of dollars)

	2011	2010	2009
Department of Health and Human Services	$2,100	$ 1,917	$ 1,728
National Science Foundation	504	462	421
Department of Education	108	122	102
Department of Defense	235	227	197
National Aeronautics and Space Administration	96	90	86
Department of Energy (excluding national laboratories)	103	89	77
Other federal agencies	242	229	170
Federal grants and contracts net revenue	**$3,388**	**$3,136**	**$2,781**

Medical Centers, educational activities and auxiliary enterprises, net

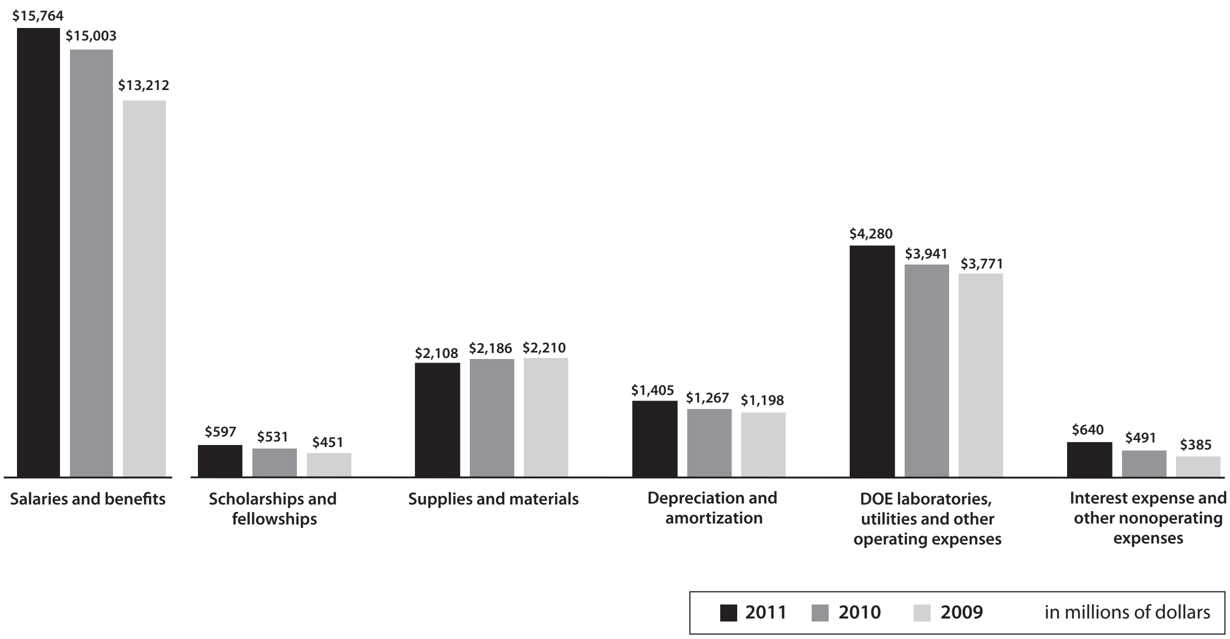
Medical center revenues, net of allowances, increased $535 million and $386 million in 2011 and 2010, respectively. The revenue growth in both years is primarily due to improved reimbursement rates and modest increases in outpatient volumes. During both 2011 and 2010, the medical centers received additional reimbursements related to the Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act.

Revenue from education activities, primarily physicians' professional fees, net of allowances, grew by $310 million and $102 million in 2011 and 2010, respectively. The growth is generally associated with an expanded patient base and higher rates.

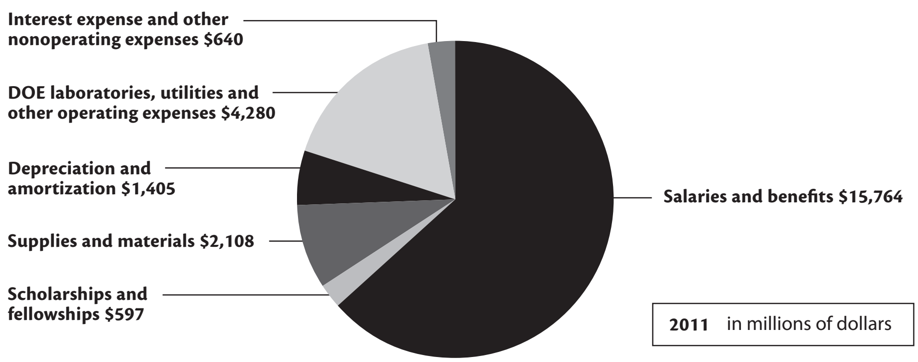
Expenses Associated with Core Activities

Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $24.8 billion, $23.4 billion and $21.2 billion in 2011, 2010 and 2009, respectively. Expenses increased in 2011 by $1.4 billion, primarily due to higher salaries and benefits. Expenses increased in 2010 by $2.2 billion, due primarily to recognition of expense for the unfunded pension obligation.

Expenses in the various categories over the last three years are as follows:



Categories of both operating and nonoperating expenses related to the University's core activities in 2011 are as follows:



Salaries and benefits

Over 64 percent of the University's expenses are related to salaries and benefits. There are over 136,000 full time equivalent (FTE) employees in the University in 2011, excluding employees who are associated with LBNL whose salaries and benefits are included as laboratory expenses. The number of employees in 2011 increased 1 percent from 2010. In 2011, salaries and wages increased 4.3 percent due to more employees and scheduled salary increases for union and academic personnel. Benefits increased by 6.5 percent due to higher health insurance costs. In 2010, salaries and wages remained flat from 2009 due to the scheduled salary increases for union and academic personnel offset by savings from the implementation of a furlough program that commenced in September 2009. Benefits increased primarily due to the increase in annual contributions of $1.5 billion required for pension benefits.

Scholarships and fellowships

The University places a high priority on student financial aid as part of its commitment to affordability. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were higher by $66 million in 2011 than in 2010, an increase of 12.4 percent, and were higher by $80 million in 2010 than in 2009, an increase of 17.7 percent. In addition, scholarship allowances, representing financial aid and fee waivers awarded by the University, are also forms of scholarship and fellowship costs that increased in 2011 by $187 million, or 22.0 percent, to $1.0 billion and increased in 2010 by 18.7 percent to $849 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms grew to $1.6 billion in 2011 from $1.4 billion in 2010 and $1.2 billion in 2009, an increase of $467 million over the past two years, or 40.0 percent.

Supplies and materials

During 2011, overall supplies and materials costs decreased by $78 million, or 3.6 percent, and decreased in 2010 by $24 million, or 1.1 percent. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. The University continues to find opportunities to manage expenses in light of reduced state appropriations.

Other expenses

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses.

Operating Losses

In accordance with the GASB's reporting standards, operating losses were $5.1 billion in 2011, $5.6 billion in 2010 and $5.0 billion in 2009. The operating loss in 2011 was partially offset by $4.0 billion of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. Expenses associated with core activities in 2011 exceeded revenue available to support core activities by $1.1 billion.

The operating loss in 2010 was partially offset by $3.9 billion of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. Expenses associated with core activities in 2010 exceeded revenue available to support core activities by $1.7 billion.

Other Nonoperating Activities

The University's other nonoperating activities, consisting of net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to support operating expenses.

Net appreciation (depreciation) in fair value of investments

In 2011, the University recognized net appreciation in the fair value of investments of $1.1 billion compared to net appreciation of $771 million during 2010 and net depreciation of $1.3 billion during 2009. Equity markets recovered in both 2011 and 2010, offsetting losses incurred in 2009.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California increased by $30 million in 2011 and decreased by $153 million in 2010. Capital appropriations are from bond measures approved by the California voters.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. A summary comparison of cash flows for 2011, 2010 and 2009 is as follows:

(in millions of dollars)

	2011	2010	2009
Cash received from operations	$ 17,966	$ 16,160	$ 15,151
Cash payments for operations	(19,955)	(17,703)	(17,616)
Net cash used by operating activities	**(1,989)**	**(1,543)**	**(2,465)**
Net cash provided by noncapital financing activities	3,922	3,225	4,022
Net cash provided by operating and noncapital financing activities	**1,933**	**1,682**	**1,557**
Net cash used by capital and related financing activities	(1,111)	(760)	(1,800)
Net cash provided (used) by investing activities	(789)	(1,262)	623
Net increase (decrease) in cash	33	**(340)**	**380**
Cash, beginning of year	148	488	108
Cash, end of year	**$ 181**	**$ 148**	**$ 488**

Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis, although a $345 million deposit from the state at the end of 2009 was not invested in STIP until the following day.

Cash used for operating activities ranged between $1.5 billion and $2.5 billion over the last three years. In accordance with GASB requirements, certain cash flows relied upon for fundamental operational support of the core instruction mission of the University are reported as noncapital financing activities, including state educational appropriations, private gifts and grants and investment income. Cash provided by noncapital financing activities has ranged between $3.2 billion and $3.9 billion over the same three years. Cash flows from noncapital financing activities exceeded cash flows required for operating purposes by $1.9 billion in 2011, $1.7 billion in 2010 and $1.6 billion in 2009.

Due to the state's financial crisis, some payments to the University were deferred in 2011 and 2010. For 2011, $500 million due in the first quarter of 2011 was deferred until the end of 2011. For 2010, $250 million due in July 2009 was deferred until October 2009, and $500 million was deferred until the end of 2010. The University used commercial paper to finance its operations during the 2010 deferral periods.

Net cash of $1.1 billion, $0.8 billion and $1.8 billion was used in 2011, 2010 and 2009, respectively, for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal capital appropriations and gifts for capital purposes.

The year-to-year changes in cash provided (used) by investing activities is largely the result of the routine timing of investment purchases, sales and, to a lesser extent, investment income.

THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

Separate foundations at each individual campus provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of these ten foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Campus Foundations' Financial Position

The campus foundations' statement of net assets presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities and net assets. The difference between assets and liabilities are net assets, representing a measure of the current financial condition of the campus foundations.

The major components of the combined assets, liabilities and net assets of the campus foundations at 2011, 2010 and 2009 are as follows:

(in millions of dollars)

	2011	2010	2009
ASSETS			
Investments	$5,152	$ 4,037	$ 3,525
Investment of cash collateral	125	182	189
Pledges receivable, net	554	387	402
Other assets	149	139	213
Total assets	**5,980**	**4,745**	**4,329**
LIABILITIES			
Securities lending collateral	125	182	189
Obligations under life income agreements	169	165	162
Other liabilities	276	214	148
Total liabilities	**570**	**561**	**499**
NET ASSETS			
Restricted:			
Nonexpendable	2,441	2,107	1,867
Expendable	2,763	2,063	1,951
Unrestricted	206	14	12
Total net assets	**$5,410**	**$4,184**	**$3,830**

Investments in 2011 increased by $1.1 billion and by $512 million in 2010 due to recovery of the equity markets in 2011 and 2010 from the losses suffered in 2009. The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investment Committee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $1.1 billion, $1.0 billion and $922 million of the campus foundations' investments at the end of 2011, 2010 and 2009, respectively.

Restricted, nonexpendable net assets include the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the changes in value in 2011 and 2010.

The Campus Foundations' Results of Operations

The campus foundations' combined statement of revenues, expenses and changes in net assets is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2011, 2010 and 2009 is as follows:

(in millions of dollars)

	2011	2010	2009
OPERATING REVENUES			
Private gifts and other revenues	$ 884	$ 427	$ 376
Total operating revenues	**884**	**427**	**376**
OPERATING EXPENSES			
Grants to campuses and other expenses	513	595	458
Total operating expenses	**513**	**595**	**458**
Operating income (loss)	**371**	**(168)**	**(82)**
NONOPERATING REVENUES (EXPENSES)			
Investment income	69	67	64
Net appreciation (depreciation) in fair value of investments	551	290	(743)
Other nonoperating revenues (expenses)	17	3	(34)
Income (loss) before other changes in net assets	**1,008**	**192**	**(795)**
OTHER CHANGES IN NET ASSETS			
Permanent endowments	218	162	154
Increase (decrease) in net assets	**1,226**	**354**	**(641)**
NET ASSETS			
Beginning of year	4,184	3,830	4,471
End of year	**$5,410**	**$ 4,184**	**$ 3,830**

Operating revenues generally consist of current-use gifts, including pledges and income from other fundraising activities, although they do not include additions to permanent endowments and endowment income. Operating revenues fluctuate based upon fundraising campaigns conducted by the campus foundations during the year.

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue; however, the campus' programmatic needs are also taken into consideration, subject to abiding by the restricted purposes of gifts to the endowment and the amounts available for grants in any particular year.

Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

The Campus Foundations' Cash Flows

The campus foundations' combined statement of cash flows presents the significant sources and uses of cash and cash equivalents. A summary comparison of cash flows for 2011, 2010 and 2009 is as follows:

(in millions of dollars)

	2011	2010	2009
Net cash provided (used) by operating activities	$ 51	$(191)	$ (91)
Net cash provided by noncapital financing activities	187	141	147
Net cash used by investing activities	(232)	(35)	(24)
Net increase (decrease) in cash and cash equivalents	**6**	**(85)**	**32**
Cash and cash equivalents, beginning of year	98	183	151
Cash and cash equivalents, end of year	**$ 104**	**$ 98**	**$183**

Cash payments for grants are an operating activity, but these payments also include investment income which is an investing activity. In addition, while the trend is for grants to campuses to coincide with contributions revenue, the timing may not always occur in the same year.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. UCRS consists of the University of California Retirement Plan (UCRP), a defined benefit plan for members; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans (Defined Contribution Plan (DC Plan), Supplemental Defined Contribution Plan, 403(b) Plan and 457(b) Plan) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP) for certain University employees that were members of PERS who elected early retirement.

UCRS' Financial Position and Result of Operations

The statement of plans' fiduciary net assets presents the financial position of UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for pension benefits. These represent amounts available to provide pension benefits to members of UCRP and participants in the defined contribution plans and PERS-VERIP. At June 30, 2011, the UCRS' assets were $67.1 billion, liabilities $8.9 billion and net assets held in trust for pension benefits $58.2 billion, an increase of $9.5 billion from 2010. Net assets increased in 2010 by $3.9 billion from 2009.

The major components of the assets, liabilities and net assets available for pension benefits for 2011, 2010 and 2009 are as follows:

(in millions of dollars)

	2011	2010	2009
ASSETS			
Investments	$54,218	$45,856	$42,353
Participants' interest in mutual funds	4,488	3,462	2,924
Investment of cash collateral	7,729	10,112	10,350
Other assets	648	449	963
Total assets	**67,083**	**59,879**	**56,590**
LIABILITIES			
Securities lending collateral	7,729	10,117	10,387
Other liabilities	1,138	1,076	1,404
Total liabilities	**8,867**	**11,193**	**11,791**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	41,940	34,634	32,316
Participants' defined contribution plan benefits	16,276	14,052	12,483
Total net assets held in trust for pension benefits	**$58,216**	**$48,686**	**$44,799**

The statement of changes in the plans' fiduciary net assets is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2011, 2010 and 2009 is as follows:

(in millions of dollars)

	2011	2010	2009
ADDITIONS (REDUCTIONS)			
Contributions	$2,694	$1,107	$ 929
Net appreciation (depreciation) in fair value of investments	8,542	4,244	(11,325)
Investment and other income, net	1,320	1,192	1,512
Total additions (reductions)	**12,556**	**6,543**	**(8,884)**
DEDUCTIONS			
Benefit payments and participant withdrawals	2,987	2,618	2,465
Plan expenses	39	38	36
Total deductions	**3,026**	**2,656**	**2,501**
Increase (decrease) in net assets held in trust for pension benefits	**$9,530**	**$3,887**	**$ (11,385)**

In 2011 and 2010 the equity markets recovered from the losses suffered in 2009. The Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The overall investment gain based upon unit values for UCRS was 20.5 percent in 2011 compared to an investment gain of 11.8 percent in 2010 and an investment loss of (16.6) percent in 2009.

The participants' interest in mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, fluctuates based upon market performance of the mutual funds and participant investment elections.

UCRS participates in the University's securities lending program as a means to augment income. All borrowers are required to provide collateral and the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. Investments in cash collateral and the securities lending collateral liability fluctuate in response to changes in demand from borrowers and the availability of securities based upon the UCRS asset allocation mix.

Contributions in 2011 increased by $1.6 billion primarily due to increased employer and employee contributions and the additional deposit of $1.1 billion made by the University to UCRP. The University's contributions to UCRP for 2011 were $1.7 billion. Contributions in 2010 increased by $178 million primarily due to the restart of contributions by the University to UCRP effective April 15, 2010 and contributions of $83 million receivable from the DOE for a portion of the unfunded liability related to former employees of LLNL and LANL.

Benefit payments and participant withdrawals were $369 million more in 2011 than in 2010 and $153 million more in 2010 than in 2009. Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments. Benefit payments from UCRSP fluctuate based upon member withdrawals. At the beginning of 2011, there were 54,000 retirees and beneficiaries receiving payments from UCRS as compared to 51,500 at the beginning of 2010 and 50,100 at the beginning of 2009.

As of July 1, 2010, the date of the most recent actuarial report, the UCRP's overall funded ratio was 86.7 percent compared to 94.8 percent as of July 1, 2009. The decline in the funded status ratio is primarily attributable to the investment performance and the lack of employer and employee contributions prior to April 2010.

Additional information on the retirement plans can be obtained from the 2011 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS-VERIP by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)

UCRHBT was established on July 1, 2007 to allow certain University locations—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The University contributes toward retiree medical and dental benefits, although it does not contribute toward the cost of other benefits available to retirees. The DOE laboratories do not participate in UCRHBT, therefore the DOE has no interest in the Trust's assets.

UCRHBT's Financial Position and Result of Operations

The statement of trust's fiduciary net assets presents the financial position of UCRHBT at the end of the fiscal year. It displays all of the UCRHBT's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for retiree health benefits. These represent amounts available to provide retiree health benefits to its participants.

The major components of the assets, liabilities and net assets available for retiree health benefits for 2011, 2010 and 2009 are as follows:

(in millions of dollars)

	2011	2010	2009
ASSETS			
Investments	$28	$32	$38
Other assets	46	39	38
Total assets	**74**	**71**	**76**
LIABILITIES			
Total liabilities	**3**	**2**	**2**
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS			
Total net assets held in trust for retiree health benefits	**$71**	**$69**	**$74**

The statement of changes in trust's fiduciary net assets is a presentation of the UCRHBT's operating results. It indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2011, 2010 and 2009 are as follows:

(in millions of dollars)

	2011	2010	2009
ADDITIONS			
Contributions	$288	$254	$251
Investment income, net			1
Total additions	**288**	**254**	**252**
DEDUCTIONS			
Insurance premiums and payments	284	257	226
Plan expenses	2	2	2
Total deductions	**286**	**259**	**228**
Increase (decrease) in net assets held in trust for retiree health benefits	**$ 2**	**$ (5)**	**$ 24**

Contributions for retiree health benefits are made by the campuses and medical centers based upon projected pay-as-you-go financing. The University acts as a third-party administrative agent on behalf of UCRHBT to pay health care insurers and administrators amounts currently due.

The retiree health benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The unfunded actuarial accrued liability for eligible participants as of July 1, 2010, the date of the latest actuarial valuation, was $15.4 billion.

Additional information on the retiree health benefit plan can be obtained from the 2011 annual reports of the University of California Health and Welfare Plan by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

LOOKING FORWARD

The University of California is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

For the last 15 years, the University's budgetary planning has been guided by an agreement about funding and accountability reached with each Governor. These funding agreements were a comprehensive statement of the minimum resources needed for the University to accommodate enrollment growth and sustain the quality of the institution. These agreements were intended to provide the University with base budget adjustments to fund compensation, non-salary cost increases, and other programmatic needs related to its basic operations, enrollment funding, and funding for initiatives mutually agreed upon by the University and the state. These agreements were honored and often exceeded in years in which the state's fiscal situation was healthy. However, in years in which the state was in the midst of fiscal crisis, the agreements were either only partially honored or suspended. Most recently, for 2006 through 2008, state funding increased by more than $550 million, allowing the University to continue enrollment growth, provide compensation increases for faculty and staff and avoid a student fee increase in 2007. However, for 2009 through 2012, the University has experienced major budget reductions and received funding for enrollment growth only in 2011.

Permanent and one-time cuts to the University's budget for 2009 totaled $814.1 million, although these reductions were partially offset by State Fiscal Stabilization Funds authorized by the federal economic stimulus act. For 2010, permanent and one-time cuts in state funding totaled $637.1 million (from the level of state funding in 2008), essentially erasing the gains made over the previous years. In 2011, the University received $371 million as partial restoration of 2010 cuts and for enrollment growth of 5,000 students. However, this restoration was erased and additional cuts added with the budget for 2012, which cut the University's state funds by another $650 million. The budget also includes a provision that will trigger another $100 million in cuts if certain revenue assumptions are not realized by the state. With the budget for 2012, state funds allocated for UC total $2.37 billion. This total is more than $1.5 billion less than it would have been under the most recent agreement with the Governor and nearly $900 million less than the support provided through 2008, before the latest fiscal crisis began. The fiscal problems associated with the inability of the state to honor Governor Schwarzenegger's agreement with the University—including its inability to fund enrollment growth of more than 11,000 students—and subsequent state funding reductions are compounded by unfunded cost increases for academic merit increases, collective bargaining agreements, health benefits costs and costs for purchased utilities. When these unfunded mandatory cost increases are considered, the University is addressing a total shortfall of over $1 billion in 2012.

In addition to the above, over the course of 2012, the state will be deferring some payments to the University; $500 million due in the first quarter of 2012 will be deferred until the end of 2012. Other deferrals are also possible.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. While the federal government works through its own financial constraints, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. In 2011, the University received approximately $285.0 million under research funding from federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA), representing approximately 8.4 percent of the University's federal grants and contact revenues in 2011. ARRA funds are expected to be fully expended by 2014. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

The University's private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support in 2012 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Additional, affordable and accessible student housing continues to be required in order to satisfy demand. Most campus residence halls are occupied at design capacity. The University is responding to increased demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service and by seeking development opportunities for privately owned housing on University campuses.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and medical centers as of the July 1, 2010 actuarial valuation was $15.4 billion. The Regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and medical centers as of July 1, 2010 actuarial valuation was $5.4 billion or 86.2 percent funded. The total funding policy contributions in the July 1, 2010 actuarial valuations represent 22.5 percent of covered compensation. As of July 1, 2011, the funded ratio is expected to decrease to approximately 82.5 percent. At its September 2010 meeting, The Regents approved increasing the employer and employee contribution rates to UCRP. Contributions by members will be increased to 3.5 percent of covered compensation in July 2011 and 5 percent in July 2012 and contributions by the University will be increased to 7 percent of covered compensation in July 2011 and 10 percent in July 2012. These contribution rates are below UCRP's total funding contributions. The Regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55, but retain many of the current features of UCRP. The new tier would not offer lump sum cashouts, inactive member Cost of Living Adjustments (COLAs), or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees.

On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These actions initially had an adverse effect on financial markets and we are unable to predict the longer-term impact on such markets. These downgrades could adversely affect the market value of such instruments and the credit risk associated with our investments in U.S. Treasury securities held as investments by the University. These downgrades could also adversely impact the University's ability to obtain financing, as well as affecting the pricing of that financing when it is available, our credit ratings as well as the credit ratings of our counterparties.

The University's medical centers have demonstrated very positive financial results, although they continue to face financial and competitive challenges in their regional markets, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake. While the state has provided additional capital to meet these requirements, the level of support provided will not cover the full cost to the University. Other sources of capital are required.

The continuing financial success of the medical centers is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical centers remain competitive in their respective markets by reducing costs through improved efficiencies, making strategic investments and by expanding their presence in the market through stronger links with other providers and payers. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordability Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the health care reform legislation are effective immediately; others will be phased in through 2014. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the medical centers, the effect of the changes that will be required in future years are not determinable at this time.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program will be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

Additional budget information can be found at http://universityofcalifornia.edu/news/budget/welcome.html. Additional information concerning state budget matters and the state's financial condition may be found on the website of the State of California Department of Finance at http://www.dof.ca.gov.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.


UCLA

Report of Independent Auditors

To The Regents of the University of California:

In our opinion, based upon our audits and the report of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of the University of California (the "University"), a component unit of the State of California, present fairly, in all material respects, the respective financial position and plans' and trust's fiduciary net assets of the University, its aggregate discretely presented component units, and the University of California Retirement System (the "Plans") and the University of California Retiree Health Benefit Trust (the "Trust"), respectively, at June 30, 2011 and 2010, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' and the Trust's fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the UC Berkeley Foundation, which represents 23 percent, 24 percent, and 19 percent of the assets, net assets, and operating revenues, respectively, of the University of California foundations as of and for the year ended June 30, 2011. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the UC Berkeley Foundation component unit, is based upon the report of the other auditor. We conducted our audits of these statements in accordance with auditing standards generally accepted in 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

The Required Supplementary Information ("RSI") on page 100 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the RSI. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

SAN FRANCISCO, CALIFORNIA
OCTOBER 12, 2011

UNIVERSITY OF CALIFORNIA

STATEMENTS OF NET ASSETS

At June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	2010	2011	2010
ASSETS				
Cash and cash equivalents	$ 181,130	$ 148,350	$ 104,220	$ 97,481
Short-term investments	3,710,307	2,329,965	362,884	327,089
Investment of cash collateral	1,603,647	2,054,994	103,194	151,085
Investments held by trustees	74,949	38,077		
Accounts receivable, net	2,989,589	3,042,882	20,273	6,669
Pledges receivable, net	54,101	37,771	133,562	129,238
Current portion of notes and mortgages receivable, net	32,359	34,996	10	9
Inventories	170,358	170,532		
Department of Energy receivable	360,962	197,729		
Other current assets	181,462	166,040	2,377	1,749
Current assets	**9,358,864**	**8,221,336**	**726,520**	**713,320**
Investments	14,548,358	13,622,965	4,788,985	3,710,278
Investment of cash collateral	439,616	483,281	22,038	30,513
Investments held by trustees	947,900	1,076,669		
Pledges receivable, net	68,371	39,651	420,338	257,672
Notes and mortgages receivable, net	315,554	308,941	978	501
Department of Energy receivable	147,349	110,853		
Capital assets, net	23,710,277	22,463,051		
Other noncurrent assets	276,352	262,775	21,632	32,428
Noncurrent assets	**40,453,777**	**38,368,186**	**5,253,971**	**4,031,392**
Total assets	**49,812,641**	**46,589,522**	**5,980,491**	**4,744,712**
LIABILITIES				
Accounts payable	1,732,988	1,919,479	7,746	7,348
Accrued salaries	843,056	763,250		
Employee benefits	552,716	331,376		
Deferred revenue	889,573	933,186	45,228	13,647
Collateral held for securities lending	2,043,253	2,539,504	125,232	181,598
Commercial paper	799,810	407,810		
Current portion of long-term debt	529,038	587,598		
Funds held for others	258,437	217,598	205,110	179,648
Department of Energy laboratories' liabilities	121,919	100,523		
Other current liabilities	987,691	907,236	22,662	21,012
Current liabilities	**8,758,481**	**8,707,560**	**405,978**	**403,253**
Federal refundable loans	231,223	223,149		
Self-insurance	430,300	431,071		
Obligations under life income agreements	26,856	26,981	147,332	143,737
Long-term debt	13,048,873	11,947,332		
Obligation to UCRP	1,725,444	1,607,821		
Obligations for retiree health benefits	5,257,422	3,773,804		
Department of Energy laboratories' liabilities	115,164			
Other noncurrent liabilities	454,106	520,725	17,246	14,072
Noncurrent liabilities	**21,289,388**	**18,530,883**	**164,578**	**157,809**
Total liabilities	**30,047,869**	**27,238,443**	**570,556**	**561,062**
NET ASSETS				
Invested in capital assets, net of related debt	11,161,810	10,793,554		
Reserved for minority interests	31,418	19,277		
Restricted:				
Nonexpendable:				
Endowments and gifts	1,034,662	996,606	2,440,564	2,107,264
Expendable:				
Endowments and gifts	5,320,752	4,573,003	2,763,020	2,062,623
Other, including debt service, loans, capital projects and appropriations	622,974	451,242		
Unrestricted	1,593,156	2,517,397	206,351	13,763
Total net assets	**$ 19,764,772**	**$ 19,351,079**	**$ 5,409,935**	**$ 4,183,650**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	**2010**	**2011**	**2010**
OPERATING REVENUES				
Student tuition and fees, net	$ 2,811,121	$ 2,401,323		
Grants and contracts, net				
Federal	3,388,084	3,136,216		
State	528,543	537,628		
Private	1,121,146	1,079,358		
Local	211,321	185,953		
Medical centers, net	6,417,015	5,882,111		
Educational activities, net	1,872,008	1,562,287		
Auxiliary enterprises, net	1,117,970	1,107,419		
Department of Energy laboratories	976,294	910,194		
Campus foundation private gifts			$ 880,889	$ 422,643
Other operating revenues, net	596,261	523,914	3,585	4,707
Total operating revenues	**19,039,763**	**17,326,403**	**884,474**	**427,350**
OPERATING EXPENSES				
Salaries and wages	10,269,912	9,846,671		
UCRP benefits	1,681,138	1,597,534		
Retiree health benefits	1,754,620	1,642,202		
Other employee benefits	2,058,115	1,916,553		
Scholarships and fellowships	597,350	531,314		
Utilities	280,995	284,709		
Supplies and materials	2,107,881	2,186,316		
Depreciation and amortization	1,404,837	1,267,134		
Department of Energy laboratories	970,054	903,926		
Campus foundation grants			496,704	565,952
Other operating expenses	3,028,822	2,752,200	16,548	29,013
Total operating expenses	**24,153,724**	**22,928,559**	**513,252**	**594,965**
Operating income (loss)	**(5,113,961)**	**(5,602,156)**	**371,222**	**(167,615)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,650,545	2,782,626		
State financing appropriations	202,241	146,502		
State hospital fee grants	143,983			
Build America Bonds federal interest subsidies	52,216	24,187		
Federal Pell grants	352,469	298,584		
Private gifts, net	816,291	794,244		
Investment income:				
Short Term Investment Pool and other, net	286,935	283,849		
Endowment, net	107,760	96,917		
Securities lending, net	11,995	10,842	723	788
Campus foundations			68,574	65,218
Net appreciation in fair value of investments	1,082,277	771,152	550,849	290,227
Interest expense	(572,412)	(460,474)		
Loss on disposal of capital assets	(67,812)	(31,491)		
Other nonoperating revenues, net	7,743	60	16,608	3,163
Net nonoperating revenues	**5,074,231**	**4,716,998**	**636,754**	**359,396**
Income (loss) before other changes in net assets	**(39,730)**	**(885,158)**	**1,007,976**	**191,781**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	190,009	159,777		
Capital gifts and grants, net	247,259	189,617		
Permanent endowments	16,155	11,180	218,309	161,551
Increase (decrease) in net assets	**413,693**	**(524,584)**	**1,226,285**	**353,332**
NET ASSETS				
Beginning of year	19,351,079	19,875,663	4,183,650	3,830,318
End of year	**$19,764,772**	**$19,351,079**	**$ 5,409,935**	**$ 4,183,650**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

Years ended June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	**2010**	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 2,808,412	$ 2,382,458		
Grants and contracts	5,358,454	4,807,331		
Medical centers	6,362,731	5,785,772		
Educational activities	1,855,650	1,566,380		
Auxiliary enterprises	1,123,930	1,112,742		
Collection of loans from students and employees	53,955	49,853		
Campus foundation private gifts			$ 564,720	$ 391,275
Payments to employees	(10,224,701)	(9,715,290)		
Payments to suppliers and utilities	(5,321,258)	(5,142,595)		
Payments for UCRP benefits	(1,441,054)	(45,709)		
Payments for retiree health benefits	(270,003)	(244,582)		
Payments for other employee benefits	(2,041,528)	(1,959,413)		
Payments for scholarships and fellowships	(598,578)	(531,000)		
Loans issued to students and and employees	(57,482)	(64,916)		
Payments to campuses and beneficiaries			(509,573)	(584,274)
Other receipts (payments)	402,306	455,562	(4,284)	1,719
Net cash provided (used) by operating activities	**(1,989,166)**	**(1,543,407)**	**50,863**	**(191,280)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,650,619	2,789,740		
Refunds of state educational appropriations		(795,000)		
Federal Pell grants	351,664	294,862		
State hospital fee grants	143,983			
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	11,516	12,076	185,894	138,323
Other private gifts	759,352	793,012		
Receipt of retiree health contributions from UCRP	26,254	18,129		
Payment of retiree health contributions to UCRHBT	(25,451)	(17,514)		
Receipts from UCRHBT	288,929	260,398		
Payments for retiree health benefits made on behalf of UCRHBT	(289,573)	(260,473)		
Student direct lending receipts	956,941	675,177		
Student direct lending payments	(956,941)	(675,177)		
Commercial paper financing:				
Proceeds from issuance	19,888	639,475		
Payments of principal	(16,250)	(500,000)		
Other receipts (payments)	1,351	(9,391)	1,884	2,332
Net cash provided by noncapital financing activities	**3,922,282**	**3,225,314**	**187,778**	**140,655**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	590,431	189,194		
Payments of principal	(202,069)	(586,384)		
Interest paid	(1,472)	(2,514)		
State capital appropriations	131,114	183,857		
State financing appropriations	2,977	10,026		
Build America Bonds federal interest subsidies	50,763	19,181		
Capital gifts and grants	149,571	135,764		
Proceeds from debt issuance	1,984,722	2,473,681		
Proceeds from the sale of capital assets	3,962	1,243		
Proceeds from insurance recoveries	4,013	1,500		
Purchase of capital assets	(2,491,186)	(2,279,641)		
Refinancing or prepayment of outstanding debt	(412,875)	(167,318)		
Scheduled principal paid on debt and capital leases	(356,788)	(286,126)		
Interest paid on debt and capital leases	(564,890)	(452,267)		
Net cash used by capital and related financing activities	**(1,111,727)**	**(759,804)**		

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS *continued*

Years ended June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	2010	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	$ 60,743,229	$ 54,025,091	$1,265,141	$ 571,109
Purchase of investments	(61,938,621)	(55,669,584)	(1,566,293)	(671,245)
Investment income, net of investment expenses	406,783	382,797	69,250	65,026
Net cash used by investing activities	**(788,609)**	**(1,261,696)**	**(231,902)**	**(35,110)**
Net increase (decrease) in cash and cash equivalents	**32,780**	**(339,593)**	**6,739**	**(85,735)**
Cash and cash equivalents, beginning of year	148,350	487,943	97,481	183,216
Cash and cash equivalents, end of year	**$ 181,130**	**$ 148,350**	**$104,220**	**$ 97,481**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	$ (5,113,961)	$ (5,602,156)	$ 371,222	$ (167,615)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	1,404,837	1,267,134		
Noncash gifts			(153,406)	(26,482)
Allowance for doubtful accounts	279,131	218,684	45,511	21,061
Loss on impairment of capital assets		22,803		
Change in assets and liabilities:				
Investments			(793)	(942)
Accounts receivable	(442,201)	(600,931)	4,346	2,359
Pledges receivable			(212,569)	(6,221)
Investments held by trustees	(67,243)	(12,299)		
Inventories	175	(4,303)		
Other assets	(43,631)	(29,061)	(750)	(2,738)
Accounts payable	(89,398)	(1,034)	(93)	1,957
Accrued salaries	79,806	58,724		
Employee benefits	219,963	117,564		
Deferred revenue	(11,119)	(25,794)	2,360	(98)
Self-insurance	3,121	(12,059)		
Obligations to life beneficiaries			(10,543)	(13,238)
Obligation to UCRP	124,048	1,532,701		
Obligations for retiree health benefits	1,483,618	1,396,676		
Other liabilities	183,688	129,944	5,578	677
Net cash provided (used) by operating activities	**$(1,989,166)**	**$(1,543,407)**	**$ 50,863**	**$ (191,280)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 39,723	$ 58,828		
Capital assets acquired with a liability at year-end	86,997	101,516		
Change in fair value of interest rate swaps classified as hedging derivatives	16,990	(15,978)		
Gifts of capital assets	78,364	52,080	$ 105	$ 508
Other noncash gifts	38,749	18,432	230,634	62,093
Proceeds from lease revenue bonds issued		271,059		
Debt service for, or refinancing of, lease revenue bonds				
Principal paid	(98,890)	(93,275)		
Interest paid	(114,892)	(103,632)		
Interest added to principal			373	655
Beneficial interest in charitable remainder trust			1,679	4,867

See accompanying Notes to Financial Statements

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET ASSETS

At June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
ASSETS						
Investments	$ 54,218,018	$ 45,855,690	$ 27,795	$ 32,509	$ 54,245,813	$ 45,888,199
Participants' interest in mutual funds	4,488,491	3,461,615			4,488,491	3,461,615
Investment of cash collateral	7,729,073	10,112,188			7,729,073	10,112,188
Participant 403(b) loans	139,424	126,694			139,424	126,694
Accounts receivable:						
Contributions from University and affiliates	301,070	163,236	20,782	18,183	321,852	181,419
Investment income	95,301	105,433	5	7	95,306	105,440
Securities sales and other	111,617	54,190	3,418	1,078	115,035	55,268
Prepaid insurance premiums			21,919	19,763	21,919	19,763
Total assets	**67,082,994**	**59,879,046**	**73,919**	**71,540**	**67,156,913**	**59,950,586**
LIABILITIES						
Payable to University			2,646	2,186	2,646	2,186
Payable for securities purchased	920,248	868,642			920,248	868,642
Member withdrawals, refunds and other payables	217,910	207,200			217,910	207,200
Collateral held for securities lending	7,729,038	10,116,795			7,729,038	10,116,795
Total liabilities	**8,867,196**	**11,192,637**	**2,646**	**2,186**	**8,869,842**	**11,194,823**
NET ASSETS HELD IN TRUST						
Members' defined benefit plan benefits	41,940,183	34,633,878			41,940,183	34,633,878
Participants' defined contribution plan benefits	16,275,615	14,052,531			16,275,615	14,052,531
Retiree health benefits			71,273	69,354	71,273	69,354
Total net assets held in trust	**$ 58,215,798**	**$ 48,686,409**	**$ 71,273**	**$ 69,354**	**$ 58,287,071**	**$ 48,755,763**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF CHANGES IN PLANS' AND TRUST'S FIDUCIARY NET ASSETS

Years ended June 30, 2011 and 2010 (in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
	2011	2010	2011	2010	2011	2010
ADDITIONS (REDUCTIONS)						
Contributions:						
Members and employees	$ 1,010,260	$ 951,025			$ 1,010,260	$ 951,025
Retirees			$ 28,085	$ 19,345	28,085	19,345
University	1,683,632	155,749	259,757	234,692	1,943,389	390,441
Total contributions	**2,693,892**	**1,106,774**	**287,842**	**254,037**	**2,981,734**	**1,360,811**
Investment income (expense), net:						
Net appreciation in fair value of investments	8,541,574	4,243,820			8,541,574	4,243,820
Interest, dividends and other investment income	1,267,034	1,135,923	84	97	1,267,118	1,136,020
Securities lending income	72,042	74,831			72,042	74,831
Securities lending fees and rebates	(22,770)	(23,041)			(22,770)	(23,041)
Total investment income, net	**9,857,880**	**5,431,533**	**84**	**97**	**9,857,964**	**5,431,630**
Interest income from contributions receivable	4,226	4,756			4,226	4,756
Total additions	**12,555,998**	**6,543,063**	**287,926**	**254,134**	**12,843,924**	**6,797,197**
DEDUCTIONS						
Benefit payments:						
Retirement payments	1,486,546	1,382,587			1,486,546	1,382,587
Member withdrawals	78,776	76,485			78,776	76,485
Cost-of-living adjustments	279,937	256,400			279,937	256,400
Lump sum cashouts	200,907	190,492			200,907	190,492
Preretirement surivor payments	35,931	34,752			35,931	34,752
Disability payments	35,298	35,331			35,298	35,331
Death payments	9,128	6,377			9,128	6,377
Participant withdrawals	860,562	634,895			860,562	634,895
Total benefit payments	**2,987,085**	**2,617,319**			**2,987,085**	**2,617,319**
Insurance premiums:						
Insured plans			234,204	205,924	234,204	205,924
Self-insured plans			28,781	28,161	28,781	28,161
Medicare Part B reimbursements			21,025	23,520	21,025	23,520
Total insurance premiums, net			**284,010**	**257,605**	**284,010**	**257,605**
Expenses:						
Plan administration	35,427	36,246	1,997	1,545	37,424	37,791
Other	4,097	1,623			4,097	1,623
Total expenses	**39,524**	**37,869**	**1,997**	**1,545**	**41,521**	**39,414**
Total deductions	**3,026,609**	**2,655,188**	**286,007**	**259,150**	**3,312,616**	**2,914,338**
Increase (decrease) in net assets held in trust	**9,529,389**	**3,887,875**	**1,919**	**(5,016)**	**9,531,308**	**3,882,859**
NET ASSETS HELD IN TRUST						
Beginning of year	48,686,409	44,798,534	69,354	74,370	48,755,763	44,872,904
End of year	**$58,215,798**	**$48,686,409**	**$71,273**	**$ 69,354**	**$58,287,071**	**$48,755,763**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

Notes to Financial Statements

Years ended June 30, 2011 and 2010

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) is appointed by the Governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibility for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or financially accountable to the University, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net assets. The statement of revenues, expenses and changes in net assets excludes the activities associated with these organizations.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The combined financial statements of the University of California campus foundations (campus foundations) are presented discretely in the University's financial statements because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's securities lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the campus foundations' column.

Specific assets and liabilities and all revenues and expenses associated with the Lawrence Berkeley National Laboratory (LBNL)—a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE—are included in the financial statements.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) that includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS–VERIP), and four defined contribution plans in the University of California Retirement Savings Program (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan). As a result, the UCRS statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are shown separately in the University's financial statements.

The Regents also has fiduciary responsibility for the University of California Retiree Health Benefit Trust (UCRHBT). The UCRHBT statements of trust's fiduciary net assets and changes in trust's fiduciary net assets are shown separately in the University's financial statements. UCRHBT allows certain University locations and affiliates—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust.

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by the Government Accounting Standards Board (GASB).

GASB Statement No. 59, *Financial Instruments Omnibus*, was adopted by the University during the year ended June 30, 2011. This Statement updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Implementation of Statement No. 59 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, was adopted by the University during the year ended June 30, 2011. This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989. Implementation of Statement No. 62 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments are recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

As a result of inactive or illiquid markets, certain investments in non-agency mortgage-backed fixed income securities are valued on the basis of their estimated future principal and interest payments using appropriate risk-adjusted discount rates. The University believes this approximates the fair value of these investments.

Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Interests in private equity and real estate partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The University believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net assets.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at the date of donation.

Derivative financial instruments. Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants are valued at the last sales price on the last day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps using quoted market prices when available or discounted expected future net cash flows.

The University has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed and variable rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at fair value as either assets or liabilities in the statement of net assets. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other liabilities and deferred outflows with other assets in the statement of net assets.

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the statement of revenues, expenses and changes in net assets.

Participants' interest in mutual funds. Participants in the University's defined contribution retirement plans may invest their account balances in funds managed by the University's Chief Investment Officer or in certain mutual funds.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, includes reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable, net. Unconditional pledges of private gifts to the University or to the campus foundations in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

DOE national laboratories. The University operates and manages LBNL under a contract directly with the DOE. Specific assets and liabilities and all revenues and expenses associated with LBNL are included in the financial statements. Other assets, such as cash, property and equipment and other liabilities of LBNL are owned by the United States government rather than the University and, therefore, are not included in the statement of net assets. The statement of cash flows excludes the cash flows associated with LBNL other than reimbursements, primarily related to pension and health benefits, since all other cash transactions are recorded in bank accounts owned by the DOE.

The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS), formed June 1, 2006, and Lawrence Livermore National Security, LLC (LLNS), formed October 1, 2007, that operate and manage two other DOE laboratories. LANS and LLNS operate and manage Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE.

The University has an ongoing financial interest and financial responsibility in these separate entities, along with the other members, and the organizations are jointly controlled by the University and another member. The assets and liabilities and revenues and expenses of these joint ventures are not included in the University's financial statements. The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, the University's statement of net assets includes its equity interest in LANS and LLNS, adjusted for the equity in undistributed earnings or losses and the statement of revenues, expenses and changes in net assets includes its equity in the current earnings or losses of LANS and LLNS.

The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including pension and retiree health benefit costs. Accordingly, to the extent there is a liability on the University's statement of net assets for pension or retiree health obligations related to these laboratories, the University records a receivable from the DOE. The University's statement of cash flows includes the cash flows related to DOE reimbursements for pension and/or health benefits attributable to any of these laboratories.

Capital assets. Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

	YEARS
Infrastructure	25
Buildings and improvements	15–33
Equipment	2–20
Computer software	3–7
Intangible assets	2 – indefinite
Library books and collections	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections, are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Funds held for others. Funds held for others result from the University or the campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or campus foundations.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Self insurance programs. The University 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 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 upon an independent actuarial determination of the present value of the anticipated future payments.

Obligations under life income agreements. Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at their fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net assets. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net assets. Resources that are expendable upon maturity are classified as restricted, expendable net assets; all others are classified as restricted, nonexpendable net assets.

Pollution remediation obligations. Upon an obligating event, the University estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated the University is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2011 and 2010 reducing the pollution remediation liability.

Net assets. Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Reserved for minority interests. This category includes net assets of legally separate organizations attributable to other participants.

Restricted. The University and campus foundations classify net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions, which must be retained in perpetuity by the University or the campus foundations, are classified as nonexpendable net assets. Such assets include the University and campus foundation permanent endowment funds.

Expendable. Net assets whose use by the University or the campus foundations is subject to externally-imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither reserved, restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. The University's unrestricted net assets may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net assets may be designated for specific purposes by their Boards of Trustees. Substantially all of the University's unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net assets based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets as operating activities. The University's equity in current earnings or losses of LANS and LLNS is also an operating transaction.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses by the foundations. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as gifts when the foundations transfer the gifts to the University.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state hospital fee grants, Build America Bonds federal interest subsidies, federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

The University recognizes scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are netted in the statement of revenues, expenses and changes in net assets for the years ended June 30, 2011 and 2010 as follows:

(in thousands of dollars)

	2011	2010
Student tuition and fees	$ 830,497	$ 666,242
Auxiliary enterprises	185,079	174,304
Other operating revenues	20,652	8,410
Scholarship allowances	**$ 1,036,228**	**$ 848,956**

State appropriations. The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally-sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2011, the facilities and administrative cost recovery totaled $992.0 million, $752.0 million from federally-sponsored programs and $240.0 million from other sponsors. For the year ended June 30, 2010, the facilities and administrative cost recovery totaled $920.6 million, $701.0 million from federally-sponsored programs and $219.6 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

UCRP benefits and obligation to UCRP. The University's cost for campus and medical center UCRP benefits expense is based upon the annual required contribution to UCRP, as actuarially determined. Campus and medical center contributions toward UCRP benefits, at rates determined by the University, are made to UCRP and reduce the University's obligation to UCRP in the statement of net assets.

Both current employees and retirees at LBNL participate in UCRP. Current employees at both LANL and LLNL are no longer accruing benefits in UCRP. However, UCRP retains the obligation for retirees and terminated vested members at these locations as of the date these contracts were terminated. The annual required contribution for the combined DOE laboratories is actuarially determined, independently from the campuses and medical centers, and included with the DOE laboratory expense in the statement of revenues, expenses and changes in net assets.

The University makes contributions to UCRP for LBNL employees and is reimbursed by the DOE, based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP, based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within UCRP for these retirees and terminated vested members at the time the joint ventures were formed at a 100 percent funded level. These University contributions are also reimbursed by the DOE. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

The University records a receivable or payable from the DOE for the amounts that are due under the DOE contracts for pension benefits attributable to the DOE laboratories.

Campus and medical center contributions to UCRP, University contributions to UCRP for the DOE national laboratories, and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows.

Retiree health benefits and obligations for retiree health benefits. The University's cost for campus and medical center retiree health benefits expense is based upon the annual required contribution to the retiree health plan, as actuarially determined. Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT and reduce the obligation for retiree health benefits in the statement of net assets.

LBNL participates in the University's retiree health plans. The annual required contribution for LBNL is actuarially determined independently from the University's campuses and medical centers, and included with the DOE laboratory expense in the statement of revenues, expenses and changes in net assets. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE. These contributions, in the form of direct payments, also reduce the University's obligation for retiree health benefits in the statement of net assets. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

The University records a receivable from the DOE for the DOE's portion of the University's obligation for retiree health benefits attributable to LBNL. The University does not have any obligation for LANL or LLNL retiree health benefit costs since they do not participate in the University's retiree health plans.

Campus and medical center contributions toward retiree health costs made to UCRHBT, the University's LBNL-related payments made directly to health care insurers and administrators and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows. Cash flows resulting from retiree health contributions from retirees are shown as noncapital financing activities in the statement of cash flows.

University of California Retiree Health Benefit Trust. UCRHBT receives the University's contributions toward retiree health benefits from campuses, medical centers and University affiliates. The University receives retiree health contributions from University affiliates and campus and medical center retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT.

The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at a campus or medical center. UCRHBT reimburses the University for these amounts.

LBNL does not participate in UCRHBT; therefore, the DOE has no interest in the Trust's assets.

Compensated absences. The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. UCRS plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The campus foundations are exempt under Section 501(c)(3). Income received by UCRHBT is tax-exempt under Section 115(a).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

New accounting pronouncements. In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the University's fiscal year beginning July 1, 2011. This Statement requires the University to report the activities for certain public-private partnerships as service concession arrangements in the financial statements. Service concession arrangements are recorded when the arrangements meet certain criteria which include building and operating a facility, obtaining the right to collect fees from third parties, and transferring ownership of the facility to the University at the end of the arrangement. The University is evaluating the effect that Statement No. 60 will have on its financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for the University's fiscal year beginning July 1, 2011. This Statement modifies the existing requirements for the assessment of component units that should be included in the financial statements of the University. The University is evaluating the effect that Statement No. 61 will have on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the University's fiscal year beginning July 1, 2012. This Statement modifies the presentation of deferred inflows and deferred outflows in the financial statements. The University is evaluating the effect that Statement No. 63 will have on its financial statements.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for the University's fiscal year beginning July 1, 2012. This Statement clarifies the existing requirements for the termination of hedge accounting. The University is evaluating the effect that Statement No. 64 will have on its financial statements.

Comparative information. In connection with the preparation of the June 30, 2011 financial statements, the University concluded that $126.2 million and $870.9 million of forward contracts on a to-be-announced basis held by the University and the Plans' should not be reported as derivatives. The effect on the prior period financial statements is not material. However, management elected to make the revisions in classification to the University's 2010 presentation. This revision in classification resulted in a decrease in investment derivatives and an increase in fixed or variable income securities in the notes to the financial statements. This revision had no effect on the statement of net assets, statement of revenues, expenses and changes in net assets, statement of cash flows, statement of Plans' fiduciary net assets or statement of changes in the Plans' fiduciary net assets.

Additionally, the University determined that certain cash flows for accounts receivable and doubtful accounts were being reported on a net basis. Management elected to revise the cash flows reported for changes in accounts receivable and allowance for doubtful accounts by $174.7 million to report the cash flows on a gross basis. This revision had no effect on the statement of net assets, statement of revenues, expenses and changes in net assets and cash used by operating activities.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Under University policy, deposits are only held at financial institutions that maintain an issuer rating on long term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. At June 30, 2011 and 2010, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was $181.1 million and $148.4 million, respectively, compared to bank balances of $135.7 million and $119.0 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Bank balances in excess of the Federal Deposit Insurance Corporation (FDIC) limits are collateralized by U.S. government securities held in the name of the bank.

The University does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries were $2.7 million and $2.4 million at June 30, 2011 and 2010, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2011 and 2010 was $104.2 million and $97.5 million, respectively, compared to bank balances of $74.4 million and $67.5 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term Investment Pool of $28.9 million and $29.4 million at June 30, 2011 and 2010, respectively, with the remaining uncollateralized bank balances insured by the FDIC. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's, UCRS' and UCRHBT's investments and establishes investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), General Endowment Pool (GEP), UCRS, UCRHBT, other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in STIP. The available cash in UCRS or endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP.

Investments authorized by The Regents for STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, for STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

TRIP allows participant campuses the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by The Regents for TRIP include a diversified portfolio of equity and fixed income securities.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements, or represent the University's estimated interest in externally held irrevocable trusts.

Investments authorized by The Regents for GEP, UCRS, other investment pools and separate investments include equity securities, fixed income securities and certain other asset classes. The equity portion of the investment portfolios include both 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. The University's investment portfolios may include foreign currency denominated equity securities. The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Real estate investments are authorized for both GEP and the UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for the GEP and UCRS.

Derivative instruments, including futures, forward contracts, options and swap contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. They are not used for speculative purposes.

The Regents has also authorized certain employee account balances in defined contribution plans included as part of the UCRS' investments to be invested in mutual funds. The participants' interest in mutual funds is not managed by the Chief Investment Officer and totaled $4.5 billion and $3.5 billion at June 30, 2011 and 2010, respectively.

Investments authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 with an average maturity of 33 days. The fair value of UCRHBT's investment in this portfolio was $27.8 million and $32.5 million at June 30, 2011 and 2010, respectively.

As of June 30, 2011, the University holds $25.0 million of Medical Center Pooled Revenue Bonds in its investment portfolio.

Subsequent Event

In September 2011, the University executed an agreement with the state to deposit $1 billion into the State Agency Investment Fund (SAIF). SAIF was created under California Government Code §16330. The deposit to SAIF bears interest at 2.0 percent annually, payable quarterly. The agreement expires on April 25, 2013 and can be extended for additional six month periods by agreement of the parties. The University is permitted to withdraw funds on the maturity date or prior to the maturity date by giving ten days notice to the state. The University deposited the funds to SAIF on September 26, 2011, financed from STIP and commercial paper.

The composition of investments, by investment type at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Equity securities:						
Domestic	$ 1,679,253	$ 1,264,707	$ 220,178	$ 173,667	$ 13,490,824	$ 12,164,910
Foreign	1,598,342	1,075,116	66,143	64,137	9,497,591	7,496,642
Equity securities	**3,277,595**	**2,339,823**	**286,321**	**237,804**	**22,988,415**	**19,661,552**
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1,351,366	1,317,700	222,691	125,867	2,356,266	2,109,853
U.S. Treasury strips	102,041	87,620	115		473,794	169,169
U.S. TIPS	225,994	234,746			3,512,877	3,180,776
U.S. government-backed securities			3,071	2,772	14,617	16,061
U.S. government-backed–asset-backed securities			145	193		
U.S. government guaranteed	**1,679,401**	**1,640,066**	**226,022**	**128,832**	**6,357,554**	**5,475,859**
Other U.S. dollar denominated:						
Corporate bonds	5,012,475	4,371,756	80,190	74,365	2,027,233	2,389,096
Commercial paper	2,517,403	1,746,836				
U.S. agencies	981,541	1,569,144	10,594	10,005	2,996,583	2,901,805
U.S. agencies–asset-backed securities	238,328	228,948	74,020	70,902	1,678,543	1,351,183
Corporate–asset-backed securities	100,994	177,035	6,510	6,101	1,061,912	1,624,338
Supranational/foreign	1,263,165	937,762	745	723	1,317,034	1,468,289
Other	221,836	205,136	11,960	2,868	11,849	12,108
Other U.S. dollar denominated	**10,335,742**	**9,236,617**	**184,019**	**164,964**	**9,093,154**	**9,746,819**
Foreign currency denominated:						
Corporate	18,060	3,201			103,967	18,766
Foreign currency denominated	**18,060**	**3,201**			**103,967**	**18,766**
Commingled funds:						
Absolute return funds	1,631,766	1,515,715	866,167	648,205	2,836,255	2,344,270
Balanced funds			810,675	694,110		
U.S. equity funds	156,686	129,642	499,183	352,198	1,248,291	1,041,972
Non-U.S. equity funds	489,792	390,513	643,018	463,154	2,923,089	1,959,563
U.S. bond funds	81,410	48,770	318,165	282,082	477,456	4,437
Non-U.S. bond funds			50,741	52,510		
Real estate investment trusts	159,123	69	82,718	57,394	90,864	81,241
Money market funds	257,403	253,899	436,960	388,656	2,053,697	1,002,554
Commingled funds	**2,776,180**	**2,338,608**	**3,707,627**	**2,938,309**	**9,629,652**	**6,434,037**
Investment derivatives	(1,740)	(3,583)	(1,081)		15,661	(7,659)
Private equity	531,949	425,450	410,307	338,768	3,085,296	2,510,618
Mortgage loans	705,548	799,395	422	527		
Insurance contracts					630,091	904,028
Real assets	73,677	28,428			327,721	161,392
Real estate	398,128	207,158	118,923	109,221	1,986,507	950,278
Externally held irrevocable trusts	234,305	215,937	31,376	17,447		
Other investments	10,195	6,993	187,933	101,495		
Campus foundations' investments with the University	(1,064,408)	(1,025,675)				
UCRS investment in STIP	(715,967)	(259,488)				
Total investments	**18,258,665**	**15,952,930**	**5,151,869**	**4,037,367**	**$ 54,218,018**	**$ 45,855,690**
Less: Current portion	(3,710,307)	(2,329,965)	(362,884)	(327,089)		
Noncurrent portion	**$ 14,548,358**	**$ 13,622,965**	**$ 4,788,985**	**$ 3,710,278**		

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond 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. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance—in the rating agency's opinion—that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. On August 8, 2011, S&P downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These downgrades could adversely affect the market value of such instruments and the credit risk associated with U.S. Treasury securities held as investments by the University.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government. Effective September 2008, Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency. At the same time, the U.S. Treasury put in place a set of financing agreements to ensure Fannie Mae and Freddie Mac have the ability to fulfill their obligations to holders of bonds that they have issued or guaranteed.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP, the two-year Treasury note, has no credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of STIP must be A or better and commercial paper must be rated at least A-1, P-1 or F-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as TRIP, UCRS and GEP by virtue of the benchmarks chosen for the fixed income portion of those pools.

Fixed income benchmarks for TRIP include the Barclays Capital Aggregate Credit Index, Barclays Capital Aggregate Securitized Index, the Merrill Lynch High-Yield Cash Pay Index and the Barclays Capital Aggregate Government Index. The TRIP fixed income benchmark is comprised of 69 percent high grade corporate bonds, 8 percent mortgage/asset-backed securities, and 15 percent below investment grade securities, all of which carry some degree of credit risk. The remaining 8 percent is government-issued bonds.

The fixed income benchmarks for UCRS and GEP, Barclays Capital U.S. Aggregate Bond Index, is comprised of 25 percent high grade corporate bonds and 36 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 39 percent is government-issued bonds.

Credit risk in TRIP, UCRS and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP mandate that no more than 10 percent of the market value of fixed income securities may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both UCRP and GEP allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

The credit risk profile for fixed or variable income securities at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Fixed or variable income securities:						
U.S. government guaranteed	$ 1,679,401	$1,640,066	$ 226,022	$ 128,832	$ 6,357,554	$5,475,859
Other U.S. dollar denominated:						
AAA	1,415,993	2,149,462	91,411	87,283	4,990,811	5,716,677
AA	1,041,691	953,573	25,033	13,735	205,378	264,986
A	2,979,781	2,481,039	44,964	21,041	995,155	679,068
BBB	1,772,536	1,413,946	15,363	17,825	1,116,362	1,195,347
BB	272,787	207,797	4,595	7,178	454,870	563,462
B	275,042	211,592	2,632	14,528	994,472	888,949
CC or below	59,730	54,782		1,960	332,921	417,275
A-1 / P-1/ F-1	2,517,437	1,746,836	21	1,018	906	16,288
Not rated	745	17,591		395	2,279	4,767
Foreign currency denominated:						
BBB	15,611				88,462	
B	2,449	3,201			15,505	18,766
Commingled funds:						
U.S. bond funds: Not rated	81,410	48,770	318,165	282,082	477,456	4,437
Non-U.S. bond funds: Not rated			50,741	52,510		
Money market funds: Not rated	257,403	253,899	436,960	388,656	2,053,697	1,002,554
Mortgage loans: Not rated	705,548	799,395	422	527		
Insurance contracts: Not rated					630,091	904,028

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

Substantially all of the University's, campus foundations' and UCRS' 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 for such investments is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the University and UCRS portfolios include a limit of no more than 3 percent 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 STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, other investment pools or investments that are invested by the University for the foundations are not subject to concentration of credit risk. Most of the foundations that hold other types of investments have policies to limit the exposure to an individual issuer.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of investments held by an individual foundation at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	**2010**
Fannie Mae	$ 49,185	$ 60,423
Baupost Bermuda Value Partners-IV		35,661

Interest Rate Risk

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 a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for STIP 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. The nature and maturity of individual securities in STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed income portion of TRIP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital Aggregate Credit Index, Barclays Capital Aggregate Securitized Index, the Merrill Lynch High-Yield Cash Pay Index and Barclays Capital Aggregate Government Index), plus or minus 10 percent. Similarly, portfolio guidelines for the fixed income portion of UCRS and GEP limit weighted average effective duration to the effective duration of their benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed or variable income securities at June 30, 2011 and 2010 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1.1	1.9	3.1	3.3	1.6	1.7
U.S. Treasury strips	8.0	9.9			6.9	11.1
U.S. TIPS	4.5	3.6			4.5	3.8
U.S. government-backed securities			3.7	3.2	5.5	5.8
U.S. government-backed–asset-backed securities			2.3	2.1		
Other U.S. dollar denominated:						
Corporate bonds	3.4	3.0	3.6	3.7	5.4	5.1
Commercial paper	0.1	0.0				
U.S. agencies	2.1	1.3	3.0	3.4	2.6	2.5
U.S. agencies–asset-backed securities	4.5	2.6	1.7	1.7	4.4	3.1
Corporate–asset-backed securities	4.5	4.1	0.2	0.3	3.5	3.4
Supranational / foreign	4.6	5.0	4.2	5.2	6.3	6.0
Other	0.3	0.4	5.2	9.2	13.0	14.2
Foreign currency denominated:						
Corporate	2.1	4.2			4.1	4.2
Commingled funds:						
U.S. bond funds	5.0	4.3	4.5	4.3	5.2	
Non-U.S. bond funds			5.8	6.8		
Money market funds	0.0	0.0	1.4	1.4	1.5	1.6
Insurance contracts: Not rated					0.0	0.0

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds, with the exception of STIP, to be zero. The terms of the mortgage loans include variable interest rates, insurance contracts can be liquidated without loss of principal and money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2011 and 2010, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Mortgage-backed securities	$ 203,249	$ 354,260	$ 63,422	$ 65,295	$1,828,295	$ 2,308,717
Collateralized mortgage obligations	15,133	19,975	2,833	4,970	112,077	198,261
Other asset-backed securities	16,369	28,820	6,510	4,270	295,185	464,024
Variable rate securities	140,479	169,391			523,426	11,793
Callable bonds	1,150,143	1,010,098	458	267	1,850,704	2,113,830
Convertible bonds	1,198	743			7,184	4,511
Total	**$1,526,571**	**$1,583,287**	**$ 73,223**	**$ 74,802**	**$4,616,871**	**$5,101,136**

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

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 opposite is true.

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.

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 rate may change. These constraints may affect the market value of the security.

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.

At June 30, 2011 and 2010, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Mortgage-backed securities	4.9	3.5	1.6	1.7	5.0	3.9
Collateralized mortgage obligations	3.8	2.7	2.8	1.6	3.1	2.4
Other asset-backed securities	0.5	0.8	0.2	3.7	1.0	0.8
Variable rate securities	3.5	0.2			4.7	2.4
Callable bonds	3.3	1.8	4.2	8.7	3.5	2.4
Convertible bonds	9.1	4.4			9.0	4.4

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP, UCRS and GEP includes allocations to non-U.S. equities and non-dollar denominated bonds. The benchmarks for these investments are not hedged, therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it 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. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2011 and 2010, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Equity securities:						
Euro	$ 462,714	$ 301,065	$ 13,513	$ 12,647	$ 2,741,927	$ 2,075,324
British Pound	295,343	197,673	14,644	12,646	1,752,873	1,373,841
Japanese Yen	291,471	221,071	10,036	10,321	1,729,404	1,552,663
Canadian Dollar	142,184	91,422	1,721	1,354	869,330	678,245
Swiss Franc	121,599	85,015	9,344	6,818	720,923	577,801
Australian Dollar	115,927	68,119	3,679	3,451	696,350	497,688
Hong Kong Dollar	45,873	31,931	8,066	8,058	266,497	208,805
Swedish Krona	45,286	24,265	1,307	1,447	269,294	176,436
Singapore Dollar	26,139	18,680	478	490	153,473	125,588
Danish Krone	14,834	10,436	801	896	88,369	71,132
Norwegian Krone	13,788	6,332	1,251	437	81,401	45,621
Israeli Shekel	7,772	5,662			48,552	45,592
Other	15,412	13,445	1,303	5,572	79,198	67,906
Subtotal	**1,598,342**	**1,075,116**	**66,143**	**64,137**	**9,497,591**	**7,496,642**
Fixed income securities:						
Brazilian Real	2,855				16,176	
Mexican Peso	2,256				12,786	
Malaysian Ringgit	2,207				12,509	
Euro	2,177	3,069			13,781	17,995
South African Rand	2,153				12,200	
Indonesian Rupiah	2,023				11,465	
Polish Zloty	1,515				8,584	
Turkish Lira	1,191				6,748	
Other	1,683	132			9,718	771
Subtotal	**18,060**	**3,201**			**103,967**	**18,766**
Commingled funds (various currency denominations):						
Balanced funds			205,850	152,118		
Non-U.S. equity funds	489,792	390,513	528,049	420,496	2,923,089	1,959,563
U.S. bond funds			4,691	4,877		
Non-U.S. bond funds			36,509	35,202		
Real estate investment trusts			12,840	20,916		
Subtotal	**489,792**	**390,513**	**787,939**	**633,609**	**2,923,089**	**1,959,563**
Investment derivatives:						
Swedish Krona	(514)	(10)			(1,337)	(44)
Australian Dollar	(892)	(383)			(592)	(213)
Canadian Dollar	(778)	65			76	411
British Pound	(320)	(1,163)			482	321
Japanese Yen	435	(737)			494	(366)
Euro	(2,919)	937			980	731
Other	123	(789)			266	131
Subtotal	**(4,865)**	**(2,080)**			**369**	**971**
Private equity:						
Euro	5,195	693	179	4,066	61,508	14,030
Other	451	146		1,897	9,984	3,237
Real estate:						
Hong Kong Dollar	4,399	902			30,438	8,637
Australian Dollar	3,345				23,143	
Japanese Yen	2,820	638			19,511	6,103
Euro	2,571				17,789	
British Pound	1,799				12,445	
Singapore Dollar	1,702				11,775	
Other	2,599	2,058			17,985	19,704
Subtotal	**24,881**	**4,437**	**179**	**5,963**	**204,578**	**51,711**
Total exposure to foreign currency risk	**$ 2,126,210**	**$1,471,187**	**$ 854,261**	**$703,709**	**$12,729,594**	**$ 9,527,653**

Liquidity Risks

Alternative investments are subject to liquidity risk. Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Additionally, certain asset-backed securities are thinly traded and subject to liquidity risk.

Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets.

These securities do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

The University's portfolio includes the following alternative investments as of June 30, 2011 and 2010:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Absolute return funds	$ 1,631,766	$ 1,515,715	$ 866,167	$ 648,205	$ 2,836,255	$ 2,344,270
Private equity	531,949	425,450	410,307	338,768	3,085,296	2,510,618
Real estate	398,128	207,158	118,923	109,221	1,986,507	950,278
Real assets	73,677	28,428			327,721	161,392
Corporate–asset-backed securities	26,731	102,455	6,510	6,101	273,010	974,372
Total	**$2,662,251**	**$2,279,206**	**$1,401,907**	**$1,102,295**	**$ 8,508,789**	**$6,940,930**

The University's Investment Pools

The composition of the University's investments at June 30, 2011, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				
	STIP	TRIP	GEP	OTHER	TOTAL
Equity securities:					
Domestic		$ 463,360	$ 1,116,317	$ 99,576	$ 1,679,253
Foreign		450,399	1,118,970	28,973	1,598,342
Fixed or variable income securities:					
U.S. government guaranteed	$1,272,135	89,130	303,307	14,829	1,679,401
Other U.S. dollar denominated	7,540,157	1,834,361	704,113	257,111	10,335,742
Foreign currency denominated			18,060		18,060
Commingled funds		212,866	2,489,717	73,597	2,776,180
Investment derivatives		(4,775)	3,021	14	(1,740)
Private equity			512,064	19,885	531,949
Mortgage loans	705,548				705,548
Real estate			73,677		73,677
Real assets			379,531	18,597	398,128
Externally held irrevocable trusts				234,305	234,305
Other investments				10,195	10,195
Subtotal	**9,517,840**	**3,045,341**	**6,718,777**	**757,082**	**20,039,040**
Campus foundations' investments with the University	(407,273)		(476,481)	(180,654)	(1,064,408)
UCRS investment in STIP	(715,967)				(715,967)
Total investments	**$ 8,394,600**	**$ 3,045,341**	**$ 6,242,296**	**$ 576,428**	**$18,258,665**

The total investment return based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the year ended June 30, 2011 was 11.2 percent for TRIP, 20.2 percent for GEP and 20.5 percent for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same period, was 2.5 percent. Other investments consist of numerous, small portfolios of investments, or individual securities, each with its individual rate of return.

Related Party Relationships with the University

UCRS and campus foundations may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP are recorded by the University as the manager of the pool. The net asset value for STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP.

The campus foundations may purchase or redeem shares in GEP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the campus foundations based upon the number of shares held.

UCRS

UCRS had $716.0 million and $259.5 million invested in STIP at June 30, 2011 and 2010, respectively. These investments are excluded from the University's statement of net assets and are included in the UCRS' statement of plans' fiduciary net assets. They are categorized as commingled money market funds in the composition of investments for UCRS. STIP investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, UCRS totaling $13.1 million and $7.1 million for the years ended June 30, 2011 and 2010, respectively.

Campus Foundations

Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net assets and included in the campus foundations' statement of net assets. Under the accounting policies elected by each separate foundation, certain foundations classify all or a portion of their investment in STIP as cash and cash equivalents, rather than investments. Substantially all of the campus foundations' investments managed by the Chief Investment Officer are categorized as commingled funds or commingled money market funds by the campus foundations in the composition of investments.

The fair value of the campus foundations' cash and cash equivalents and investments that are invested with the University, by investment pool at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	2011	2010
STIP	$ 407,273	$ 407,269
GEP	476,481	506,536
Other investment pools	180,654	111,870
Campus foundations' investments with the University	**1,064,408**	**1,025,675**
Classified as cash and cash equivalents by campus foundations	(25,927)	(28,801)
Classified as investments by campus foundations	**$1,038,481**	**$ 996,874**

Endowment investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, the campus foundations totaling $20.7 million and $20.0 million for the years ended June 30, 2011 and 2010, respectively.

Agency Relationships with the University

STIP and GEP are external investment pools and include investments in behalf of external organizations that are associated with the University, although not financially accountable to the University. These organizations are not required to invest in these pools. Participants purchase or redeem shares in STIP at a constant value of $1 per share and purchase or redeem shares in GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	2011	2010
Short-term investments:		
STIP	$ 78,399	$ 72,746
GEP	164,149	130,914
Other investment pools	15,889	13,938
Total agency assets	**$258,437**	**$217,598**
Funds held for others	**$258,437**	**$217,598**

The composition of the net assets at June 30, 2011 and 2010 for STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2011	2010	2011	2010
Investments	$ 9,517,840	$ 9,027,276	$ 6,718,777	$ 5,711,000
Investment of cash collateral	981,044	1,725,766	613,618	675,907
Securities lending collateral	(981,039)	(1,726,553)	(613,615)	(676,214)
Other assets (liabilities), net	1,155,441	116,948	(71,655)	(99,238)
Net assets	**$10,673,286**	**$9,143,437**	**$6,647,125**	**$5,611,455**

The changes in net assets for STIP and GEP for the years ending June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2011	2010	2011	2010
Net assets, beginning of year	$ 9,143,437	$ 8,019,759	$ 5,611,455	$ 5,076,701
Investment income	231,349	239,986	112,136	99,416
Net appreciation (depreciation) in fair value of investments	(43,594)	143,305	1,041,536	478,481
Transfer to TRIP	(1,154,383)	(150,000)		
Participant contributions (withdrawals), net	2,496,477	890,387	(118,002)	(43,143)
Net assets, end of year	**$ 10,673,286**	**$ 9,143,437**	**$ 6,647,125**	**$ 5,611,455**

3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in the 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 their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments lent during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral 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 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2011 and 2010, the securities in these pools had a weighted average maturity of 17 and 32 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2011, the University had insignificant exposure to borrowers because the amounts the University owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$ 371,742	$ 272,952	$ 13,599	$ 20,588	$ 2,152,833	$ 2,489,610
Foreign	136,197	108,821	8,425		810,944	775,789
Fixed income securities:						
U.S. government guaranteed	733,304	1,115,759			3,208,305	4,361,438
Other U.S. dollar denominated	860,907	1,139,324			1,397,135	2,212,812
Campus foundations' share	(102,429)	(160,262)	102,429	160,262		
Lent for cash collateral	**1,999,721**	**2,476,594**	**124,453**	**180,850**	**7,569,217**	**9,839,649**
For securities collateral:						
Equity securities:						
Domestic	25,911	33,952			189,301	246,872
Foreign	246,011	89,175			1,448,031	580,818
Fixed income securities:						
U.S. government guaranteed	750,211	274,539			1,982,260	450,538
Other U.S. dollar denominated	207,065	475,648			952,308	1,262,857
Foreign currency denominated	3,485	3,823			3,434	3,624
Lent for securities collateral	**1,232,683**	**877,137**			**4,575,334**	**2,544,709**
Total securities lent	**$3,232,404**	**$ 3,353,731**	**$124,453**	**$ 180,850**	**$ 12,144,551**	**$12,384,358**
COLLATERAL RECEIVED						
Cash	$ 2,145,682	$ 2,699,766	$ 22,803	$ 21,336	$ 7,729,038	$ 10,116,795
Campus foundations' share	(102,429)	(160,262)	102,429	160,262		
Total cash collateral received	**2,043,253**	**2,539,504**	**125,232**	**181,598**	**7,729,038**	**10,116,795**
Securities	1,279,314	907,857			4,748,412	2,633,837
Total collateral received	**$3,322,567**	**$3,447,361**	**$125,232**	**$ 181,598**	**$ 12,477,450**	**$12,750,632**
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	$ 194,601	$ 156,457			$ 700,977	$ 586,292
Commercial paper	76,052	172,272			273,948	645,551
U.S. agencies	108,655	105,282			391,391	394,522
Repurchase agreements	1,151,179	827,908	$ 22,803	$ 17,836	4,146,701	3,102,407
Corporate–asset-backed securities	124,761	217,591		2,000	449,407	815,376
Certificates of deposit/time deposits	192,111	907,605			692,009	3,401,056
Supranational/foreign	297,876	292,061			1,072,992	1,094,435
Other				1,500		
Commingled funds–money market funds		20,472				76,714
Other assets (liabilities), net*	457	(1,111)			1,648	(4,165)
Campus foundations' share	(102,429)	(160,262)	102,429	160,262		
Investment of cash collateral	**2,043,263**	**2,538,275**	**125,232**	**181,598**	**$ 7,729,073**	**$10,112,188**
Less: Current portion	(1,603,647)	(2,054,994)	(103,194)	(151,085)		
Noncurrent portion	**$ 439,616**	**$ 483,281**	**$ 22,038**	**$ 30,513**		

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Securities lending income	$17,537	$15,666	$1,051	$1,136	$ 72,042	$ 74,831
Securities lending fees and rebates	(5,542)	(4,824)	(328)	(348)	(22,770)	(23,041)
Securities lending investment income, net	**$11,995**	**$10,842**	**$ 723**	**$ 788**	**$49,272**	**$ 51,790**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University's and UCRS' investment policies and other information related to each of these risks are summarized below. Campus foundations that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1, P-1 or F-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	$285,604	$337,463		$2,000	$1,028,784	$1,264,571
AA+	21,820				78,600	
AA	294,676	231,189			1,061,461	866,330
AA-	97,738	52,868		1,500	352,064	198,114
A+	26,056	109,395			93,858	409,935
BBB		828				3,102
A-1 / P-1 / F-1	1,419,341	1,947,433			5,112,658	7,297,587
Not rated			$ 22,803	17,836		
Commingled funds:						
Money market funds: Not rated		20,472				76,714
Other assets (liabilities), net* : Not rated	457	(1,111)			1,648	(4,165)
Campus foundations' share	(102,429)	(160,262)	102,429	160,262		

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University and the UCRS securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value at the time of purchase. Campus foundations that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of the total investment of cash collateral at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
JP Morgan Chase			$ 5,416	$ 1,500		
Bank of America		$354,785		19,836		$1,329,481
BNP Paribas		191,365				717,098
ING Bank		147,447				552,526
Morgan Stanley		157,985				592,015
Deutsche Bank Securities			1,140			
HSBC			5,416			
Royal Bank of Canada			5,416			
Citibank			5,415			
Campus foundations' share		(56,330)		56,330		

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed or variable income securities associated with the investment of cash collateral at June 30, 2011 and 2010 is as follows:

(in days)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	23	37			23	37
Commercial paper	31	12			31	12
Repurchase agreements	8	51	1	1	8	51
U.S. agencies	15				15	
Corporate–asset-backed securities	15	15		15	15	15
Certificates of deposit/time deposits	26	25			26	25
Supranational/foreign	38	27			38	27
Other				86		
Commingled funds:						
Money market funds	1	1			1	1

Investment of cash collateral may include various asset-backed securities, structured notes and variable rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2011 and 2010, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2011	2010	2011	2010	2011	2010
Other asset-backed securities	$ 124,761	$ 217,591		$ 2,000	$ 449,407	$ 815,376
Variable rate investments	492,477	448,518			1,773,969	1,680,726
Campus foundations' share	(39,141)	(44,062)	$ 39,141	44,062		
Total	**$578,097**	**$ 622,047**	**$39,141**	**$46,062**	**$ 2,223,376**	**$2,496,102**

At June 30, 2011 and 2010, the weighted average maturity expressed in days for asset-backed securities was 15 days and 15 days, respectively, and for variable rate investments was 32 days and 30 days, respectively.

Foreign Currency Risk

The University's and UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The University may use derivatives—including futures, forward contracts, options and interest rate swap contracts—as a substitute for investment in equity and fixed income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable rate bonds to changes in market interest rates. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University initially records premiums paid for the purchase of these options in the statement of net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor UCRS held any option contracts at June 30, 2011 or 2010.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

The University considers its futures, forward contracts, options, rights and warrants to be investment derivatives.

A swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swap agreements in connection with certain of its variable rate Medical Center Pooled Revenue Bonds.

The University has determined that its interest rate swaps are derivative instruments that meet the criteria for an effective hedge. Certain of the interest rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instrument was $30.1 million and $30.6 million at June 30, 2011 and 2010, respectively.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011 and 2010, categorized by type, and the changes in fair value of such derivatives for the years then ended are as follows:

University of California

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE–POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
CATEGORY	2011	2010	CLASSIFICATION	2011	2010	CLASSIFICATION	2011	2010
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic equity futures:								
Long positions	238,874	129,817	Investments	$ 1,725	$ (1,517)	Net appreciation (depreciation)	$ 45,109	$ (7,856)
Short positions		(1,511)	Investments		13	Net appreciation (depreciation)	(303)	(309)
Foreign equity futures:								
Long positions	33,368	22,126	Investments	397	(78)	Net appreciation (depreciation)	3,267	4,348
Short positions	(9,524)	(4,774)	Investments	(130)	54	Net apprecivation (depreciation)	(883)	(344)
Futures contracts, net				**1,992**	**(1,528)**		**47,190**	**(4,161)**
Foreign currency exchange contracts, net:								
Long positions	37,705	207,687	Investments	(127)	229	Net appreciation (depreciation)	40,678	(4,457)
Short positions	(486,844)	(376,502)	Investments	(5,005)	(2,285)	Net appreciation (depreciation)	(78,301)	10,429
Futures currency exchange contracts, net				**(5,132)**	**(2,056)**		**(37,623)**	**5,972**
Other investment derivatives:								
Stock rights/warrants			Investments	1,400		Net appreciation (depreciation)	498	
Total investment derivatives				**$ (1,740)**	**$ (3,584)**		**$ 10,065**	**$ 1,811**
CASH FLOW HEDGES								
Interest rate swaps:								
Pay fixed, receive variable	260,690	278,385	Other assets (liabilities)	$(47,092)	$(64,082)	Deferred (inflows) outflows	$ 16,990	$(15,978)

University of California Campus Foundations

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT 2011	NOTIONAL AMOUNT 2010	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2011	FAIR VALUE 2010	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2011	CHANGES 2010
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic commodity futures:								
Long positions	20,095		Investments	$ (946)		Net appreciation (depreciation)	$2,150	
Short positions	(1,856)		Investments	(135)		Net appreciation (depreciation)	(135)	
Futures contracts, net				**(1,081)**			**2,015**	
Total investment derivatives				**$(1,081)**			**$2,015**	

University of California Retirement System

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT 2011	NOTIONAL AMOUNT 2010	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2011	FAIR VALUE 2010	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2011	CHANGES 2010
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic equity futures:								
Long positions	1,049,748	597,440	Investments	$ 8,947	$ (8,729)	Net appreciation (depreciation)	$ 169,147	$ 208,024
Short positions		(11,732)	Investments		99	Net appreciation (depreciation)	(2,586)	(2,395)
Foreign equity futures:								
Long positions	226,551	175,338	Investments	2,764	(624)	Net appreciation (depreciation)	23,806	24,952
Short positions	(75,766)	(37,065)	Investments	(1,033)	422	Net appreciation (depreciation)	(7,043)	(2,673)
Futures contracts, net				**10,678**	**(8,832)**		**183,324**	**227,908**
Foreign currency exchange contracts, net:								
Long positions	194,006	143,949	Investments	(939)	1,544	Net appreciation (depreciation)	34,949	7,133
Short positions	(226,053)	(160,253)	Investments	(437)	(371)	Net appreciation (depreciation)	(35,399)	(1,938)
Foreign currency exchange contracts, net				**(1,376)**	**1,173**		**(450)**	**5,195**
Other investment derivatives:								
Stock rights/warrants			Investments	6,359		Net appreciation (depreciation)	2,218	
Total investment derivatives				**$15,661**	**$ (7,659)**		**$185,092**	**$ 233,103**

Objectives and Terms of Hedging Derivative Instruments

The objectives and terms of the hedging derivative instruments outstanding at June 30, 2011 and 2010, along with the credit rating of the associated counterparty, are as follows:

(in thousands of dollars)

TYPE	OBJECTIVE	NOTIONAL AMOUNT		EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	TERMS	COUNTERPARTY CREDIT RATING	FAIR VALUE	
		2011	2010						2011	2010
UNIVERSITY OF CALIFORNIA										
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable rate Medical Center Pooled Revenue Bonds	85,915	88,610	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-Month LIBOR* plus 0.48%	A2/A	$ (9,133)	$ (11,418)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable rate Medical Center Pooled Revenue Bonds	174,775	189,775	2008	2047	None	Pay fixed 4.6873%; receive 67% of 3-Month LIBOR* plus 0.73%**	Aa3/A+	(37,959)	(52,664)
									$(47,092)	**$(64,082)**

** London Interbank Offered Rate (LIBOR)*
***Weighted average spread*

Hedging Derivative Financial Instrument Risk Factors

Credit Risk

The University could be exposed to credit risk if the interest rate swap counterparties to the contracts are unable to meet the terms of the contracts. 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, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk.

Although the University has entered into the interest rate swaps with creditworthy financial institutions to hedge its variable rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the interest rate swap with the $85.9 million notional amount. Depending on the fair value related to the swap with the $174.8 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $75.0 million or the cash and investments held by the medical centers fall below $250.0 million. As of June 30, 2011, there was no collateral required. As of June 30, 2010, the University was obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $50.0 million. On July 1, 2010, the University deposited collateral of $1.9 million with the counterparty, and on July 2, 2010, additional collateral of $0.8 million was deposited by the University.

Interest Rate Risk

There is a risk the value of the interest rate swaps will decline because of changing interest rates. The values of the interest rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis Risk

There is a risk that the basis for the variable payment received on interest rate swaps will not match the variable payment on the bonds that exposes the University 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 basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. However, there is no basis or tax risk related to the swap with the $174.8 million notional amount since the variable rate the University pays to the bond holders matches the variable rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk

There is termination risk for interest rate swaps associated with variable rate bonds in the event of non-performance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain interest rate swaps may be terminated if the swap counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. For the interest rate swap with the $85.9 million notional amount, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swap with the $174.8 million notional amount, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa1/BBB, or the interest rate swap counterparty's rating falls below Baa1/BBB+. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the interest rate swap.

5. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was $1.0 billion and $1.1 billion at June 30, 2011 and 2010, respectively.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustees in the name of the University. The trust agreements permit the trustees to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit.

The composition of cash and investments and the effective durations associated with fixed income securities for self-insurance programs at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2011	2010	2011	2010
Cash	$ (844)	$ 740		
Commingled funds:				
U.S. bond funds	514,561	495,815	0.0	4.8
Money market funds	61,850	25,575		
U.S. equity funds	97,426	86,118		
Total	**$ 672,993**	**$ 608,248**		

Self-insurance investments are held in externally managed commingled funds with underlying credit ratings ranging from B to AAA, where applicable.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various indenture and other long-term debt requirements totaled $57.4 million and $60.5 million at June 30, 2011 and 2010, respectively.

The state financing appropriations to the University are deposited in commingled U.S. bond funds managed by the State of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair value of these deposits was $52.5 million and $51.4 million at June 30, 2011 and 2010, respectively.

In addition, other securities held by trustees are held in the name of the University. These trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements. The fair value of these investments was $4.9 million and $9.1 million at June 30, 2011 and 2010, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled $283.8 million and $439.8 million at June 30, 2011 and 2010, respectively.

Proceeds from the sale of the state's lease revenue bonds to be used for financing certain of the University's capital projects are deposited in a commingled U.S. bond fund managed by the State of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $236.5 million and $310.6 million at June 30, 2011 and 2010, respectively.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing other capital projects. The fair value of these investments was $47.3 million and $129.2 million at June 30, 2011 and 2010, respectively. Substantially all of these investments are of a highly liquid, short term nature.

University deposits into the trusts, or receipts from the trusts, are classified as an operating activity in the University's statement of cash flows if related to the self-insurance programs, or a capital and related financing activity if related to long-term debt requirements or a capital project. Deposits directly into trusts by third parties, investment transactions initiated by trustees in conjunction with the management of trust assets and payments from trusts directly to third parties are not included in the University's statement of cash flows.

6. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	OTHER	TOTAL	
At June 30, 2011						
Accounts receivable	$ 576,100	$ 1,431,697	$ 97,042	$ 1,210,919	$ 3,315,758	$ 20,273
Allowance for doubtful accounts	(2,265)	(280,811)		(43,093)	(326,169)	
Accounts receivable, net	**$ 573,835**	**$1,150,886**	**$97,042**	**$1,167,826**	**$2,989,589**	**$20,273**
At June 30, 2010						
Accounts receivable	$ 652,704	$ 1,336,786	$ 99,292	$ 1,251,645	$ 3,340,427	$ 6,669
Allowance for doubtful accounts	(2,068)	(239,334)		(56,143)	(297,545)	
Accounts receivable, net	**$ 650,636**	**$1,097,452**	**$99,292**	**$1,195,502**	**$3,042,882**	**$ 6,669**

The University's other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees, auxiliary enterprises, insurance rebates and legal settlements.

The campus foundations' accounts receivable are primarily related to investment income.

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2011 and 2010:

(in thousands of dollars)

	2011	2010
Student tuition and fees	$ (1,112)	$ (392)
Grants and contracts:		
Federal	(834)	610
State	611	(189)
Private	338	862
Local	(309)	97
Medical centers	(266,413)	(210,873)
Educational activities	(9,650)	(6,650)
Auxiliary enterprises	(735)	(447)
Other operating revenues	(1,027)	(1,702)

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During the years ended June 30, 2011 and 2010, under the terms of these agreements, the state of California contributed $11.3 million and $11.3 million, respectively, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2011 and 2010, the remaining amounts owed to UCRP by the state were $43.8 million and $50.8 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the state of California and as a liability owed to UCRP.

7. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2011 and 2010 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2011	2010	2011	2010
Total pledges receivable outstanding	$139,618	$90,105	$ 777,172	$ 529,078
Less: Unamortized discount to present value	(6,072)	(2,924)	(133,873)	(86,826)
Allowance for uncollectible pledges	(11,074)	(9,759)	(89,399)	(55,342)
Total pledges receivable, net	**122,472**	**77,422**	**553,900**	**386,910**
Less: Current portion of pledges receivable	(54,101)	(37,771)	(133,562)	(129,238)
Noncurrent portion of pledges receivable	**$ 68,371**	**$39,651**	**$ 420,338**	**$ 257,672**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2011 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2012	$ 61,400	$ 180,292
2013	28,649	71,878
2014	23,268	64,762
2015	13,506	69,670
2016	5,185	41,624
2017-2021	4,859	219,675
Beyond 2021	2,751	129,271
Total payments on pledges receivable	**$139,618**	**$ 777,172**

Adjustments to the allowance for uncollectible pledges for the University have decreased the following revenues for the years ended June 30, 2011 and 2010:

(in thousands of dollars)

	2011	2010
Private gifts	$ (821)	$(3,566)
Capital gifts and grants	(1,186)	(3,250)

8. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2011 and 2010, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
		NONCURRENT					
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
At June 30, 2011							
Notes and mortgages receivable	$ 37,241	$ 304,601	$ 26,894	$ 331,495	$ 10	$ 978	$ 988
Allowance for uncollectible amounts	(4,882)	(15,799)	(142)	(15,941)			
Notes and mortgages receivable, net	**$32,359**	**$ 288,802**	**$26,752**	**$315,554**	**$ 10**	**$ 978**	**$ 988**
At June 30, 2010							
Notes and mortgages receivable	$ 39,765	$ 296,298	$ 29,493	$ 325,791	$ 9	$ 501	$ 510
Allowance for uncollectible amounts	(4,769)	(16,705)	(145)	(16,850)			
Notes and mortgages receivable, net	**$34,996**	**$ 279,593**	**$29,348**	**$308,941**	**$ 9**	**$ 501**	**$ 510**

9. DOE NATIONAL LABORATORY CONTRACTS

Los Alamos National Security, LLC (LANS)

LANS operates and manages the DOE's LANL. LANS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17 to 50 percent. For the years ended June 30, 2011 and 2010, the University recorded $17.1 million and $16.2 million, respectively, as its equity in the current earnings of LANS and received $21.1 million and $14.1 million in cash distributions in 2011 and 2010, respectively.

Lawrence Livermore National Security, LLC (LLNS)

LLNS manages and operates the DOE's LLNL. LLNS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LLNS, its equity in the current earnings or losses is 36.3 percent. For the years ended June 30, 2011 and 2010, the University recorded $14.6 million and $14.5 million, respectively, as its equity in the current earnings of LLNS and received $14.2 million and $14.5 million in cash distributions, respectively.

10. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	2009	ADDITIONS	DISPOSALS	2010	ADDITIONS	DISPOSALS	2011
ORIGINAL COST							
Land	$ 695,640	$ 22,094		$ 717,734	$ 25,435	$ (1,148)	$ 742,021
Infrastructure	485,276	31,869	$ (120)	517,025	38,663	(295)	555,393
Buildings and improvements	22,085,307	1,840,680	(49,371)	23,876,616	1,875,653	(48,846)	25,703,423
Equipment, software and intangibles	4,930,937	484,596	(280,988)	5,134,545	554,103	(246,247)	5,442,401
Libraries and collections	3,307,699	150,813	(16,358)	3,442,154	120,905	(12,370)	3,550,689
Special collections	307,137	12,358	(158)	319,337	12,061	(4,890)	326,508
Construction in progress	2,874,883	(31,327)		2,843,556	98,086		2,941,642
Capital assets, at original cost	**$34,686,879**	**$ 2,511,083**	**$ (346,995)**	**$36,850,967**	**$2,724,906**	**$(313,796)**	**$39,262,077**

	2009	DEPRECIATION AND AMORTIZATION	DISPOSALS	2010	DEPRECIATION AND AMORTIZATION	DISPOSALS	2011
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 214,236	$ 13,564	$ (76)	$ 227,724	$ 19,055	$ (115)	$ 246,664
Buildings and improvements	7,642,049	729,238	(19,312)	8,351,975	837,961	(26,773)	9,163,163
Equipment, software and intangibles	3,225,652	410,494	(257,559)	3,378,587	430,126	(206,315)	3,602,398
Libraries and collections	2,328,027	113,838	(12,235)	2,429,630	117,696	(7,751)	2,539,575
Accumulated depreciation and amortization	**$13,409,964**	**$1,267,134**	**$ (289,182)**	**$14,387,916**	**$1,404,838**	**$(240,954)**	**$15,551,800**
Capital assets, net	**$21,276,915**			**$22,463,051**			**$23,710,277**

11. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance and other liabilities at June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2011		2010		2011		2010	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$158,776	$430,300	$154,884	$431,071				
Obligations under life income agreements	863	$ 26,856	812	$ 26,981	$21,486	$147,332	$20,278	$143,737
Other liabilities:								
Compensated absences	433,465	$239,462	427,490	$275,156				
UCRP*		36,161		43,768				
Accrued interest	82,327		84,375					
Fair value of interest rate swaps		47,092		64,082				
Other	312,260	131,391	239,675	137,719	1,176	17,246	734	14,072
Total	**$987,691**	**$454,106**	**$907,236**	**$520,725**	**$22,662**	**$ 17,246**	**$21,012**	**$ 14,072**

** UCRP has an equivalent amount recorded as a contribution receivable from the University in its statement of fiduciary net assets.*

Self-Insurance Programs

Changes in self-insurance liabilities for the years ended June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2011					
Liabilities at June 30, 2010	$ 184,521	$ 308,833	$ 7,184	$ 85,417	$ 585,955
Claims incurred and changes in estimates	44,331	59,080	39,642	20,138	163,191
Claim payments	(35,260)	(66,154)	(41,266)	(17,390)	(160,070)
Liabilities at June 30, 2011	**$ 193,592**	**$301,759**	**$ 5,560**	**$88,165**	**$589,076**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	**2.0%**	
Year Ended June 30, 2010					
Liabilities at June 30, 2009	$ 186,536	$ 308,319	$ 9,790	$ 93,369	$ 598,014
Claims incurred and changes in estimates	50,911	69,065	39,717	7,250	166,943
Claim payments	(52,926)	(68,551)	(42,323)	(15,202)	(179,002)
Liabilities at June 30, 2010	**$ 184,521**	**$308,833**	**$ 7,184**	**$85,417**	**$585,955**
Discount rate	**5.3%**	**5.0%**	**Undiscounted**	**3.5%**	

The University decreased the discount rates at June 30, 2011 and 2010 from those used in the previous fiscal years. The change increased the estimate for medical malpractice and general liability claims by $1.6 million and $3.1 million, respectively, for the year ending June 30, 2011. The change increased the estimate for medical malpractice and general liability claims by $1.5 million and $1.9 million, respectively, for the year ending June 30, 2010.

Obligations Under Life Income Agreements

Changes in current and noncurrent obligations under life income agreements for the years ended June 30, 2011 and 2010 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2011				
Balance at June 30, 2010	$ 11,518	$ 16,275	$ 56,061	$ 107,954
New obligations to beneficiaries and change in liability, net	2,347	805	2,058	22,527
Payments to beneficiaries	(1,728)	(1,498)	(7,695)	(12,087)
Obligations under life income agreements at June 30, 2011	**12,137**	**15,582**	**50,424**	**118,394**
Less: Current portion	(397)	(466)	(6,960)	(14,526)
Noncurrent portion at June 30, 2011	**$11,740**	**$15,116**	**$43,464**	**$103,868**
Year Ended June 30, 2010				
Balance at June 30, 2009	$ 12,547	$ 16,688	$ 60,600	$ 100,628
New obligations to beneficiaries and change in liability, net	728	1,012	1,966	17,845
Payments to beneficiaries	(1,757)	(1,425)	(6,505)	(10,519)
Obligations under life income agreements at June 30, 2010	**11,518**	**16,275**	**56,061**	**107,954**
Less: Current portion	(402)	(410)	(7,354)	(12,924)
Noncurrent portion at June 30, 2010	**$ 11,116**	**$ 15,865**	**$48,707**	**$ 95,030**

12. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations or indirectly through structures that involve legally separate entities reported as blended component units. Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2011	2010
INTERIM FINANCING:					
Commercial paper		0.1 - 0.4%	2011	$ 799,810	$ 407,810
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.8%	2.0 – 7.6%	2012–2050	5,955,242	5,810,210
University of California Limited Project Revenue Bonds	5.1%	2.0 – 6.3%	2012–2050	1,832,070	1,363,905
University of California Multiple Purpose Projects Revenue Bonds	4.6%	4.0 – 5.0%	2011–2027	87,830	162,560
University of California Medical Center Pooled Revenue Bonds	5.5%	2.9 – 6.6%	2012–2049	2,264,185	1,546,275
University of California Medical Center Revenue Bonds	5.3%	3.6 – 5.5%	2011–2039	83,720	131,035
Adjusted by: Unamortized deferred financing costs				(119,675)	(99,656)
Unamortized bond premium				231,266	206,000
University of California revenue bonds	**5.0%**			**10,334,638**	**9,120,329**
Capital lease obligations		0.7 – 10.0%	2011–2035	2,443,256	2,558,305
Other University borrowings		Various	2011–2047	197,415	252,106
Blended component unit revenue bonds, net	5.7%	3.0 – 6.5%	2012–2049	602,602	604,190
Total outstanding debt				**14,377,721**	**12,942,740**
Less: Commercial paper				(799,810)	(407,810)
Current portion of outstanding debt				(529,038)	(587,598)
Noncurrent portion of outstanding debt				**$13,048,873**	**$11,947,332**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2011 and 2010 was $636.4 million and $554.2 million, respectively. Interest expense, net of investment income, totaling $64.0 million and $93.7 million was capitalized during the years ended June 30, 2011 and 2010, respectively. The remaining $572.4 million in 2011 and $460.5 million in 2010 is reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with blended component units, for the years ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL
Year Ended June 30, 2011					
Long-term debt and capital leases at June 30, 2010	$ 9,120,329	$2,558,305	$252,106	$604,190	$12,534,930
New obligations	1,835,571	39,723	31,714		1,907,008
Bond premium	44,808				44,808
Deferred financing costs	(31,342)				(31,342)
Refinancing or prepayment of outstanding debt	(412,875)				(412,875)
Scheduled principal payments	(213,635)	(154,772)	(86,405)	(1,360)	(456,172)
Amortization of bond premium	(19,541)			(491)	(20,032)
Amortization of deferred financing costs	11,323			263	11,586
Long-term debt and capital leases at June 30, 2011	**10,334,638**	**2,443,256**	**197,415**	**602,602**	**13,577,911**
Less: Current portion	(278,339)	(169,918)	(75,629)	(5,152)	(529,038)
Noncurrent portion at June 30, 2011	**$10,056,299**	**$2,273,338**	**$121,786**	**$597,450**	**$13,048,873**
Year Ended June 30, 2010					
Long-term debt and capital leases at June 30, 2009	$7,355,507	$2,374,908	$262,988	$330,542	$10,323,945
New obligations	1,932,296	329,887	196,911	269,670	2,728,764
Bond premium	31,227			4,922	36,149
Refinancing or prepayment of outstanding debt			(167,318)		(167,318)
Scheduled principal payments	(191,814)	(146,490)	(40,475)	(1,090)	(379,869)
Amortization of bond premium	(15,341)			(117)	(15,458)
Amortization of deferred financing costs	8,454			263	8,717
Long-term debt and capital leases at June 30, 2010	**9,120,329**	**2,558,305**	**252,106**	**604,190**	**12,534,930**
Less: Current portion	(302,482)	(163,258)	(120,418)	(1,440)	(587,598)
Noncurrent portion at June 30, 2010	**$8,817,847**	**$2,395,047**	**$131,688**	**$602,750**	**$11,947,332**

Commercial Paper

The University has available a $2.0 billion commercial paper program, issued in two series, with tax-exempt and taxable components. Commercial Paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers and other working capital needs, standby or interim financing for gift financed projects and working capital for the University.

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the University.

Commercial paper outstanding, including interest rates, at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	2011		2010	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	0.1–0.3%	$ 246,300	0.3–0.3%	$ 71,300
Taxable	0.1–0.4%	553,510	0.2–0.5%	336,510
Total outstanding		**$ 799,810**		**$ 407,810**

The expectation is that the University will continue to utilize available investments for liquidity support for the commercial paper program. Alternatively, the University may utilize a line of credit from an external bank. In April 2010, the University entered into a $250 million revolving credit agreement with a major financial institution for the purpose of providing additional liquidity support for the commercial paper program.

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require the University to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues for the years ended June 30, 2011 and 2010 were $8.7 billion and $7.7 billion, respectively.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2011 and 2010 were $433.6 million and $352.9 million, respectively.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2011 and 2010 were $148.4 million and $465.8 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledge of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center gross revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Gross revenues of the medical centers for the years ended June 30, 2011 and 2010 were $6.5 billion and $5.9 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of one of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with the medical center. The Medical Center Revenue Bond indentures require one medical center to achieve debt service coverage of 1.1 times, set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under Multiple Purpose Projects Revenue Bonds, commercial paper agreements or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

Medical Center gross revenues are not pledged for any purpose other than under the indentures for the Medical Center Pooled Revenue Bonds, interest rate swap agreements and specific Medical Center Revenue Bonds. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Revenue Bonds. The pledge of medical center revenues for interest rate swap agreements may be at parity with or subordinate to specific Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

All indentures permit the University to issue additional bonds as long as certain conditions are met.

2011 Activity

In July 2010, General Revenue Bonds totaling $144.0 million were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $17.2 million, were also used to refund $58.3 million of outstanding Multiple Purpose Projects Revenue Bonds and $87.7 million of General Revenue Bonds. The bonds mature at various dates through 2024 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In September 2010, Limited Project Revenue Bonds totaling $681.8 million, including $486.1 million of taxable "Build America Bonds" and $195.7 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of $22.9 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $18.2 million. The bonds mature at various dates through 2050. The taxable bonds have a stated weighted average interest rate of 6.0 percent and a net weighted average interest rate of 3.9 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a stated weighted average interest rate of 4.5 percent.

In November 2010, Medical Center Pooled Revenue Bonds totaling $757.3 million, including $700.0 million of taxable "Build America Bonds," $9.2 million of taxable bonds and $48.1 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the medical centers. Proceeds, including a bond premium of $5.3 million, were used to pay for project construction and issuance costs. The bonds mature at various dates through 2048. The taxable bonds have a stated weighted average interest rate of 6.5 percent and a net weighted average interest rate of 4.2 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The taxable bonds have a weighted average interest rate of 5.2 percent. The tax-exempt bonds have a weighted average interest rate of 4.4 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In December 2010, General Revenue Bonds totaling $200.0 million of taxable "Building America Bonds" were issued to finance and refinance certain improvements and capital projects on various campuses. Proceeds are available to pay for project construction and issuance costs. The bonds were issued in an initial term rate mode and are subject to mandatory tender on March 1, 2013, upon which they are expected to be remarketed. The final maturity date is 2050. Through April 30, 2013, the taxable "Build America Bonds" have a stated interest rate of 2.0 percent and a net interest rate of 1.3 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the bonds.

In December 2010, California Statewide Communities Development Authority Recovery Zone Economic Development bonds totaling $48.7 million were issued to pay for project construction and issuance costs. The bonds mature in 2040. The bonds have a stated interest rate of 7.6 percent and a net interest rate of 4.2 percent after the expected cash subsidy payment from the United States Treasury equal to 45.0 percent of the interest payable on the bonds.

In January 2011, General Revenue Bonds totaling $3.7 million, consisting of "Taxable-Clean Renewable Energy Bonds", were issued to pay for project construction and issuance costs. The bonds mature in 2026 and have a stated interest rate of 5.8 percent and a net interest rate of 2.0 percent after the expected cash subsidy payment from the United States Treasury equal to 70.0 percent of the posted tax credit rate.

Subsequent Event

In July 2011, General Revenue Bonds totaling $1.2 billion, including $550.0 million taxable fixed rate notes, $500.0 million taxable floating rate notes, and $150.0 million taxable variable rate demand bonds, were issued to finance pension contributions to the UCRP, operating costs (on an interim basis), and issuance costs. The taxable fixed rate notes have a stated interest rate of 0.5 percent for $263.5 million, maturing in 2012, and 0.9 percent for $286.5 million, maturing in 2013. The taxable floating rate notes and taxable variable rate demand bonds mature at various dates through 2041. The interest rates on the variable rate demand bonds reset weekly, and, in the event of a failed remarketing, can be put back to The Regents for tender. The taxable floating rate notes bear interest based on the one-month London Interbank Offer Rate (LIBOR) plus 0.08 percent.

2010 Activity

In August 2009, General Revenue Bonds totaling $1.3 billion, including $1.0 billion of taxable "Build America Bonds" and $300.6 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of $20.0 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $397.9 million. The bonds mature at various dates through 2043. The taxable bonds have a stated weighted average interest rate of 5.9 percent and a net weighted average interest rate of 3.8 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 5.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In December 2009, Medical Center Pooled Revenue Bonds totaling $523.9 million, including $429.1 million of taxable "Build America Bonds" and $94.8 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the medical centers. Proceeds, including a bond premium of $4.1 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $161.0 million. The bonds mature at various dates through 2049. The taxable bonds have a stated weighted average interest rate of 6.6 percent and a net weighted average interest rate of 4.3 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In April 2010, General Revenue Bonds totaling $85.5 million, including $75.4 million of tax-exempt bonds and $10.1 million of taxable bonds, were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of $7.1 million, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $24.5 million. The bonds mature at various dates through 2040. The tax-exempt bonds have a weighted average interest rate of 4.9 percent and the taxable bonds have a weighted average interest rate of 5.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Capital Leases

The University has entered into lease-purchase agreements with the state of California that are recorded as capital leases. The state sells lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. During the construction phase, the University acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until the University is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to the University under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to the University to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to the University.

The University entered into lease-purchase agreements with the state totaling $271.1 million during the year ended June 30, 2010, to finance the construction of various University projects. No agreements were entered into for the year ended June 30, 2011.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2011 and 2010 was $200.0 million and $141.8 million, respectively. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2011 and 2010 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2011	2010
Capital lease principal	$ 98,890	$ 93,275
Capital lease interest	111,436	110,728
Total	**$ 210,326**	**$204,003**

Capital leases entered into with other lessors, typically for equipment, totaled $39.7 million and $58.8 million for the years ended June 30, 2011 and 2010, respectively.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities, along with the borrowing component associated with a hybrid derivative instrument.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through January 28, 2014, totaled $394.6 million at June 30, 2011. Outstanding borrowings under these bank lines totaled $55.7 million and $105.1 million at June 30, 2011 and 2010, respectively.

Certain of the interest rate swaps are considered hybrid instruments. As such, the interest rate swaps are comprised of a derivative instrument and a companion instrument recorded as a borrowing. The unamortized amount of the borrowing was $30.1 million and $30.6 million at June 30, 2011 and 2010, respectively.

Blended Component Unit Revenue Bonds

Student Housing

The University has entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities and improvements on a University campus through the use of a single-project limited liability corporation (LLC). The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the ownership, operation and management of the improvements are the obligation of the LLC. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

The LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds to finance the construction of the student housing facility. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of The Regents.

The LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds totaling $220.9 million. Proceeds, including a bond premium of $500 thousand, are available to finance the construction of a new student housing project and related amenities and improvements. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.9 percent.

Research Facilities

In 2010, the University and a legally separate, non-profit corporation created a public/private partnership for the purpose of developing, constructing and managing a neuroscience research laboratory building. The University entered into a ground lease with the corporation. The corporation has entered into a sub-ground lease with a developer to construct, own and manage the building. The University agreed to lease all of the space in the building from the developer. The University's base rent payments are equal to the principal and interest payments on the bonds issued by the corporation to finance the construction of the building. As security on the bonds, the developer has assigned all payments received from the University for the space lease to the bond trustee.

All of the board members of the non-profit corporation are appointed by the University and the University has the authority to determine the budget for the corporation. Under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

In March 2010, the corporation, through a conduit issuer, issued tax-exempt revenue bonds totaling $19.7 million and taxable revenue bonds totaling $188.0 million. Proceeds, including a bond premium of $1.8 million, are principally to finance the construction of the research building. The tax-exempt revenue bonds mature at various dates from between 2021 through 2025 and have a weighted average interest rate of 5.0 percent. They generally have annual serial maturities, semi-annual interest payments and optional redemption provisions. The taxable bonds mature in 2049 and have an interest rate of 6.5 percent. The taxable bonds were issued as "Build America Bonds", under which the U.S. Treasury is expected to send the non-profit corporation 35.0 percent of the semi-annual interest cost on the taxable bonds, making the net interest rate 4.2 percent post-subsidy. The bonds have a term maturity with various certain annual sinking fund requirements, semi-annual interest payments and optional redemption provisions.

In addition, the University has entered into a ground lease with a legally separate, non-profit corporation (the Consortium). The Consortium entered into an agreement with a developer to develop and own a research laboratory facility designed to expand collaborative work in stem cell research and facilitate its translation into tools and techniques to diagnose and treat degenerative diseases and other ailments. The developer is responsible for designing and constructing the research laboratory facility. All costs associated with the ownership, operation and management of the laboratory research facility are the obligation of the Consortium. The University, along with the other collaborative research partners, will lease space in the building. Under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

In May 2010, the Consortium, through its conduit issuer, issued revenue bonds totaling $62.0 million. Proceeds, including a bond premium of $3.1 million, are available to finance the construction of the research laboratory facility. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.0 percent. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. Lease payments from the occupants of the building are pledged as collateral on the bonds. To the extent the lease payments are not sufficient to pay the debt service, the University is obligated to pay the shortfall.

Future Debt Service and Hedging Derivative Interest Rate Swaps

Future debt service payments for the University's fixed and variable rate debt and net receipts or payments on associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2011 and thereafter are as presented below. Although not a prediction by the University of the future interest cost of the variable rate bonds or the impact of the hedging derivative interest rate swaps, these amounts assume that current interest rates on variable rate bonds and the current reference rates of the hedging derivative interest rate swaps will remain the same. As these rates vary, variable rate bond interest payments and net hedging derivative interest rate swap payments will vary.

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CAPITAL LEASES		OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
			STATE	OTHER					
Year Ending June 30									
2012	$800,078	$ 760,224	$ 216,649	$ 72,975	$ 79,567	$ 39,590	$ 1,969,083	$ 1,288,104	$ 680,979
2013		760,353	221,276	51,292	47,974	38,835	1,119,730	457,180	662,550
2014		770,523	222,411	81,827	23,255	39,529	1,137,545	487,412	650,133
2015		761,296	220,415	16,725	16,166	40,225	1,054,827	425,683	629,144
2016		765,877	192,151	7,631	5,891	40,882	1,012,432	402,731	609,701
2017–2021		3,631,920	938,240	5,469	10,711	209,812	4,796,152	2,030,839	2,765,313
2022–2026		3,514,622	714,393		4,859	224,187	4,458,061	2,227,604	2,230,457
2027–2031		3,131,509	551,957		5,203	223,047	3,911,716	2,247,713	1,664,003
2032–2036		2,746,007	183,251		5,287	219,771	3,154,316	2,066,088	1,088,228
2037–2041		1,859,707			4,915	172,573	2,037,195	1,462,490	574,705
2042–2046		894,440			2,852	70,430	967,722	697,287	270,435
2047		510,449			155	39,416	550,020	470,777	79,243
Total future debt service	**800,078**	**20,106,927**	**3,460,743**	**235,919**	**206,835**	**1,358,297**	**26,168,799**	**$14,263,908**	**$11,904,891**
Less: Interest component of future payments	(268)	(9,883,880)	(1,235,981)	(17,425)	(9,420)	(757,917)	(11,904,891)		
Principal portion of future payments	**799,810**	**10,223,047**	**2,224,762**	**218,494**	**197,415**	**600,380**	**14,263,908**		
Adjusted by:									
Unamortized deferred financing costs		(119,675)				(4,839)	(124,514)		
Unamortized bond premium		231,266				7,061	238,327		
Total debt	**$799,810**	**$10,334,638**	**$2,224,762**	**$218,494**	**$197,415**	**$ 602,602**	**$14,377,721**		

Long-term debt does not include $754.2 million and $744.4 million of defeased liabilities at June 30, 2011 and 2010, respectively. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net assets.

Medical Center Pooled Revenue bonds of $85.9 million are variable rate demand notes which give the debt holders the ability to tender the bonds back to the University upon demand. The University has entered into a bank standby bond purchase agreement to provide funds for the purchase of the bonds that have been tendered and not remarketed. The standby bond purchase agreement is scheduled to terminate on January 28, 2014. The University is required to repurchase any bonds held by the bank on the termination date of the agreement. The University has classified $32.2 million and $88.6 million of these bonds as current liabilities as of June 30, 2011 and 2010, respectively.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2011, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
Year Ending June 30				
2012	$ 2,800	$ 1,602	$ 9,145	$ 13,547
2013	2,895	1,567	9,108	13,570
2014	3,000	1,566	9,021	13,587
2015	3,110	1,565	8,931	13,606
2016	3,230	1,564	8,837	13,631
2017–2021	17,980	7,802	42,660	68,442
2022–2026	35,890	7,607	38,967	82,464
2027–2031	47,710	6,844	31,970	86,524
2032–2036	33,275	5,828	24,376	63,479
2037–2041	42,765	4,499	18,330	65,594
2042–2046	67,550	2,005	8,001	77,556
2047	485	5	18	508
Total	**$260,690**	**$42,454**	**$209,364**	**$512,508**

13. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in UCRS. UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with University and employee contributions; the University of California Retirement Savings Program that includes four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS–VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

Condensed financial information related to each plan in UCRS for the years ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN		UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM		UNIVERSITY OF CALIFORNIA PERS–VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
CONDENSED STATEMENT OF PLANS' FIDUCIARY NET ASSETS								
Investments at fair value	$ 42,273,447	$ 35,140,000	$ 11,875,709	$ 10,654,869	$68,862	$60,821	$54,218,018	$ 45,855,690
Participants' interest in mutual funds			4,488,491	3,461,615			4,488,491	3,461,615
Investment of cash collateral	5,099,459	6,363,777	2,621,324	3,737,426	8,290	10,985	7,729,073	10,112,188
Other assets	482,147	292,511	165,060	156,907	205	135	647,412	449,553
Total assets	**47,855,053**	**41,796,288**	**19,150,584**	**18,010,817**	**77,357**	**71,941**	**67,082,994**	**59,879,046**
Collateral held for securities lending	5,099,436	6,366,677	2,621,312	3,739,129	8,290	10,989	7,729,038	10,116,795
Other liabilities	882,962	855,157	253,657	219,157	1,539	1,528	1,138,158	1,075,842
Total liabilities	**5,982,398**	**7,221,834**	**2,874,969**	**3,958,286**	**9,829**	**12,517**	**8,867,196**	**11,192,637**
Net assets held in trust	**$41,872,655**	**$ 34,574,454**	**$16,275,615**	**$14,052,531**	**$ 67,528**	**$ 59,424**	**$58,215,798**	**$48,686,409**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET ASSETS								
Contributions	$ 1,821,182	$ 171,820	$ 872,710	$ 934,954			$ 2,693,892	$ 1,106,774
Net appreciation in fair value of investments	6,687,112	3,311,080	1,843,033	926,845	$ 11,429	$ 5,895	8,541,574	4,243,820
Investment and other income, net	942,615	843,217	376,332	347,784	1,585	1,468	1,320,532	1,192,469
Total additions	**9,450,909**	**4,326,117**	**3,092,075**	**2,209,583**	**13,014**	**7,363**	**12,555,998**	**6,543,063**
Benefit payment and participant withdrawals	2,121,620	1,977,550	860,562	634,896	4,903	4,873	2,987,085	2,617,319
Plan expense	31,088	32,655	8,429	5,207	7	7	39,524	37,869
Total deductions	**2,152,708**	**2,010,205**	**868,991**	**640,103**	**4,910**	**4,880**	**3,026,609**	**2,655,188**
Increase in net assets held in trust	**7,298,201**	**2,315,912**	**2,223,084**	**1,569,480**	**8,104**	**2,483**	**9,529,389**	**3,887,875**
Net assets held in trust								
Beginning of year	34,574,454	32,258,542	14,052,531	12,483,051	59,424	56,941	48,686,409	44,798,534
End of year	**$41,872,655**	**$34,574,454**	**$16,275,615**	**$14,052,531**	**$ 67,528**	**$ 59,424**	**$58,215,798**	**$48,686,409**

Additional information on the retirement plans can be obtained from the 2010-2011 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Program and the University of California PERS–VERIP.

University of California Retirement Plan

The University of California Retirement Plan (UCRP) provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours of service within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive 36-month period, subject to certain limits imposed under the Internal Revenue Code.

The University's membership in UCRP consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	41,469	12,433	53,902
Inactive members entitled to, but not yet receiving benefits	41,677	13,360	55,037
Active members:			
Vested	65,800	1,787	67,587
Nonvested	46,417	924	47,341
Total active members	**112,217**	**2,711**	**114,928**
Total membership	**195,363**	**28,504**	**223,867**

Contribution Policy

The Regents' contribution funding policy is based on a percentage of payroll using the entry age normal actuarial cost method. In determining the funding policy contribution all July 1, 2010 amortization bases were combined to a single amortization base and amortized over a thirty year period as a level dollar amount.

The total funding policy contribution rates as of July 1, 2010 are based on all of the Plan data, the actuarial assumptions, and the Plan provisions adopted at the time of preparation of the actuarial valuation. They include all changes affecting future costs, adopted benefit changes, actuarial gains and losses, and changes in the actuarial assumptions. Employee contributions by represented employees are subject to collective bargaining agreements. University and employee contributions were $1.7 billion and $143.3 million, respectively, during the year ended June 30, 2011. University and employee contributions were $148.3 million and $23.3 million, respectively, during the year ended June 30, 2010.

LBNL is required to make employer and employee contributions in conformity with The Regents' contribution policy. In addition, under certain circumstances the University makes contributions to UCRP in behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE designed to maintain the 100 percent funded status of the LANL and LLNL segments within UCRP, and is reimbursed by the DOE.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

UCRP Benefits and Obligation to UCRP

The University's annual UCRP benefit expense is independently calculated for the campuses and medical centers and the DOE laboratories based upon the actuarially determined annual required contributions. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities or surplus over a period of up to 30 years.

The University's annual UCRP benefit expense for the year and related information for the years ended June 30, 2011 and 2010, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS		DOE NATIONAL LABORATORIES		UNIVERSITY OF CALIFORNIA	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Actuarial valuation date	July 1, 2010	July 1, 2009	July 1, 2010	July 1, 2009	July 1, 2010	July 1, 2009
Annual required contribution	$ 1,692,657	$ 1,600,164	$ 113,548	$ 89,845	$ 1,806,205	$ 1,690,009
Interest on obligation to UCRP	120,105	5,152	482		120,587	5,152
Adjustment to annual required contribution	(131,624)	(7,782)	(544)		(132,168)	(7,782)
Annual UCRP cost	**1,681,138**	**1,597,534**	**113,486**	**89,845**	**1,794,624**	**1,687,379**
University contributions to UCRP	(1,441,927)	(64,833)	(235,074)	(83,421)	(1,677,001)	(148,254)
Increase (decrease) in obligation to UCRP	239,211	1,532,701	(121,588)	6,424	117,623	1,539,125
Obligation to UCRP						
Beginning of year	1,601,397	68,696	6,424		1,607,821	68,696
End of year	**$1,840,608**	**$1,601,397**	**(115,164)**	**6,424**	**1,725,444**	**1,607,821**
University contribution reimbursable from the DOE			**235,074**	**83,421**	**235,074**	**83,421**
DOE receivable for obligation to UCRP:						
Current			224,055	81,231	224,055	81,231
Noncurrent				6,424		6,424
Total			**224,055**	**87,655**	**224,055**	**87,655**
DOE liability for obligation to UCRP:						
Noncurrent			115,164		115,164	
Total			**115,164**		**115,164**	
Net receivable for obligation to UCRP			**$ 108,891**	**$ 87,655**	**$ 108,891**	**$ 87,655**

The annual UCRP benefit cost, percentage of the annual UCRP benefit cost contributed to UCRP, and the net obligation to UCRP for the University for the year ended June 30, 2011 and the preceding years are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual UCRP benefit cost:			
June 30, 2011	$1,681,138	$ 113,486	$ 1,794,624
June 30, 2010	1,597,534	89,845	1,687,379
June 30, 2009	69,138	12	69,150
Percentage of annual cost contributed:			
June 30, 2011	85.8%	207.1%	93.4%
June 30, 2010	4.1	92.9	8.8
June 30, 2009	0.6	100.0	0.7
Net obligation (benefit) to UCRP:			
June 30, 2011	$1,840,608	$ (115,165)	$ 1,725,444
June 30, 2010	1,601,397	6,424	1,607,821
June 30, 2009	68,696		68,696

Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future.

All assets of UCRP are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the DOE national laboratory segments of UCRP.

The funded status of UCRP as of July 1, 2010 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	$ 33,733,692	$ 7,461,626	$ 41,195,318
Actuarial accrued liability	(39,123,578)	(8,380,731)	(47,504,309)
Unfunded actuarial accrued liability	**$ (5,389,886)**	**$ (919,105)**	**$ (6,308,991)**
Funded ratio	86.2%	89.0%	86.7%
Covered payroll	$ 7,743,680	$ 251,741	$ 7,995,421
Unfunded actuarial accrued liability as a percentage of covered payroll	(69.6)%	(365.1)%	(78.9)%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year 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 upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.35–7.0 percent per year;
- projected inflation at 3.5 percent;
- Entry Age Normal actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations for campuses, medical centers and LBNL.

The actuarial value of assets was determined by smoothing the effect of short-term volatility in the fair value of investments over a five-year period. The amortization period for the excess of actuarial accrued liability over the actuarial value of assets at July 1, 2010, for campuses and medical centers, the DOE national laboratories and total UCRP was 30 years for each.

University of California Retirement Savings Program

The University of California Retirement Savings Program includes four defined contribution plans providing retirement savings incentives that are generally available to all University employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment or death. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

Defined Contribution Plans

The Defined Contribution Plan (DC Plan) accepts both after-tax and pretax employee contributions that are fully vested. Pretax contributions are mandatory for all employees who are members of UCRP, as well as Safe Harbor participants—part-time, seasonal and temporary employees who are not covered by Social Security. For UCRP members, monthly employee contributions range from approximately 2.0 percent to 4.0 percent of covered wages depending upon whether wages are below or above the Social Security wage base. For Safe Harbor participants, monthly employee contributions are 7.5 percent of covered wages. In April 2010, pre-tax employee contributions were discontinued, subject to collective bargaining for represented employees.

The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. The University may also make contributions in behalf of certain members of management. Employer contributions to the DC Plan were $4.2 million and $5.3 million for the years ended June 30, 2011 and 2010, respectively.

The University established a Supplemental Defined Contribution Plan (SDC Plan) on January 1, 2009 to accept employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. Employer contributions to the SDC Plan were $47.6 thousand for the year ended June 30, 2010. No contributions were made for the year ended June 30, 2011.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $1.5 million and $2.0 million for the years ended June 30, 2011 and 2010, respectively.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2011 and 2010.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants' interest in mutual funds is shown separately in the statement of plans' fiduciary net assets.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan. The University contributed to PERS in behalf of these UC–PERS members. At July 1, 2011 there are 679 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits. The annual required contribution, net obligation to PERS–VERIP and any changes or adjustments to that obligation are all zero for the years ending June 30, 2011, 2010 and 2009.

14. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2010–2011 annual report of the University of California Health and Welfare Program.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2010, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees who are currently receiving benefits	33,530	1,664	35,194
Employees who may receive benefits at retirement	112,994	3,086	116,080
Total membership	146,524	4,750	151,274

Contribution 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. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contributions toward medical and dental benefits are shared between the University and the retiree. Contributions toward wellness benefits are made by the University. The University does not contribute toward the cost of other benefits available to retirees. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

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 contribution.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy". The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Retiree Health Benefit Expense and Obligation for Retiree Health Benefits

The University's retiree health benefit expense is independently calculated for the campuses and medical centers and LBNL based upon the actuarially determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years.

The University's annual retiree health benefit expense and related information for the years ended June 30, 2011 and 2010, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS		LBNL		UNIVERSITY OF CALIFORNIA	
	2011	2010	2011	2010	2011	2010
Actuarial valuation date	July 1, 2010	July 1, 2009	July 1, 2010	July 1, 2009	July 1, 2010	July 1, 2009
Annual required contribution	$ 1,927,158	$ 1,750,666	$ 63,395	$ 55,750	$ 1,990,553	$ 1,806,416
Interest on obligations for retiree health benefits	202,253	127,058	5,744	3,654	207,997	130,712
Adjustment to annual required contribution	(374,791)	(235,522)	(10,854)	(6,759)	(385,645)	(242,281)
Annual retiree health benefit cost	**1,754,620**	**1,642,202**	**58,285**	**52,645**	**1,812,905**	**1,694,847**
University contributions:						
To UCRHBT	(258,995)	(233,991)			(258,995)	(233,991)
To healthcare insurers and administrators			(12,804)	(12,162)	(12,804)	(12,162)
Implicit subsidy	(54,927)	(49,526)	(2,561)	(2,492)	(57,488)	(52,018)
Total contributions	**(313,922)**	**(283,517)**	**(15,365)**	**(14,654)**	**(329,287)**	**(298,171)**
Increase in obligations for retiree health benefits	**1,440,698**	**1,358,685**	**42,920**	**37,991**	**1,483,618**	**1,396,676**
Obligations for retiree health benefits						
Beginning of year	3,669,375	2,310,690	104,429	66,438	3,773,804	2,377,128
End of year	**$ 5,110,073**	**$ 3,669,375**	**147,349**	**104,429**	**5,257,422**	**3,773,804**
Retiree health care reimbursement from the DOE during the year			**12,804**	**12,162**	**12,804**	**12,162**
DOE receivable for obligations for retiree health benefits						
Noncurrent			147,349	104,429	147,349	104,429
Total			**$ 147,349**	**$ 104,429**	**$ 147,349**	**$ 104,429**

The annual retiree health benefit cost, percentage of the annual retiree health benefit cost contributed to the retiree health benefit plan, and the net obligation for retiree health benefits for the University for the year ended June 30, 2011 and the preceding years are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual retiree health benefit cost:			
June 30, 2011	$ 1,754,620	$ 58,285	$ 1,812,905
June 30, 2010	1,642,202	52,645	1,694,847
June 30, 2009	1,501,937	48,625	1,550,562
Percentage of annual cost contributed:			
June 30, 2011	17.9%	26.4%	18.2%
June 30, 2010	17.3	27.8	17.6
June 30, 2009	18.5	28.1	18.8
Net obligation to the health benefit plan:			
June 30, 2011	$ 5,110,073	$ 147,349	$ 5,257,422
June 30, 2010	3,669,375	104,429	3,773,804
June 30, 2009	2,310,690	66,438	2,377,128

Funded Status

Actuarial valuations represent a long-term perspective and 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 future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of July 1, 2010 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	$ 74,450		$ 74,450
Actuarial accrued liability	(15,493,742)	$ (554,954)	(16,048,696)
Unfunded actuarial accrued liability	**$ (15,419,292)**	**$ (554,954)**	**$ (15,974,246)**
Value of the implicit subsidy included in the actuarial accrued liability	$ 2,309,189	$ 85,287	$ 2,394,476
Funded ratio	0.5%	0.0%	0.5%
Covered payroll	$ 7,743,680	$ 251,741	$ 7,995,421
Unfunded actuarial accrued liability as a percentage of covered payroll	(199.1)%	(220.4)%	(199.8)%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year 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 upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits, smoothing the effect of gains and losses over a five-year period;
- health care cost trend rate ranging from 10 to 12 percent initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over nine years;
- projected inflation at 3.0 percent;
- amortization of the initial unfunded actuarial accrued liability over 30 years as a flat dollar amount on a closed basis;
- amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;
- amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- Entry Age Normal actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

15. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by campus foundations.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2011				
Endowments	$ 1,014,027	$ 1,639,809	$ 16,030	$ 2,669,866
Funds functioning as endowments		2,235,705	1,411,812	3,647,517
Annuity and life income	20,635	4,196		24,831
Gifts		988,637	11,260	999,897
University endowments and gifts	**$ 1,034,662**	**$ 4,868,347**	**$ 1,439,102**	**$ 7,342,111**
At June 30, 2010				
Endowments	$ 981,185	$ 1,302,389	$ 13,289	$ 2,296,863
Funds functioning as endowments		1,883,437	1,242,777	3,126,214
Annuity and life income	15,421	2,727		18,148
Gifts		934,641	12,567	947,208
University endowments and gifts	**$ 996,606**	**$ 4,123,194**	**$ 1,268,633**	**$ 6,388,433**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $1.6 billion and $1.3 billion at June 30, 2011 and 2010, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $217.4 million and $207.0 million for the years ended June 30, 2011 and 2010, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $152.5 million and $150.3 million for the years ended June 30, 2011 and 2010, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $537.3 million and $521.2 million at June 30, 2011 and 2010, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2011				
Endowments	$ 2,356,031	$ 723,922		$ 3,079,953
Funds functioning as endowments		1,090,782		1,090,782
Annuity and life income	84,533	71,472		156,005
Gifts		876,844	$ 206,351	1,083,195
Campus foundations' endowments and gifts	**$ 2,440,564**	**$ 2,763,020**	**$ 206,351**	**$ 5,409,935**
At June 30, 2010				
Endowments	$ 2,039,885	$ 473,566		$ 2,513,451
Funds functioning as endowments		856,771		856,771
Annuity and life income	67,379	63,287		130,666
Gifts		668,999	$ 13,763	682,762
Campus foundations' endowments and gifts	**$ 2,107,264**	**$ 2,062,623**	**$ 13,763**	**$ 4,183,650**

The campus foundations provided grants to the University's campuses totaling $496.7 million and $566.0 million during the years ended June 30, 2011 and 2010, respectively.

16. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding where revenue is pledged in support of revenue bonds are related to the University's medical centers. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the years ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2011					
Revenue bonds outstanding	$ 345,264	$ 294,900	$ 685,784	$ 180,167	$ 850,599
Related debt service payments	$ 32,421	$ 17,608	$ 42,307	$ 52,042	$ 31,552
Bonds due serially through	2047	2049	2049	2049	2049
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 400,977	$ 307,482	$ 914,491	$ 384,337	$ 737,099
Capital assets, net	1,111,322	712,025	1,728,111	687,612	957,406
Other assets	27,077	64,342	138,051	12,784	659,176
Total assets	1,539,376	1,083,849	2,780,653	1,084,733	2,353,681
Current liabilities	227,301	133,035	253,828	120,564	224,112
Long-term debt	365,928	330,625	698,744	212,957	946,642
Other noncurrent liabilities			112,959		59,423
Total liabilities	593,229	463,660	1,065,531	333,521	1,230,177
Invested in capital assets, net of debt	693,467	367,057	965,329	451,683	605,924
Restricted		61,995	88,970	610	13,491
Unrestricted	252,680	191,137	660,823	298,919	504,089
Total net assets	**$ 946,147**	**$ 620,189**	**$ 1,715,122**	**$ 751,212**	**$ 1,123,504**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 1,259,997	$ 699,137	$ 1,720,390	$ 913,648	$ 1,889,204
Operating expenses	(1,092,519)	(568,014)	(1,357,449)	(762,941)	(1,633,322)
Depreciation expense	(77,760)	(52,850)	(89,277)	(35,437)	(81,474)
Operating income	89,718	78,273	273,664	115,270	174,408
Nonoperating revenues, net	27,911	6,881	15,879	27,950	32,559
Income before other changes in net assets	117,629	85,154	289,543	143,220	206,967
Health systems support	(41,066)	(48,147)	(85,548)	(55,905)	(42,395)
Transfers from University, net	17,569	1,022	24,854	2,024	
Other, including donated assets			3,481	15,851	27,003
Increase in net assets	94,132	38,029	232,330	105,190	191,575
Net assets–June 30, 2010	852,015	582,160	1,482,792	646,022	931,929
Net assets–June 30, 2011	**$ 946,147**	**$ 620,189**	**$ 1,715,122**	**$ 751,212**	**$ 1,123,504**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 138,755	$ 144,378	$ 363,300	$ 146,161	$ 275,957
Noncapital financing activities	(764)	(34,246)	(57,969)	(31,375)	(5,801)
Capital and related financing activities	(127,832)	(81,483)	(120,429)	(147,763)	469,347
Investing activities	3,606	44,395	7,127	37,588	(607,687)
Net increase in cash and cash equivalents	13,765	73,044	192,029	4,611	131,816
Cash and cash equivalents* – June 30, 2010	91,819	102,648	406,034	185,295	217,192
Cash and cash equivalents* – June 30, 2011	**$ 105,584**	**$ 175,692**	**$ 598,063**	**$ 189,906**	**$ 349,008**

** Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.*

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2010					
Revenue bonds outstanding	$ 360,560	$ 295,810	$ 688,876	$ 187,480	$ 153,930
Related debt service payments	$ 31,798	$ 8,588	$ 31,394	$ 9,842	$ 8,021
Bonds due serially through	2047	2049	2049	2047	2049
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 344,328	$ 230,522	$ 734,647	$ 376,246	$ 590,861
Capital assets, net	1,073,344	698,815	1,692,645	550,675	824,471
Other assets	23,507	105,780	144,446	45,504	28,933
Total assets	**1,441,179**	**1,035,117**	**2,571,738**	**972,425**	**1,444,265**
Current liabilities	203,714	122,402	249,216	116,497	198,794
Long-term debt	385,450	330,555	787,066	209,906	262,810
Other noncurrent liabilities			52,664		50,732
Total liabilities	**589,164**	**452,957**	**1,088,946**	**326,403**	**512,336**
Invested in capital assets, net of debt	645,225	352,012	916,943	321,699	531,091
Restricted	108	103,353	81,247	36,429	12,759
Unrestricted	206,682	126,795	484,602	287,894	388,079
Total net assets	**$ 852,015**	**$ 582,160**	**$1,482,792**	**$ 646,022**	**$ 931,929**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$1,112,214	$ 613,642	$ 1,587,483	$ 834,289	$1,787,757
Operating expenses	(980,904)	(533,977)	(1,278,020)	(691,273)	(1,559,388)
Depreciation expense	(59,575)	(43,565)	(85,873)	(32,181)	(77,790)
Operating income	**71,735**	**36,100**	**223,590**	**110,835**	**150,579**
Nonoperating revenues (expenses), net	(2,765)	(2,470)	(11,508)	2,037	(1,474)
Income before other changes in net assets	**68,970**	**33,630**	**212,082**	**112,872**	**149,105**
State and federal capital appropriations			626		
Health systems support	(29,719)	(65,771)	(56,217)	(39,314)	(37,066)
Transfers (to) from University, net	18,819	(16,647)	(37,541)	1,958	
Other, including donated assets			14,299	1,614	59,132
Increase (decrease) in net assets	**58,070**	**(48,788)**	**133,249**	**77,130**	**171,171**
Net assets–June 30, 2009	793,945	630,948	1,349,543	568,892	760,758
Net assets–June 30, 2010	**$ 852,015**	**$ 582,160**	**$1,482,792**	**$ 646,022**	**$ 931,929**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 108,038	$ 76,527	$ 293,805	$ 140,770	$ 218,530
Noncapital financing activities	(27,189)	(65,771)	(59,140)	(39,314)	(37,066)
Capital and related financing activities	(119,164)	114,041	(2,479)	(32,835)	(97,151)
Investing activities	7,413	(95,502)	(45,756)	(34,115)	5,353
Net increase (decrease) in cash and cash equivalents	**(30,902)**	**29,295**	**186,430**	**34,506**	**89,666**
Cash and cash equivalents * –June 30, 2009	122,721	73,353	219,604	150,789	127,526
Cash and cash equivalents * –June 30, 2010	**$ 91,819**	**$ 102,648**	**$ 406,034**	**$ 185,295**	**$ 217,192**

* *Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.*

Summarized financial information for each medical center is from their separately audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net assets. However, in the medical centers' separately audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue.

Multiple purpose and housing system projects—including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities—are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

Additional information on the individual University of California Medical Centers can be obtained from their separate June 30, 2011 audited financial statements.

17. CAMPUS FOUNDATION INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the years ended June 30, 2011 and 2010 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2011					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 98,265	$ 114,059	$ 261,244	$ 252,952	$ 726,520
Noncurrent assets	1,292,901	858,396	1,787,518	1,315,156	5,253,971
Total assets	**1,391,166**	**972,455**	**2,048,762**	**1,568,108**	**5,980,491**
Current liabilities	27,477	68,057	243,184	67,260	405,978
Noncurrent liabilities	74,225	13,823	35,550	40,980	164,578
Total liabilities	**101,702**	**81,880**	**278,734**	**108,240**	**570,556**
Restricted	1,288,409	890,340	1,574,301	1,450,534	5,203,584
Unrestricted	1,055	235	195,727	9,334	206,351
Total net assets	**$ 1,289,464**	**$ 890,575**	**$ 1,770,028**	**$ 1,459,868**	**$ 5,409,935**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 168,439	$ 190,808	$ 351,611	$ 173,616	$ 884,474
Operating expenses	(102,487)	(118,454)	(152,315)	(139,996)	(513,252)
Operating income	**65,952**	**72,354**	**199,296**	**33,620**	**371,222**
Nonoperating revenues	170,971	95,781	171,142	198,860	636,754
Income before other changes in net assets	**236,923**	**168,135**	**370,438**	**232,480**	**1,007,976**
Permanent endowments	52,878	25,873	77,015	62,543	218,309
Increase in net assets	**289,801**	**194,008**	**447,453**	**295,023**	**1,226,285**
Net assets–June 30, 2010	999,663	696,567	1,322,575	1,164,845	4,183,650
Net assets–June 30, 2011	**$ 1,289,464**	**$ 890,575**	**$ 1,770,028**	**$ 1,459,868**	**$ 5,409,935**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ (33,994)	$ 8,543	$ 108,784	$ (32,470)	$ 50,863
Noncapital financing activities	44,559	24,270	59,611	59,338	187,778
Investing activities	(11,036)	(27,973)	(167,559)	(25,334)	(231,902)
Net increase (decrease) in cash and cash equivalents	**(471)**	**4,840**	**836**	**1,534**	**6,739**
Cash and cash equivalents–June 30, 2010	3,440	63,091	633	30,317	97,481
Cash and cash equivalents–June 30, 2011	**$ 2,969**	**$ 67,931**	**$ 1,469**	**$ 31,851**	**$ 104,220**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2010					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 111,077	$104,682	$ 260,231	$ 237,330	$ 713,320
Noncurrent assets	1,007,649	635,213	1,334,642	1,053,888	4,031,392
Total assets	**1,118,726**	**739,895**	**1,594,873**	**1,291,218**	**4,744,712**
Current liabilities	50,089	30,275	234,366	88,523	403,253
Noncurrent liabilities	68,974	13,053	37,932	37,850	157,809
Total liabilities	**119,063**	**43,328**	**272,298**	**126,373**	**561,062**
Restricted	998,763	696,330	1,318,960	1,155,834	4,169,887
Unrestricted	900	237	3,615	9,011	13,763
Total net assets	**$ 999,663**	**$696,567**	**$1,322,575**	**$1,164,845**	**$ 4,183,650**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 66,050	$107,973	$ 162,518	$ 90,809	$ 427,350
Operating expenses	(87,376)	(149,399)	(155,675)	(202,515)	(594,965)
Operating income	**(21,326)**	**(41,426)**	**6,843**	**(111,706)**	**(167,615)**
Nonoperating revenues	92,235	67,439	97,513	102,209	359,396
Income before other changes in net assets	**70,909**	**26,013**	**104,356**	**(9,497)**	**191,781**
Permanent endowments	46,671	15,923	53,353	45,604	161,551
Increase in net assets	**117,580**	**41,936**	**157,709**	**36,107**	**353,332**
Net assets–June 30, 2009	882,083	654,631	1,164,866	1,128,738	3,830,318
Net assets–June 30, 2010	**$ 999,663**	**$696,567**	**$1,322,575**	**$1,164,845**	**$ 4,183,650**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided by:					
Operating activities	$ (23,643)	$ (39,518)	$ (33,570)	$ (94,549)	$ (191,280)
Noncapital financing activities	39,857	14,263	43,097	43,438	140,655
Investing activities	(16,763)	(11,270)	(10,673)	3,596	(35,110)
Net increase (decrease) in cash and cash equivalents	**(549)**	**(36,525)**	**(1,146)**	**(47,515)**	**(85,735)**
Cash and cash equivalents–June 30, 2009	3,989	99,616	1,779	77,832	183,216
Cash and cash equivalents–June 30, 2010	**$ 3,440**	**$ 63,091**	**$ 633**	**$ 30,317**	**$ 97,481**

18. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $3.0 billion and $2.7 billion at June 30, 2011 and 2010, respectively.

The University and UCRS have also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2011 totaled $3.2 billion: $367.8 million and $2.8 billion for the University and UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2011 and 2010 were $151.9 million and $112.2 million, respectively. The terms of operating leases extend through May 2039.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows:

(in thousands of dollars)

	MINIMUM ANNUAL LEASE PAYMENTS
Year Ending June 30	
2012	$ 91,946
2013	74,137
2014	57,634
2015	43,240
2016	30,875
2017–2021	71,707
2022–2026	9,609
2027–2031	4,067
2032–2036	4,641
2037–2039	3,692
Total	**$391,548**

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University and the campus foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

The University's schedule of funding progress for UCRP and the retiree health plan is presented below.

UCRP

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS (DEFICIT)	FUNDED RATIO	COVERED PAYROLL	EXCESS/(DEFICIT) COVERED PAYROLL
University of California						
July 1, 2010	$41,195,318	$47,504,309	$(6,308,991)	86.7%	$ 7,995,421	(78.9)%
July 1, 2009	42,685,564	45,041,066	(2,355,502)	94.8	7,853,419	(30.0)
July 1, 2008	43,727,521	42,467,742	1,259,779	103.0	7,449,796	16.9
Campuses and Medical Centers						
July 1, 2010	33,733,692	39,123,578	(5,389,886)	86.2	7,743,680	(69.6)
July 1, 2009	34,835,572	36,758,962	(1,923,390)	94.8	7,637,064	(25.2)
July 1, 2008	35,496,354	34,340,516	1,155,838	103.4	7,245,447	16.0
DOE National Laboratories						
July 1, 2010	7,461,626	8,380,731	(919,105)	89.0	251,741	(365.1)
July 1, 2009	7,849,992	8,282,104	(432,112)	94.8	216,355	(199.7)
July 1, 2008	8,231,167	8,127,226	103,941	101.3	204,349	50.9

Retiree Health Plan

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(DEFICIT)	FUNDED RATIO	COVERED PAYROLL	(DEFICIT) PAYROLL	IMPLICIT SUBSIDY INCLUDED IN ACUTARIAL ACCRUED LIABILITY
University of California							
July 1, 2010	$74,450	$16,048,696	$ (15,974,246)	0.5%	$7,995,421	(199.8)%	$2,394,476
July 1, 2009	76,893	15,061,784	(14,984,891)	0.5	7,853,419	(190.8)	2,209,278
July 1, 2008	51,221	13,800,249	(13,749,028)	0.4	7,449,796	(184.6)	2,016,401
Campuses and Medical Centers							
July 1, 2010	74,450	15,493,742	(15,419,292)	0.5	7,743,680	(199.1)	2,309,189
July 1, 2009	76,893	14,541,529	(14,464,636)	0.5	7,637,064	(189.4)	2,129,031
July 1, 2008	51,221	13,302,506	(13,251,285)	0.4	7,245,447	(182.9)	1,940,306
LBNL							
July 1, 2010		554,954	(554,954)	0.0	251,741	(220.4)	85,287
July 1, 2009		520,255	(520,255)	0.0	216,355	(240.5)	80,247
July 1, 2008		497,743	(497,743)	0.0	204,349	(243.6)	76,095

UNIVERSITY OF CALIFORNIA

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Alumni Associations of the University of California
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Alumni Associations of the University of California
Alan Mendelson, *Treasurer,*
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Jonathon Stein, *Student Regent Designate*

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Robert Powell, *Vice Chair, Academic Senate*

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Charles F. Robinson, *General Counsel*
Marsha Kelman, *Secretary and Chief of Staff*

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

The following is a brief summary of the provisions of the primary legal documents pertaining to the Bonds. This summary is not intended to be definitive, and Bondholders should refer to the documents for the complete text thereof. Copies of the documents summarized herein are available from the State Treasurer.

Each Series of Bonds is issued under a separate Indenture and secured by a separate Facility Lease or Facility Leases. Part I below summarizes the documents for the 2012D Bonds, Part II summarizes the 2012E Bonds, and Part III summarizes the documents for the 2012F Bonds.

I. 2012D BONDS

THE MASTER INDENTURE

The 2012D Bonds will be issued under the provisions of the Master Indenture and the One Hundred Eleventh Supplemental Indenture. The 2012E Bonds and 2012F Bonds will each be issued under separate Indentures which are severally summarized below under the captions "2012E BONDS" and "2012F BONDS". The 2012E Bonds and 2012F Bonds are Incorporated Bonds for purposes of the Master Indenture, and references in this summary to "Incorporated Bonds" are applicable to the 2012E Bonds and 2012F Bonds.

Definitions

Unless otherwise defined in the body of the Official Statement, the following terms when used in the body of the Official Statement and in this Appendix D have the meanings set forth below:

"Act" means the State Building Construction Act of 1955 (being Part 10b of Division 3 of Title 2 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto.

"Additional Rental" means amounts payable by the Department in each year as additional rental payments to or upon the order of the Board to pay all administrative costs and other expenses of the Board in connection with a Facility, and taxes and assessments of any type charged to the Board or the State Treasurer affecting or relating to a Facility.

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest (including any compound interest) payable on all Outstanding Bonds and Incorporated Bonds in such Fiscal Year, assuming that all Outstanding Serial Bonds and Incorporated Bonds are retired as scheduled and that all Outstanding Term Bonds and Incorporated Bonds are redeemed or paid from sinking account payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds and Incorporated Bonds maturing by their terms in such Fiscal Year, and (3) the principal amount of all Outstanding Term Bonds and Incorporated Bonds required to be redeemed or paid in such Fiscal Year (together with the redemption premium, if any, thereon).

"Base Rental" means all amounts received by the Board from the Department as base rental payments pursuant to a Lease to be used to pay the interest on and principal of a Series of Bonds or a Related Series of Bonds.

"Board" means the State Public Works Board of the State of California, an entity of state government duly organized and validly existing under and pursuant to Chapter 2 of Part 10.5 of Division 3 of Title 2 of the California Government Code.

"Bonds" means all lease revenue bonds of all Series authorized by and at any time Outstanding pursuant to the Master Indenture and executed, issued, and delivered in accordance with Article 3 of the Master Indenture. "Serial Bonds" means Bonds for which no sinking account payments are provided. "Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Bond Year" means, with respect to each Master Indenture Series of Bonds, that 12-month period commencing on each principal payment date (or for any Series of Bonds with a semi-annual principal payment date, the first principal payment date occurring within each calendar year), or the anniversary of such date, for such Series of Bonds; provided, the first Bond Year for any Series of Bonds shall commence on the date of issuance of such Series and end on the day before the next principal payment date (or for any Series of Bonds with a semi-annual principal payment date, the first principal payment date occurring within each calendar year), or anniversary thereof.

"Build America Bond" means, an obligation bearing a taxable rate of interest and described in Section 54AA of the Internal Revenue Code of 1986, as amended.

"Build America Bond Subsidy" means any cash subsidy payment made by the federal government to the Board with respect to a Series of Build America Bonds.

"Build America Bond Subsidy Account" means any account by that name established pursuant to the Master Indenture.

"Business Day" means a day of the year other than a Saturday or Sunday or a day on which State of California offices or banking institutions located in the State are required or authorized to remain closed.

"Capitalized Interest Subaccount" means the subaccount of the Interest Account by that name established pursuant to the Master Indenture.

"Certificate of the Board" means an instrument in writing signed by the Chair or Administrative Secretary of the Board, or by any other officer of the Board duly authorized by the Board for that purpose.

"Construction Fund" means the fund by that name established pursuant to the Master Indenture.

"Continuing Disclosure Agreement" means any Continuing Disclosure Agreement among the Board, a Department or Departments, and the State Treasurer dated the date of issuance and delivery of a Series of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof, or a similar agreement executed by a Department pursuant to the One Hundred Eleventh Supplemental Indenture, as amended from time to time in accordance with the terms thereof.

"Department" means any district, department, agency, board, commission or other entity of the State, including any other local government units authorized under the Act, that are authorized to lease Facilities from the Board pursuant to the Act and have executed and delivered a Lease.

"Equipment" means the personal property described in an exhibit to an Equipment Lease.

"Equipment Lease" means a lease of Equipment entered into between the Board as lessor and a Department as lessee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions of the Master Indenture and thereof, as specified in a Supplemental Indenture.

"Event of Default" means an event described as such under the Master Indenture.

"Facility" means either (1) a Project and a Site and/or Equipment, as the case may be, as specified in a Supplemental Indenture, or (2) any project, site and/or equipment specified in an Incorporated Indenture as a Facility for purposes of the Master Indenture.

"Facility Lease" means a lease of a Project and a Site entered into between the Board as lessor and a Department as lessee, as originally executed and as it may from time to time be amended or supplemented, as specified in a Supplemental Indenture.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the Board as its Fiscal Year in accordance with applicable law.

"Governor" means the elected official holding the position of the governor of the State of California.

"Holder" or "Bondholder" means any person who shall be the registered owner of any Outstanding Bond.

"Incorporated Bonds" means any series of lease revenue bonds of the Board previously or hereafter issued other than pursuant to the Master Indenture, which the Board has elected to be secured by the Reserve Fund.

"Incorporated Indenture" means the indenture of trust pursuant to which any Incorporated Bonds were issued.

"Interest Account" means any account by that name established pursuant to the Master Indenture.

"Interest Payment Date" means, as long as any of the Bonds are Outstanding, the interest payment dates for each Series of Bonds as specified in the Supplemental Indenture therefor and which dates during each Fiscal Year are separated by a period of six months, and the interest payment dates for any Incorporated Bonds. With respect to the 2012D Bonds, "Interest Payment Date" means each March 1 and September 1, commencing on March 1, 2013.

"Law" means the legislation authorizing the Projects described in the 2012D Indenture.

"Lease" means an Equipment Lease or a Facility Lease or any equipment lease or facility lease securing any Incorporated Bonds.

"Legislature" means the legislature of the State of California.

"Locality" means (i) each campus of the University of California, the California State University or a Community College, at which a Facility is located; *provided*, that any two campuses located within five miles shall be considered a single Locality; or (ii) for a Facility not located on a campus, the Locality means the area within a radius of five miles around the Facility.

"Maintenance and Operation Account" means any account by that name established pursuant to the Master Indenture.

"Master Indenture" means the indenture, dated as of April 1, 1994, between the Board and the State Treasurer relating to the Board's Lease Revenue Bonds (Series I Projects), as amended by the Tenth

Supplemental Indenture, dated as of September 1, 1996, the Forty-Second Supplemental Indenture, dated as of October 1, 2002, the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and the Ninety-Third Supplemental Indenture, dated as of October 12, 2009, and as it may be further amended or supplemented from time to time.

"Maximum Aggregate Semi-Annual Debt Service" means the aggregate sum of Semi-Annual Debt Service of Bonds and Incorporated Bonds that are Outstanding for that Semi-Annual Debt Service Period in which the aggregate sum is the largest, beginning with the then current Semi-Annual Debt Service Period and ending with the Semi-Annual Debt Service Period in which the last Bonds or Incorporated Bonds are Outstanding.

"One Hundred Eleventh Supplemental Indenture" means that One Hundred Eleventh Supplemental Indenture relating to the 2012D Bonds, dated as of September 15, 2012, between the Board and the State Treasurer, which is supplemental to the Master Indenture.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Board and satisfactory to and approved by the State Treasurer (who shall be under no liability by reason of such approval).

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Master Indenture relating to disqualified bonds) all Bonds except --

(1) Bonds theretofore cancelled by the State Treasurer or surrendered to the State Treasurer for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the provisions of the Master Indenture relating to discharge of the Master Indenture and redemption; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued, and delivered by the Board pursuant to the Master Indenture.

"Outstanding," when used with reference to any Incorporated Bonds, shall have the meaning set forth in the respective Incorporated Indenture.

"Permitted Encumbrances" means, as of any particular time, and with respect to any particular 2012D Facility Lease: (1) liens for general ad valorem taxes and assessments, if any, not then delinquent; (2) the 2012D Facility Lease, as it may be amended from time to time; (3) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of issuance of the 2012D Bonds; and (4) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of issuance of the 2012D Bonds and to which the Board consents in writing.

"Permitted Investments" means any of the following which at the time are legal investments under the laws of the State for moneys held under the Master Indenture and then proposed to be invested therein:

(i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;

(ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States;

(iii) bonds of the State or bonds for which the faith and credit of the State are pledged for the payment of principal and interest;

(iv) bonds or warrants, including but not limited to revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the State, municipal utility district or school district of the State;

(v) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by general land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stocks, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended, and the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended;

(vi) commercial paper rated within the top rating designation by a nationally recognized rating service and issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of $500,000,000 and (3) approved by the Pooled Money Investment Board, provided, however that eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation nor exceed 30 percent of the resources of an investment program, and that at the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least 10 percent in excess of the amount of the State's investment;

(vii) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the top two rating categories by a nationally recognized rating service, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System;

(viii) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated in one of the top two rating categories by a nationally recognized rating service;

(ix) bonds, debentures and notes issued by corporations organized and operating within the United States which securities are rated in one of the top two rating categories by a nationally recognized rating service;

(x) interest-bearing accounts in state or national banks or in state or federal savings and loan associations having principal offices in the State, the deposits of which shall be secured at all times and in the same manner as state moneys are by law required to be secured;

(xi) deposits in the Surplus Money Investment Fund referred to in Section 15847 of the California Government Code;

(xii) repurchase agreements or reverse repurchase agreements, as such terms are defined in and pursuant to the terms of Section 16480.4 of the California Government Code;

(xiii) collateralized or uncollateralized investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated within the top two rating categories by a Rating Agency;

(xiv) money market funds that invest solely in obligations described in clause (i) of this definition; or

(xv) such other investments as may be authorized by a Supplemental Indenture, provided each Rating Agency has confirmed that the use of such additional investments will not result in the reduction or withdrawal of any rating on any Outstanding Bonds.

"Principal Account" means any account by that name established pursuant to the Master Indenture.

"Project" means public buildings, structures, works, and related improvements which have been or will be acquired, installed, and constructed on a Site, and all additions, betterments, extensions, and improvements thereto, as specified in a Supplemental Indenture.

"Rating Agency" means each nationally recognized bond rating agency which is at any time providing a rating on any Series of Bonds.

"Rebate Fund" means the fund by that name established pursuant to the Master Indenture.

"Related Series of Bonds" means two or more Series of Bonds issued under the Master Indenture which finance the same Facility or Facilities, such that the Base Rental payments generated pursuant to the Lease(s) concerning such Facility or Facilities are the source of repayment of the several Related Series of Bonds and which are designated as Related Series of Bonds pursuant to a Supplemental Indenture.

"Reserve Fund" means the fund by that name established pursuant to the Master Indenture.

"Reserve Fund Credit Facility" means (1) a letter of credit, surety or other financial undertaking issued by a financial institution if the unsecured obligations of such financial institution have the same or higher rating than the Bonds as rated by each Rating Agency, or (2) a policy of insurance or surety bond issued by a municipal bond insurance company or similar entity, if the obligations insured by such insurance company or entity have the same or higher rating than the Bonds as rated by each Rating Agency, and, in either case, which has been delivered to the State Treasurer in accordance with the Master Indenture to satisfy all or a portion of the obligation to maintain the balance on deposit in the Reserve Fund in an amount equal to the Reserve Fund Requirement and is available to make payments with respect to all Outstanding Bonds and Incorporated Bonds, in accordance with its terms and the terms of the Master Indenture.

"Reserve Fund Requirement" means, as of any date of calculation, an amount equal to the sum of (A) the greatest of:

(1) the sum of the largest single payments of Semi-Annual Debt Service relating to the two Facilities with the largest single payment of Semi-Annual Debt Service remaining,

(2) the sum of the largest single remaining payments of Semi-Annual Debt Service attributable to all Facilities situated within that Locality in the State for which such sum is the largest,

(3) ten percent (10%) of Maximum Aggregate Semi-Annual Debt Service, or

(4) the largest payment(s) of Semi-Annual Debt Service remaining for any Interest Payment Date(s) coming due in any calendar month;

plus (B) an amount not to exceed one percent (1%) of the amount calculated under part (A) above, as determined by the State Treasurer at the time of issuance of any series of Bonds.

"Revenue Fund" means any fund by that name established pursuant to the Master Indenture.

"Revenues" means with respect to each Series of Bonds and Related Series of Bonds (1) certain proceeds of the Bonds of such Series deposited in the Interest Account therefore, (2) all Base Rental payments received by the Board pursuant to the Lease or Leases for the Facility or Facilities financed by such Series of Bonds and Related Series of Bonds and all other benefits, charges, income, proceeds, profits, receipts, rents, proceeds of insurance and revenues derived by the Board from the ownership, operation or use of such Facilities, including interest or profits from the investment of money in any account or fund for such Series of Bonds and Related Series of Bonds (other than the Rebate Fund, the Reserve Fund and any Build America Bond Subsidy Account) pursuant to the Master Indenture and (3) any interest rate swap payments or other payments specified in a Supplemental Indenture for such Series of Bonds or Related Series of Bonds.

"Semi-Annual Debt Service" means that portion of Annual Debt Service that is paid on any Interest Payment Date.

"Semi-Annual Debt Service Period" means each six-month period ending on June 30 or December 31, respectively, for so long as any Bonds or Incorporated Bonds are Outstanding.

"Series," whenever used in the Master Indenture in the context of a "Series of Bonds," means all of the bonds issued and designated under a Supplemental Indenture as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such bonds as provided in the Master Indenture.

"Sinking Account" means a subaccount of the Principal Account by that name established pursuant to the Master Indenture.

"Site" means that certain land that is described in an exhibit to a Facility Lease.

"State" means the State of California.

"State Treasurer" means the Treasurer of the State of California at his office in Sacramento, California, appointed by the Board and acting as an independent trustee and fiscal agent with the rights and obligations provided in the Master Indenture, and his successors and assigns, or any other association or corporation which may at any time be substituted in his place as provided in the Master Indenture.

"Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Board and the State Treasurer amendatory of or supplemental to the Master Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Master Indenture.

"Surplus Account" means any account by that name established pursuant to the Master Indenture.

"Taxable Bond" means an obligation the interest on which is subject to taxation for federal income tax purposes and is not a Build America Bond.

"Tax Certificate" means the tax certificate delivered by the Board at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Tax-Exempt Obligation" means a bond the interest upon which is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended."

"Trustees" means the Trustees of the California State University duly organized under the laws of the State of California.

"2012D Bonds" means the State Public Works Board of the State of California Lease Revenue Bonds (Trustees of the California State University) 2012 Series D (Various California State University Projects) issued by the Board under and pursuant to the 2012D Indenture.

"2012D Facility" means a 2012D Project and the related 2012D Site. The term "2012D Facilities" means all of the 2012D Projects and related 2012D Sites.

"2012D Facility Lease" means the lease of a 2012D Facility, dated as of September 15, 2012, or such other date as is established for a 2012D Facility Lease in accordance with the provisions of the 2012D Indenture, entered into between the Board, as lessor, and the Trustees, as lessee, as it may from time to time be amended or supplemented pursuant to its terms and the terms of the 2012D Indenture. The term "2012D Facility Leases" means all such leases relating to all 2012D Facilities.

"2012D Indenture" means the Master Indenture as supplemented by the One Hundred Eleventh Supplemental Indenture.

"2012D Project" means the buildings, structures, works and related improvements constructed or to be constructed on a 2012D Site, as more particularly described in Exhibit B of the 2012D Indenture, as amended from time to time in accordance with the provisions of the 2012D Indenture, and any and all additions, betterments, and extensions and improvements thereto. Each 2012D Project is located on the related 2012D Site.

"2012D Revenues" means any proceeds of the 2012D Bonds deposited in the Interest Account, all Base Rental payments received by the Board pursuant to the 2012D Facility Leases, and all other benefits, charges, income, proceeds, profits, receipts, rents, proceeds of insurance, and revenues derived by the Board from the ownership, operation, or use of the 2012D Facilities, including interest or profits from the investment of money in any account or fund (other than the Rebate Fund and the Reserve Fund) pursuant to the 2012D Indenture.

"2012D Site" means the real property on which a 2012D Project is located, as more particularly described in Exhibit A attached to and made a part of a 2012D Facility Lease. The term "2012D Sites" means all of the real property described in and made part of the 2012D Facility Leases.

"2012D Site Lease" means a Site Lease, dated as of September 15, 2012, or such other date as is established for a 2012D Site Lease pursuant to the 2012D Indenture, pursuant to which a 2012D Site is leased to the Board, entered into between the Trustees, as lessor, and the Board, as lessee, as originally executed, as it may from time to time be amended or supplemented pursuant to the provisions of its terms and the 2012D Indenture. The term "2012D Site Leases" means all such leases relating to all 2012D Sites.

"Written Request of the Board" means an instrument in writing signed by the Chair or the Administrative Secretary of the Board, or by any officer of the Board duly authorized by the Board for that purpose.

Pledge of the Revenues

Pursuant to the Master Indenture, the Bonds of each Series are secured by a pledge of and charge and lien upon those certain Revenues and amounts on deposit in the funds and accounts established under the Master Indenture for such Series of Bonds or Related Series of Bonds (other than amounts on deposit in any Build America Bond Subsidy Account or the Rebate Fund) and the Reserve Fund. All such moneys are irrevocably pledged to the payment of the principal of, redemption premium, if any, and interest on the Series of Bonds and any Related Series of Bonds to which such Revenues relate. The pledge made in the Master Indenture constitutes a first pledge of and charge and lien upon those certain Revenues (other than Revenues on deposit in the Rebate Fund) and constitutes an equal pledge on the Reserve Fund along with all other Bonds and Incorporated Bonds Outstanding for the payment of the principal of, redemption premium, if any, and interest on the Series of Bonds and Related Series of Bonds to which such Revenues relate.

Additional Bonds

The Master Indenture provides that the Board may at any time issue a Series of Bonds payable from the Revenues for such Series as provided in the Master Indenture and secured by a pledge of and charge and lien upon such Revenues and upon the Reserve Fund as provided in the Master Indenture, but only subject to the following specific conditions, which are conditions precedent to the issuance of any Series of Bonds:

(a) The Board shall be in compliance with all agreements and covenants contained in the Master Indenture.

(b) The issuance of such Series of Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) the purpose for which such Series of Bonds are to be issued; provided that such Series of Bonds shall be applied solely for the purpose of (i) financing or refinancing the acquisition, installation and construction of any Facility or Facilities, (ii) financing or refinancing the completion of and/or acquisition, installation and construction of additions, betterments, extensions, or improvements to a Facility or Facilities which have previously been financed by the Board, (iii) refunding any Series of Bonds then Outstanding, (iv) payment of interest on any Series of Bonds during the period of construction or acquisition, (v) payment of all costs incidental to or connected with any financing described in (i), (ii) or (iii) above, and/or (vi) making deposits into the Reserve Fund;

(2) the authorized principal amount and designation of such Series of Bonds;

(3) the date and the maturity dates of and the sinking account payment dates, if any, for such Series of Bonds; provided that (i) all such Series of Bonds of like maturity shall be identical in all respects, except as to interest rate, number and denomination, (ii) serial maturities for Serial Bonds or sinking account payments for

Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Series of Bonds on or before their respective maturity dates;

(4) the Interest Payment Dates for such Series of Bonds; provided that the first interest payment date occurs not more than twelve months following the date of issuance of the Series of Bonds;

(5) the denomination or denominations of and method of numbering such Series of Bonds;

(6) the redemption premium, if any, and the redemption terms, if any, for such Series of Bonds;

(7) the amount, if any, to be deposited from the proceeds of sale of such Series of Bonds in the Interest Account therefor;

(8) the amount, if any, to be deposited from the proceeds of sale of such Series of Bonds or as a Reserve Fund Credit Facility in the Reserve Fund, which amount shall be the lesser of:

(a) the amount needed to bring the Reserve Fund to an amount at least equal to the Reserve Fund Requirement, as calculated by including the Series of Bonds to be issued; or

(b) the maximum amount of proceeds of such Series of Bonds that may be used to fund the Reserve Fund, without violating any law or regulations governing tax-exempt bonds (and without requirement to yield restrict the Reserve Fund), as set forth in an opinion of nationally recognized bond counsel on file with the State Treasurer;

(9) the amount, if any, to be deposited from the proceeds of sale of such Series of Bonds in the funds and accounts established under the Master Indenture;

(10) the forms of such Series of Bonds;

(11) if applicable, a determination that the newly issued Bonds will be a Related Series of Bonds which will be secured on a parity with a previously issued Series, sharing *pari passu* the Base Rentals derived from the Facility or Facilities which are common to the Related Series of Bonds; and

(12) such other provisions as are necessary or appropriate and not inconsistent with the Master Indenture.

(c) The Lease or Leases relating to such Series of Bonds shall provide that the Base Rental payable by the Department thereunder shall be in an amount at least sufficient to pay the Annual Debt Service on such Series of Bonds as the same become due. A Certificate of the Board to the effect that such Base Rental is consistent with the fair rental value for the Facilities relating to such Series of Bonds shall be delivered to the State Treasurer to accompany each such Lease.

Procedure for the Issuance of Additional Bonds

At any time after the sale of any Series of Bonds in accordance with the Act, the Board shall execute such Series of Bonds for issuance under the Master Indenture and shall deliver them to the State Treasurer, and thereupon such Series of Bonds shall be authenticated and delivered by the State Treasurer to the purchaser thereof upon the Written Request of the Board, but only upon receipt by the State Treasurer of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Series of Bonds by the State Treasurer (unless the State Treasurer shall accept any of such documents bearing a prior date):

(a) A certified copy of the Supplemental Indenture authorizing the issuance of such Series of Bonds;

(b) A Written Request of the Board as to the delivery of such Series of Bonds;

(c) An Opinion of Counsel to the effect that (1) the Board has the right and power under the Act to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Board, is in full force and effect and is valid and binding upon the Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles), (2) the Supplemental Indenture creates the valid pledge of and charge and lien upon the Revenues relating to such Series of Bonds which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the Indenture, (3) such Series of Bonds are valid and binding special obligations of the Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and entitled to the benefits of the Act and the Master Indenture, and such Series of Bonds have been duly and validly authorized, executed, and delivered in accordance with the Act and herewith, (4) the Lease or Leases required by the Master Indenture have been duly authorized, executed and delivered, and (5) the delivery of such Series of Bonds in and of itself will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on any of the Bonds previously issued and Outstanding;

(d) A Certificate of the Board containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Series of Bonds contained in the Master Indenture; and

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Series of Bonds.

Incorporated Bonds

The Board may, by Written Request to the State Treasurer with a copy to each Rating Agency, provide that the Reserve Fund created by the Master Indenture shall also secure other issues of lease revenue bonds of the Board, which issues of Incorporated Bonds shall be specified in a Certificate of the Board filed with the State Treasurer on such date. The Board shall at such time deposit funds or a Reserve Fund Credit Facility with the State Treasurer so that the Reserve Fund equals the greater of (i) the Reserve Fund Requirement (calculated after giving effect to the inclusion of the Incorporated Bonds), or (ii) the amount of the reserve account requirement under the respective Incorporated Indenture. Thereafter, all such Incorporated Bonds as so specified will be secured by the Reserve Fund as and to the same extent as all Bonds issued under the Master Indenture. The Board shall not make any other issue of its bonds subject to the Reserve Fund if the amount to be on deposit in the Reserve Fund following implementation of the provisions of the Master Indenture relating to Incorporated Bonds will be less than the amount in the reserve account under the Incorporated Indenture immediately prior to such action.

In order to implement the provisions of the Master Indenture as to Incorporated Bonds, the Board is required in each instance to deliver to the State Treasurer the following:

(1) A Certificate of the Board identifying the issue of bonds to become Incorporated Bonds, and identifying the facilities and facility and equipment leases relating thereto; identifying the Reserve Fund Requirement which would be applicable once the Incorporated Bonds become subject to the benefit of the Reserve Fund, and stating the amount, if any, to be transferred from the reserve account for the Incorporated Bonds to the Reserve Fund;

(2) A copy of the Supplemental Indenture under the Incorporated Indenture providing for the Incorporated Bonds to become subject to the Reserve Fund; and

(3) Written evidence from each Rating Agency then rating the Bonds and the Incorporated Bonds that such implementation of the provisions of the Master Indenture as to Incorporated Bonds will not result in a reduction or withdrawal of the ratings on the Incorporated Bonds or on any Bonds Outstanding under the Master Indenture.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the Master Indenture: (1) the Construction Fund, with a special account therein for each Series of Bonds as may be specified in the Supplemental Indenture for such Series; (2) the Revenue Fund established for each Series of Bonds, containing an Interest Account (including a Capitalized Interest Subaccount therein), a Principal Account, a Maintenance and Operation Account, a Surplus Account, and for any Series of Bonds with Build America Bonds, a Build America Bond Subsidy Account; (3) the Reserve Fund; and (4) the Rebate Fund.

Construction Fund. The Master Indenture provides that the State Treasurer shall apply the moneys in the Construction Fund and any account therein in the manner specified in the related Supplemental Indenture, including to repay Interim Loans and accrued interest thereon, and following such repayment, from time to time to pay (or to make reimbursement or cash advances to the Board, the Department or any other State agency, public agency or person, firm or corporation for such costs), the costs of the acquisition, construction, financing, or refinancing of the Facilities, including payment of all costs incidental thereto or connected therewith, including, without limitation, planning, engineering, inspection, legal, State Treasurer's fees incidental thereto, and costs of issuance of the Bonds. Any moneys remaining in any account in the Construction Fund upon the completion of the Facilities to which such account relates shall be applied by the State Treasurer to offset scheduled Base Rental or in such other manner as the Board may by Written Request direct.

Revenue Fund. All Revenues when and as received will be deposited in the State Treasury to the credit of the Revenue Fund for the Series of Bonds and any Related Series of Bonds to which such Revenues relate (except for funds deposited in the Rebate Fund). The State Treasurer shall set aside all money in a Revenue Fund in the following special accounts within such Revenue Fund for the Series of Bonds to which such Revenue Fund relates:

(a) *Interest Account*. On or before the fifteenth day of the month next preceding each Interest Payment Date for such Series in each year, the State Treasurer will set aside from the Revenue Fund for such Series of Bonds and deposit in the Interest Account therefor that amount of money which, together with any money contained therein (including any amounts available in the Capitalized Interest Subaccount), is equal to the aggregate amount of interest becoming due and payable on such Series of Bonds on the next succeeding Interest Payment Date. No deposit need be made in the Interest Account if the amount contained therein (including amounts, if any, available in the Capitalized Interest Subaccount) is at least equal to the aggregate amount of interest becoming due and payable on such Series of Bonds on such Interest Payment Date.

All money in the Interest Account will be used and withdrawn by the State Treasurer solely for the purpose of paying the interest on the Series of Bonds for which such Interest Account was established as it shall become due and payable (including accrued interest on any Bonds of such Series purchased or redeemed prior to maturity); provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from such Interest Account and pay to or upon order of the Board money sufficient to reimburse the Department for any Base Rental theretofore paid by the Department under the Lease or Leases relating to the Series of Bonds for which such Interest Account was established for that period of time during which the payment of Base Rental under such Lease or Leases is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance required by the Master Indenture as supplemented by the appropriate Supplemental Indenture and money in the respective Principal Account and in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

With respect to each Series of Bonds for which proceeds of the sale thereof are required to be set aside to pay interest on the Bonds, the State Treasurer (if so instructed by the Supplemental Indenture providing for the issuance of such Series) will establish and maintain a separate subaccount within the Interest Account, designated as a Capitalized Interest Subaccount. Moneys in a Capitalized Interest Subaccount are required to be transferred by the State Treasurer and deposited in the Interest Account in the amounts and at the times specified in the Supplemental Indenture providing for the issuance of a Series of Bonds.

(b) *Principal Account*. On or before the fifteenth day of the month next preceding the scheduled principal payment date for any Serial Bonds of such Series in each year, the State Treasurer shall set aside from the Revenue Fund and deposit in the Principal Account therefor an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on such principal payment date. In addition, on or before the fifteenth day of the month next preceding the scheduled sinking account payment date for any Term Bond of such Series in each year, the State Treasurer shall set aside from the Revenue Fund for such Series of Bonds and deposit in the Principal Account therefor an amount of money equal to the aggregate principal amount of all sinking account payments required to be made on such date into the respective sinking accounts for all Outstanding Term Bonds of such Series.

No deposit need be made in the Principal Account for any principal payment date if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds of such Series maturing by their terms on such principal payment date plus the aggregate amount of all sinking account payments required to be made during the year ending on such principal payment date for all Outstanding Term Bonds of such Series.

The State Treasurer is required to establish and maintain within the Principal Account for each Series of Bonds a separate subaccount for the Term Bonds of such Series and maturity, with each such subaccount being designated a “Sinking Account.” With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the State Treasurer shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and the maturity for which such Sinking Account was established, upon the notice and in the manner provided in Article 2 of the Master Indenture and in the appropriate Supplemental Indenture.

All money in the Principal Account shall be used and withdrawn by the State Treasurer solely for the purpose of paying the principal of the Series of Bonds for which such

Principal Account was established as it shall become due and payable, except that any money in any Sinking Account will be used and withdrawn by the State Treasurer only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created; provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require shall withdraw from such Principal Account and pay to or upon order of the Board money sufficient to reimburse the Department for any Base Rental theretofore paid by the Department under the Lease or Leases relating to the Series of Bonds for which such Principal Account was established for that period of time during which the payment of Base Rental under such Lease or Leases is abated and for which no other money (including proceeds of rental interruption or use and occupancy insurance required by the Master Indenture as supplemented by the appropriate Supplemental Indenture and money in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

(c) *Reserve Fund.* On or before December 1 of each year, the State Treasurer shall set aside from each of the Revenue Funds created under the Master Indenture or an Incorporated Indenture and deposit in the Reserve Fund that amount of money which shall be required to maintain the Reserve Fund in the full amount of the Reserve Fund Requirement or such larger amount as shall be required to be maintained in the Reserve Fund by any Supplemental Indenture. Notwithstanding any other provision of the Master Indenture, the amount required to be on deposit in the Reserve Fund shall not be less than the amount of the reserve account requirement for any series of Incorporated Bonds which has been transferred into the Reserve Fund. No deposit need be made in the Reserve Fund so long as there shall be on deposit therein a sum equal to at least the amount required by this paragraph to be on deposit therein. Notwithstanding the foregoing, there shall only be transferred to the Reserve Fund moneys from a Revenue Fund for a Series of Bonds or Incorporated Bonds if the State Treasurer had previously been required to make a transfer from the Reserve Fund to the Interest Account or Principal Account for that Series of Bonds or Incorporated Bonds. See "Reserve Fund" below.

(d) *Maintenance and Operation Account.* If at any time the Board shall operate any Facility, the State Treasurer, on or before May 15 and November 15 of each year, shall set aside from the Revenue Fund for the Series of Bonds used to finance the cost of such Facility, and deposit in the Maintenance and Operation Account all amounts which are estimated to be required to provide for all costs of maintenance and operation of such Facility during the next six months, including costs of repairs, replacements, labor costs and insurance; provided that no transfer will be made to the Maintenance and Operation Account to the extent there would be insufficient funds in the Revenue Fund after such transfer to make the necessary deposits to the Interest Account or Principal Account for such Series of Bonds during the current Bond Year.

All money in the Maintenance and Operation Account shall be disbursed by the State Treasurer only to pay such costs upon the Written Request of the Board; provided that the State Treasurer upon the written request of the Department and upon receipt of such documentation as he may require, shall withdraw from the Maintenance and Operation Account and pay to the Department money sufficient to reimburse the Department for any Base Rental theretofore paid by the Department under the Lease or Leases relating to the Series of Bonds for such Lease which such Maintenance and Operation Account was established for a period of time during which the payment of Base Rental under such Lease or Leases is abated and for which no other money (including proceeds of rental interruption or use and occupancy insurance which may be provided under the Supplemental Indenture and money in the Surplus Account) is available.

(e) *Surplus Account.* The State Treasurer, on or before the second Business Day following the end of each Bond Year for any Series of Bonds, will deposit in the Surplus Account all money remaining in the Revenue Fund to which such Surplus Account relates after making the deposits required by the Master Indenture to the Rebate Fund and to the Interest Account, Principal

Account, Reserve Fund and Maintenance and Operation Account. On the second Business Day following the end of each Bond Year, the State Treasurer, if the Board is not then in default under the Master Indenture and if the Department is not then in default under the Lease or Leases relating to the Series of Bonds for which such Surplus Account was established, shall disburse the money in the Surplus Account to or upon the order of the Board, unless (1) the State Treasurer has not received the Base Rental due and payable in such year from the Department for deposit to the Revenue Fund, or (2) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be required for the payment of the principal of or interest on such Series of Bonds on any succeeding Interest Payment Date (assuming for the purposes of such determination that the Department shall pay when due all future payments of Base Rental required by such Lease or Leases), or (3) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be necessary to fund the amounts on deposit in the Reserve Fund up to an amount equal to the Reserve Fund Requirement, in which event such money shall be held in the Surplus Account for such purpose.

Upon the Written Request of the Board and upon receipt of such documentation as the State Treasurer requires, the State Treasurer shall withdraw from the Surplus Account and pay to or upon the order of the Board that amount of money sufficient to reimburse the Department for any Base Rental theretofore paid by the Department under a Lease or Leases relating to the Series of Bonds for which the Surplus Account is established for a period of time during which the payment of the Base Rental under such Lease or Leases is abated and for which no other moneys, including proceeds of rental interruption or use and occupancy insurance which may be provided under the Supplemental Indenture, is available.

(f) *Build America Bond Subsidy Account.* The Board will covenant and agree to cause to be created and maintained in the Revenue Fund for each Series of Bonds which includes Build America Bonds, a Build America Bond Subsidy Account following the execution and delivery of the Supplemental Indenture for each such Series of Bonds. The Board will further covenant that, unless otherwise provided in the Supplemental Indenture, any Build America Bond Subsidy received with respect to a Series which includes Build America Bonds will be deposited into the Build America Bond Subsidy Account created for such Series and the Board has ordered the deposit of, and the State Treasurer shall deposit, any Build America Bond Subsidy for a Series which is received by the Board or the State Treasurer to the credit of the Build America Bond Subsidy Account for such Series. Notwithstanding any other provision of the Master Indenture, unless otherwise provided for in a Supplemental Indenture, investment earnings on all amounts in each Build America Bond Subsidy Account shall remain on deposit therein until disbursed at the Written Request of the Board. Amounts in the Build America Bond Subsidy Account for a Series do not constitute Revenues and are not pledged to the repayment of the Bonds of such Series or any Related Series of Bonds. The Board may by Written Request direct the State Treasurer to transfer monies from a Build America Bond Subsidy Account for a Series to any account within the Construction Fund or the Revenue Fund for such Series or in such other manner as the Board may by Written Request direct.

Reserve Fund

The Reserve Fund shall secure equally and ratably all Bonds issued under the Master Indenture and all Incorporated Bonds. There shall be deposited in the Reserve Fund upon issuance of each Series of Bonds money or a Reserve Fund Credit Facility in an amount as provided in the Master Indenture. All moneys in the Reserve Fund shall be used and withdrawn by the State Treasurer for the purposes of (a) replenishing, *first*, any Interest Account under the Master Indenture or under any Incorporated Indenture or, *second*, any Principal Account under the Master Indenture or under any Incorporated Indenture in the event of any deficiency at any time in such account or (b) paying the principal of, redemption premium, if any, or interest on the Bonds of any Series or any Incorporated Bonds if no other money of the Board is lawfully available therefor (including upon acceleration of any Series of Bonds pursuant to the Master Indenture or acceleration of any Series of Incorporated Bonds pursuant to the respective Incorporated Indenture). If aggregate claims against the Reserve Fund payable on any day pursuant to the previous sentence exceed the amount then on deposit therein, then such amount in the Reserve Fund will be apportioned among each Series of Bonds (including Incorporated Bonds) in the proportion that the amount then on deposit in the Reserve Fund bears to the aggregate amount of all such claims for all such Series of Bonds (including Incorporated Bonds).

So long as the Board is not in default under the Master Indenture, any amount in the Reserve Fund in excess of the amount required to be on deposit therein may (but need not) be withdrawn from the Reserve Fund (in whole or in part) and deposited in any Revenue Fund or Construction Fund or any fund or account under an Incorporated Indenture, or otherwise disbursed, as directed by the Board; provided, that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from the Reserve Fund and pay to or upon order of the Board money sufficient to reimburse any Department for any Base Rental theretofore paid by such Department under a Lease or Leases for a period of time during which the payment of Base Rental under such Lease or Leases is abated and for which no other money (including proceeds of rental interruption or use and occupancy insurance provided under any Supplemental Indenture or Incorporated Indenture and money in the Maintenance and Operation Account and in the Surplus Account) is available.

On or before December 1 of each year or at any other time after there has been any use of moneys in the Reserve Fund pursuant to the Master Indenture to replenish any Interest Account or Principal Account to pay debt service on Bonds or Incorporated Bonds or any Incorporated Bonds or Outstanding Bonds have been defeased, the State Treasurer shall determine the value of all amounts on deposit in the Reserve Fund, by determining the value of all Permitted Investments at their amortized cost (plus any accrued interest) and the value of all Reserve Fund Credit Facilities at their face value. If the State Treasurer determines that the value of amounts then on deposit in the Reserve Fund are less than the Reserve Fund Requirement, the State Treasurer shall promptly provide a written notification to the Board. All amounts on deposit in the Reserve Fund shall be invested in Permitted Investments maturing at such times as the State Treasurer, in his sole discretion, shall deem appropriate. If the Board receives a written notification from the State Treasurer pursuant to the Master Indenture that the value of amounts then on deposit in the Reserve Fund are less than the Reserve Fund Requirement, the Board shall use its best efforts to take such actions as may be necessary or appropriate in order to increase the amount on deposit in the Reserve Fund to the Reserve Fund Requirement by not later than the December 1 in the year following the year of receipt of such written notification either through the deposit of a Reserve Fund Credit Facility or a portion of the proceeds of an additional Series of Bonds or from the application of other lawfully available funds of the Board, or any combination of the foregoing, provided that the Legislature is not required to make any appropriation for this purpose but may do so. The Board is not required to provide for the financing of any facilities pursuant to the Master Indenture after the date of receipt of a notification of a deficiency in the Reserve Fund if the Board determines that another method of financing is more appropriate or cost effective.

On December 1 of each year the Board shall deliver to the State Treasurer and to each Rating Agency a Certificate of the Board identifying all the Facilities then covered by all the Bonds and Incorporated Bonds then Outstanding which are secured by the Reserve Fund, and demonstrating the appropriate Reserve Fund Requirement and stating whether, as of such date, the Reserve Fund Requirement is being maintained.

In lieu of making a Reserve Fund deposit in compliance with the Master Indenture, or in replacement of moneys then on deposit in the Reserve Fund (which shall be transferred by the State Treasurer to any Revenue Fund as specified by Written Request of the Board), the Board may deliver to the State Treasurer a Reserve Fund Credit Facility securing an amount, plus moneys and Permitted Investments, on deposit in the Reserve Fund equal to the Reserve Fund Requirement. Such Reserve Fund Credit Facility shall have a term of no less than three years. At least one year prior to the stated expiration of a Reserve Fund Credit Facility, the Board is required to deliver to the State Treasurer a replacement Reserve Fund Credit Facility. Upon delivery of a replacement Reserve Fund Credit Facility, the State Treasurer will deliver the expiring Reserve Fund Credit Facility to or upon order of the Board. If the Board fails to deposit a replacement Reserve Fund Credit Facility with the State Treasurer, the Board must immediately seek an appropriation or otherwise obtain lawfully available funds in order to make quarterly deposits with the State Treasurer so that an amount equal to the Reserve Fund Requirement is on deposit in the Reserve Fund no later than the stated expiration date of the Reserve Fund Credit Facility. If a drawing is made on the Reserve Fund Credit Facility, the Board is required to make such payments as may be required by the terms of the Reserve Fund Credit Facility or any obligations related thereto (but no less than quarterly pro rata payments) so that the Reserve Fund Credit Facility shall, absent the deposit in the Reserve Fund of an amount sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement, be reinstated in the amount of such drawing within one year of the date of such drawing.

Investment of Money in Funds and Accounts

Money in any fund or account established under the Master Indenture will be invested in Permitted Investments unless otherwise provided in a Supplemental Indenture. Subject to the provisions of the Master Indenture governing the Rebate Fund and any Build America Bond Subsidy Account and any Supplemental Indenture, all interest or profits from the funds and accounts relating to a Series of Bonds and received prior to completion of the Facility or Facilities financed by such Series of Bonds may be deposited in the account for such Series within the Construction Fund (as specified in a Written Request of the Board) and thereafter all interest or profits will be deposited in the Revenue Fund for such Series of Bonds.

Covenants of the Board

The Master Indenture contains covenants of the Board with respect to the Bonds and the Facilities. Certain of these covenants follow. Reference is made to the full Master Indenture for a complete text of such covenants.

Punctual Payment and Performance. The Board will punctually pay the principal of, redemption premium, if any, and interest to become due on every Bond issued under the Master Indenture in strict conformity with the terms of the Master Indenture and of the Bonds, and will faithfully observe and perform all of the agreements and covenants contained in the Master Indenture and in the Bonds.

Against Encumbrances. The Board will not make any pledge of or place or permit to be placed any charge or lien upon any of the Facilities or any part thereof or upon the Revenues except as provided in the Master Indenture or in a Supplemental Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds and any Related Series of Bonds.

Against Sale or Other Disposition of the Facilities. The Board will not sell or otherwise dispose of any of the Facilities or any part thereof essential to their proper operation or the maintenance of the Revenues. The Board will not enter into any agreement which impairs the operation any of the Facilities or any part thereof necessary to secure adequate Revenues for the payment of the interest on, principal of, and redemption premiums, if any, on any of the Bonds and any Related Series of Bonds, or which would otherwise impair the rights of the Holders with respect to the Revenues or the operation of the Facilities. Any real or personal property constituting part of a Facility which has become nonoperative or which is not needed for the efficient and proper operation of a Facility or any material or equipment constituting part of a Facility which has become worn out may be sold at not less than the market value thereof if such sale will not reduce the Revenues related to such Facility and if the net proceeds of such sale are treated as Revenues and applied in a manner provided in the Master Indenture.

Tax Covenants, Rebate Fund. The State Treasurer shall establish and maintain a fund separate from any other fund or account established and maintained under the Master Indenture designated as the Series I Rebate Fund (the "Rebate Fund"). The State Treasurer is to create within the Rebate Fund a separate account for each Series of Bonds issued under the Master Indenture. There shall be deposited in each such separate account of the Rebate Fund such amounts as are required to be deposited therein pursuant to any applicable Tax Certificate related to such Series of Bonds. All money at any time deposited in the Rebate Fund shall be held by the State Treasurer in trust to the extent required to satisfy the Rebate Requirement (as defined in any Tax Certificate for each Series of Bonds), for payment to the United States of America and will not be pledged to payment of principal of or interest or redemption premium, if any, on any of the Bonds.

The Master Indenture requires that the Board and the State Treasurer not use or permit the use of any proceeds of the Bonds or any funds of the Board, directly or indirectly, in any manner, and not take or omit to take any action that would cause any of the Bonds to be treated, as applicable, (i) as obligations not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, with respect to those Bonds issued as Tax-Exempt Obligations, or (ii) as obligations not treated as build america bonds within the meaning of Section 54AA of the Internal Revenue Code of 1986, as amended, with respect to those Bonds issued as Build America Bonds. The Board and the State Treasurer specifically covenant to comply with the provisions and procedures of the Tax Certificates, each of which is incorporated by reference into the Master Indenture. If the Board shall provide to the State Treasurer an Opinion of Counsel to the effect that any specified action required under the Master Indenture is no longer required or that some further or different action is required to maintain (i) the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Obligations of any Series, or (ii) the status as build america bonds for purposes of Section 54AA of the Internal Revenue Code of 1986, as amended of any Build America Bonds of any Series, the State Treasurer and the Board may conclusively rely on such Opinion of Counsel in complying with the requirements of this section, and, notwithstanding the provisions of the Master Indenture related to amendments, the foregoing covenants shall be deemed to be modified to that extent.

The foregoing tax covenants shall not be applicable to Taxable Bonds.

Maintenance and Operation of the Facilities. The Board will maintain and preserve or cause the Facilities to be maintained and preserved in good order, condition, and repair at all times and will operate or cause the Facilities to be operated in an efficient and economical manner as required by the Act.

Insurance. The following provisions shall apply only to Bonds issued pursuant to the Master Indenture and not to any Incorporated Bonds.

The Board will maintain or cause to be maintained all insurance coverage required under each Supplemental Indenture or each Lease. Each such policy of insurance must be in form reasonably satisfactory to the Board and must contain a clause making all losses payable to the Board, the State Treasurer, and the party providing such insurance, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem Bonds as provided in the Master Indenture.

Unless otherwise provided in a Supplemental Indenture, in the event of any damage to or destruction of a Facility caused by the perils covered by such insurance, the proceeds of such insurance will be utilized, in the discretion of the Board either (i) to redeem the Outstanding Series of Bonds (to which the damaged Facility or Facilities relates) to the extent possible, but only if the Base Rental due after such a redemption would be sufficient to pay the debt service on such Series of Bonds then remaining Outstanding in accordance with their terms, or (ii) to repair, reconstruct, or replace the Facility to the end that the Facility shall be restored to at least the same condition that it was in prior to such damage or destruction. If the Board so elects to repair, reconstruct, or replace the Facility, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction, or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the Master Indenture.

The Board will deliver or cause to be delivered to the State Treasurer during the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to the Master Indenture and each Supplemental Indenture, the names of the insurers which have issued the policies, the amounts thereof, and the property and risks covered thereby. Each such insurance policy must require that the State Treasurer be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer of the schedule of insurance policies under these provisions shall not confer responsibility upon the State Treasurer as to the sufficiency of coverage or amounts of such policies.

Unless otherwise provided in a Supplemental Indenture, as an alternative to providing any public liability and property damage insurance required by a Supplemental Indenture, the Board may cause to be provided other kinds of insurance or methods or plans of protection if and to the extent such other kinds of insurance or methods or plans of protection shall afford reasonable protection to the Board and the State Treasurer and the officers, agents, and employees of each, in light of all circumstances giving consideration to cost, availability, and plans or methods of protection adopted by other governmental entities of and within the State.

The Departments' Budget. As soon as practicable after the beginning of each Fiscal Year of the Departments, the Board and the State Treasurer shall coordinate and each shall determine whether each Department has made or has caused to be made adequate provision in its annual budget for such Fiscal Year for the payment of all rentals due under its respective Leases in such Fiscal Year. If in the opinion of the State Treasurer the amounts so budgeted are not adequate for the payment of all rentals due under such Leases in such Fiscal Year, the Board will take such action as may be necessary and within its power, including any actions pursuant to Government Code Section 15848, to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be paid by each Department in such Fiscal Year for the payment of all rentals due under the Leases in such Fiscal Year, or otherwise to cause the Base Rentals to be appropriated and paid, and will notify the State Treasurer of the proceedings then taken or proposed to be taken by the Board.

Eminent Domain. If the whole or any portion of any Facility is taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the proceeds therefrom are required to be deposited with the State Treasurer in a special fund in trust and applied and disbursed by the State Treasurer as follows:

(a) If less than the entire Facility shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, and if the portion taken is replaced by a facility of equal or greater utility and of equal or greater fair rental value within or adjacent to such remainder, the State Treasurer will disburse such proceeds to the party that incurred the expense of making such replacement; but if no such replacement is made, the State Treasurer will apply such proceeds to redeem all or a portion of that Series of Bonds relating to such Facility pursuant to the Master Indenture and the Supplemental Indenture relating to such Series of Bonds.

(b) If less than the entire Facility shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entire Facility shall have been so taken, the State Treasurer will apply such proceeds, together with any other money then available to him for such purpose, for the payment of the entire amount of principal then due or to become due upon all of that Series of Outstanding Bonds relating to such Facility, together with the interest thereon so as to enable the Board to retire all of the Bonds then Outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money then lawfully available to it for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer will apply such proceeds in accordance with the Master Indenture so far as the same may be applicable.

The proceeds of eminent domain proceedings with respect to a Facility related to any Incorporated Bonds will be governed by the provisions of the Incorporated Indenture.

Leases. The Board will at all times maintain and vigorously enforce all its rights under the Leases and will promptly collect all rents and charges due for the use and occupancy of the Facilities as the same become due under the Leases, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due under the Leases. The Board will not permit anything to be done or omit to do anything where such act or omission would or might be a ground for cancellation or termination of any Lease by the lessee thereunder. The Board may only agree to alter or modify a Lease with the written consent of the State Treasurer, who shall give such consent only if (i) in his opinion, such alterations or modifications will not result in any material impairment of the security given for the payment of the Series of Bonds related to such Lease, or (ii) the State Treasurer first obtains the consent of the Holders of at least sixty percent (60%) in aggregate principal amount of the Series of Bonds then Outstanding to such alterations or modifications in the Lease(s) relating to such Series of Bonds, exclusive of Bonds disqualified in accordance with the Master Indenture; or (iii) such alterations or modifications will facilitate the refunding or defeasance of any of the Bonds; provided that no such alterations or modifications shall materially alter or impair the obligation of the Board to pay the principal of, redemption premium, if any, or interest on any Bonds without the written consent of the Holders of all such Bonds so affected.

Prosecution and Defense of Suits. The Board will promptly, upon the request of the State Treasurer, from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Facilities, and will prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and hold the State Treasurer harmless from all loss, cost, damage and expense, including attorney's fees, which he may incur by reason of any such defect, cloud, suit, action or proceeding.

Amendments

The Master Indenture and the rights and obligations of the Board and of the Holders of the Bonds of any Series may be amended at any time by a Supplemental Indenture. Such amendments will become binding when the written consent of the Holders of 60% in aggregate principal amount of the Bonds of such Series then Outstanding, exclusive of Bonds disqualified as provided in the Master Indenture, are filed with the State Treasurer. No such amendment shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Board to pay the interest on, principal of, or redemption premium, if any, on any Bond at the time and place and at the rate and in the currency provided in the Master Indenture without the express written consent of the Holder of such Bond, or (2) permit the creation by the Board of any pledge of or charge or lien upon the Revenues or Reserve Fund as provided in the Master Indenture superior to or on a parity with the pledge, charge and lien created by the Master Indenture for the benefit of the Bonds of the affected Series, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the State Treasurer without his prior written assent thereto.

If any amendment shall not materially adversely affect the interest of the Holders and the holders of any Incorporated Bonds, then the Master Indenture and the rights and obligations of the Board and of the Holders may also be amended at any time by a Supplemental Indenture which will become binding upon execution and delivery thereof without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements and covenants required in the Master Indenture to be performed by the Board other agreements thereafter to be performed by the Board, or to surrender any right or power reserved to or conferred on the Board in the Master Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of correcting, curing, or supplementing any defective provision contained in the Master Indenture or in regard to questions arising under the Master Indenture which the Board may deem desirable or necessary and not inconsistent with the Master Indenture;

(c) to provide for the issuance of any Series of Bonds and to provide the terms of such Series of Bonds and the funds and accounts therefor, subject to the conditions and upon compliance with the procedure set forth in the Master Indenture;

(d) to modify the book-entry provisions of the Master Indenture or to allow for a substitute depository;

(e) to facilitate the refunding or defeasance of any of the Bonds pursuant to the Master Indenture;

(f) to provide for compliance with any future laws or regulations concerning provision of financial information or other notices to Bondholders;

(g) to facilitate the obtaining of any insurance policy or letter of credit securing any Series of Bonds;

(h) to obtain or maintain a rating on any Series of Bonds from a Rating Agency;

(i) to modify, amend or supplement the Master Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions, and provisions as may be permitted by said act or similar federal statute;

(j) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on any Tax-Exempt Obligations or the status of any Build America Bonds as build america bonds within the meaning of Section 54AA of the Internal Revenue Code of 1986, as amended, including the amendment of any Tax Certificate; or

(k) to modify, amend, or supplement the Master Indenture to allow for the appointment of a successor trustee.

Events of Default

Except as otherwise provided in a Supplemental Indenture, the following events shall be events of default under the Master Indenture with respect to a particular Series of Bonds:

(1) default in the due and punctual payment of the interest on any Bond of such Series when and as the same shall become due and payable; or

(2) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond of such Series when and as the same shall become due and payable, whether at maturity or by redemption;

The following events shall be events of default with respect to all Outstanding Bonds:

(1) default by the Board in the performance of any of the other agreements or covenants required in the Master Indenture to be performed by the Board, and such default shall have continued for a period of 60 days after the Board shall have been given notice in writing of such default by the State Treasurer; or

(2) the filing by the Board of a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the Board seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the assumption under the provisions of any other law for the relief or aid of debtors by any court of competent jurisdiction of custody or control of the Board or of the whole or any substantial part of its property.

Acceleration of Maturities

If an Event of Default has occurred and is continuing, the State Treasurer may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the affected Series of Bonds then Outstanding shall, by notice in writing to the Board, declare the principal of all Bonds of such Series then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable.

This provision, however, is subject to the following conditions: if, (i) at any time after the principal of the affected Series of Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, and (ii) if each of the following conditions has occurred or will occur: (a) the Board shall deposit with the State Treasurer a sum sufficient to pay all matured interest on all the affected Series of Bonds and all principal of such Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable expenses of the State Treasurer, and (b) any and all other defaults known to the State Treasurer (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the State Treasurer or provision deemed by the State Treasurer to be adequate shall have been made therefor, then and in every such case the Holders of not less than 25% in aggregate principal amount of such affected Series of Bonds then Outstanding, by written notice to the Board and to the State Treasurer, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All moneys in the accounts, subaccounts, and funds established under the Master Indenture that relate to such a Series of Bonds for which an event of default has occurred, and moneys available in the Reserve Fund, upon the date of the declaration of acceleration by the State Treasurer following an event of default and all Revenues relating to such Series of Bonds (other than Revenues on deposit in the Rebate Fund) thereafter received by the Board will be transmitted to the State Treasurer and will be applied by the State Treasurer in the following order:

First, to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the State Treasurer, if any, in carrying out the provisions of the Master Indenture, including reasonable compensation to his accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money is insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal, and interest on overdue interest and principal without preference or priority among such interest, principal, and interest on overdue interest and principal ratably to the aggregate of such interest, principal, and interest on overdue interest and principal.

Other Remedies of Holders

Any Holder shall have the right for the equal benefit and protection of all Holders similarly situated:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his or her rights against the Board or any member, officer, or employee of the Board, and to compel the Board or any such member, officer, or employee to perform and carry out their duties under the Act and the agreements and covenants with the Holders contained in the Master Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Holders; or

(c) by suit in equity upon the happening of an event of default to require the Board and its members, officers, and employees to account as the trustee of an express trust.

Remedies Not Exclusive

No remedy in the Master Indenture conferred upon or reserved to the Holders or the State Treasurer is intended to be exclusive of any other remedy, and each such remedy is cumulative and is in addition to every other remedy given under the Master Indenture or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law, including the rights and remedies conferred pursuant to Section 15841 of the California Government Code.

Defeasance

If the Board shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds of any Series the principal of, interest on, and redemption premium, if any, on the Bonds at the times and in the manner provided in the Master Indenture and in the Bonds, then the Holders of the Bonds will cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the Master Indenture, and the agreements, covenants, and other obligations of the Board to the Holders of such Bonds under the Master Indenture will cease, terminate, and become void, discharged, and satisfied; provided however, that the following agreements, covenants, and obligations shall not be discharged and satisfied until such Bonds are paid in full: (i) the obligation of the State Treasurer to pay or cause to be paid to the Holders of the Bonds of such Series all sums due with respect to the Bonds of such Series from such moneys or investments that may have been set aside for such purposes in accordance with the Master Indenture; (ii) the obligation of the State Treasurer to register, transfer, and exchange Bonds pursuant to the Master Indenture; (iii) the obligation of the Board to pay the amounts owing to the State Treasurer under the Master Indenture; and (iv) the obligation of the Board to comply with the tax covenants contained in the Master Indenture. If the Board shall discharge the Bonds of any Series as previously described, the State Treasurer will execute and deliver to the Board all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the State Treasurer will pay over or deliver to the Board all money or securities held by him pursuant to the Master Indenture which are not required for the payment of the interest on and principal of and redemption premium, if any, on the Bonds.

Any Outstanding Bonds of any Series will, prior to the maturity date or redemption date thereof, be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if, in addition to other requirements, in the case of such Bonds to be redeemed prior to maturity, the Board shall have given to the State Treasurer irrevocable instructions to mail a notice of redemption of such Bonds and there shall have been deposited with the State Treasurer either (1) money in an amount which shall be sufficient and/or (2) Permitted Investments of the type described in clause (i) or clause (ii) of the definition of Permitted Investments and which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the U.S. Treasury) or tax-exempt securities rated AAA or its equivalent by a Rating Agency, the interest and principal of which when paid will provide money which, together with the money, if any, deposited with the State Treasurer at the same time, shall be sufficient, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premium, if any, on such Bonds.

THE ONE HUNDRED ELEVENTH SUPPLEMENTAL INDENTURE

The provisions of the One Hundred Eleventh Supplemental Indenture (relating to the 2012D Bonds) are briefly summarized herein.

Creation of Subaccounts

Pursuant to the One Hundred Eleventh Supplemental Indenture, there will be created accounts or subaccounts relating to the 2012D Bonds in the following funds and accounts created under the Master Indenture: Construction Fund, including a Cost of Issuance Account and a Project Account therein, Revenue Fund, including the Interest Account (and a Series 2012D Capitalized Interest Subaccount therein), Principal Account, Maintenance and Operation Account, and Surplus Account therein, and Rebate Fund.

Pledge of Revenues for the 2012D Bonds; Payment Dates

The 2012D Bonds are secured by a first pledge of and charge and lien upon the 2012D Revenues generated by the 2012D Facility Leases, equally with any Related Series of Bonds, and a first pledge of amounts on deposit in the funds and accounts established under the One Hundred Eleventh Supplemental Indenture (except the Rebate Fund) and by a pledge of the Reserve Fund. The pledge made in the 2012D Indenture as to the Reserve Fund constitutes an equal pledge on the Reserve Fund along with all other Bonds and Incorporated Bonds Outstanding. The 2012D Revenues and the Reserve Fund are irrevocably pledged to the payment of the principal of, interest on, and redemption premium, if any, on the 2012D Bonds and any Related Series of Bonds to which such 2012D Revenues relate.

If an Interest Payment Date or other date on which interest or principal on the 2012D Bonds is due falls on a day that is not a Business Day, payment shall be made on the next succeeding Business Day and no additional interest shall accrue on the 2012D Bonds for the period after the date on which such interest or principal was due.

Insurance

The Board has covenanted that not later than the start of construction for a 2012D Project, it will maintain or cause to be maintained by the Trustees fire, lightning and extended coverage insurance on each 2012D Facility, and from and after the later of (i) the date any portion of a 2012D Facility is available for use and occupancy, or (ii) the last date on which the Base Rental related to such 2012D Facility is fully paid from capitalized interest on the 2012D Bonds, it will maintain or cause to be maintained rental interruption or use and occupancy insurance of the type required by the 2012D Facility Leases. See “THE FACILITY LEASES – Insurance” below.

In the event of any damage to or destruction of a 2012D Facility caused by the perils covered by the fire, lightning and extended coverage insurance described in the preceding paragraph, or in the event of a loss of use of all or a portion of a 2012D Facility due to a title defect for which the Board or the Trustees has obtained any title insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem the Outstanding 2012D Bonds or a Related Series of Bonds, to the extent possible and in accordance with the provisions of the 2012D Indenture, but only if the Base Rental payments due after such redemption, together with the other Revenues to be received thereunder, would be sufficient to retire the 2012D Bonds and any Related Series of Bonds then Outstanding in accordance with their terms, or (ii) to repair, reconstruct or replace such 2012D Facility to the end that the 2012D Facility shall be restored to at least the same condition that it was in prior to such damage, destruction or loss of use. If the Board so elects to repair, reconstruct or replace a 2012D Facility, it will do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the 2012D Indenture.

Adjustment of Base Rental Payments for Projects

(a) Partial Redemption or Partial Defeasance. In the event that the Board effects a partial extraordinary redemption or a partial optional redemption of the 2012D Bonds pursuant to the 2012D Indenture or causes a portion of the 2012D Bonds to be paid or deemed paid in accordance with the provisions of the 2012D Indenture, the Board shall, in its discretion, determine which Base Rental payments shall have been paid and discharged and in the event that all Base Rental payments with respect to a 2012D Facility Lease shall have been paid and discharged, such 2012D Facility Lease and any related 2012D Site Lease shall no longer be subject to the provisions of the 2012D Indenture. In connection with any such partial redemption or partial defeasance of the 2012D Bonds, the Board shall deliver to the State Treasurer a Certificate of the Board stating which Base Rental payments have been deemed paid and discharged.

(b) Cost Reduction; Base Rental Adjustment.

(1) The Base Rental payments for each 2012D Facility are based on the expected amount of proceeds of the 2012D Bonds to be expended on the related 2012D Project. If at any time the Board determines that a lesser amount of proceeds of the 2012D Bonds will be spent on a 2012D Project (the “Cost Reduction”), the Base Rental payments for the related 2012D Facility may be reduced in accordance with the terms of the related 2012D Facility Lease. In connection with, and as a precondition to, any such reduction, the Board covenants to do one or more of the following, provided that there shall first be delivered to the Board and the State Treasurer an Opinion of Counsel to the effect that the option or options selected by the Board pursuant to this paragraph are permitted under the terms of the 2012D Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Bonds outstanding with respect to the 2012D Projects: (i) apply excess proceeds related to the Cost Reduction to effect an optional redemption of the 2012D Bonds, (ii) apply excess proceeds related to the Cost Reduction to effect a defeasance of 2012D Bonds, (iii) increase and/or decrease the annual Base Rental payments due under one or more of the other 2012D Facility Leases in accordance with applicable law; or (iv) add one or more new 2012D Projects to be financed with the proceeds of the 2012D Bonds made available as a result of the Cost Reduction upon satisfaction of the requirements described in paragraph (c) below.

(2) Any adjustment to the Base Rental for a 2012D Facility related to the actions described in (i), (ii), (iii) or (iv) in (b)(1) above may be made only if prior to such adjustment taking effect there is delivered to the Board and the State Treasurer (1) a written certificate of the Trustees stating that with the adjusted Base Rental payments, the total rental due under the 2012D Facility Lease is consistent with and not in excess of the fair rental value of the 2012D Facility, (2) a certificate of the Board pursuant to the 2012D

Indenture, (3) an opinion of counsel to the Board to the effect that, upon such adjustment to the Base Rental, the 2012D Facility Lease will remain a valid and binding agreement of the Board, (4) an opinion of counsel to the Trustees to the effect that, upon such adjustment of Base Rental, the 2012D Facility Lease will remain a valid and binding agreement of the Trustees, and (5) in accordance with the 2012D Indenture, the consent of the State Treasurer to the change in the Base Rental payments under the 2012D Facility Lease.

(3) The Board covenants and agrees that, as a condition to selecting options (i) through (iv) in (b)(1) above, the Base Rental payable under the 2012D Facility Leases shall at all times, together with amounts on deposit in the Series 2012D Capitalized Interest Subaccount, be sufficient to pay the principal of and interest on the 2012D Bonds when due and, prior to its implementation of one of such options, it shall deliver a Certificate of the Board to the State Treasurer to such effect.

(4) In connection with its implementation of any of the options described in (b)(1) above, the Board may, by a Written Request of the Board, direct the State Treasurer to apply amounts on deposit in the Series 2012D Capitalized Interest Subaccount within the Interest Account for the 2012D Bonds to redeem or defease 2012D Bonds or to apply such amounts on such dates as are specified in the Written Request to pay interest on the 2012D Bonds.

(c) Addition of a Project. The Board may take an action to authorize the addition of a Project to be financed with proceeds of the 2012D Bonds upon presentation to it of the forms of the 2012D Site Lease and 2012D Facility Lease for such 2012D Project together with an Opinion of Counsel and certificates as are required by the Board prior to such approval. If the Board takes an action to authorize the addition of a Project, then proceeds of the 2012D Bonds may be used for such Project provided that there has been delivered to the Board and the State Treasurer the following: (i) an executed 2012D Site Lease and 2012D Facility Lease for such 2012D Project substantially in the form executed by the Trustees at the time of issuance of the 2012D Bonds, (ii) an opinion of counsel to the Board to the effect that the 2012D Site Lease and the 2012D Facility Lease are valid and binding obligations of the Board, (iii) an opinion of counsel to the Trustees to the effect that the 2012D Site Lease and the 2012D Facility Lease are valid and binding obligations of the Trustees; (iv) a written certificate of the Board to the effect that each of the 2012D Site Lease and the 2012D Facility Lease have been duly authorized, executed and delivered by it and constitute legal, valid and binding obligations of the Board, that the total rental due under the 2012D Facility Lease is consistent with the fair rental value of the 2012D Facility and there is no litigation pending or threatened against it in any way contesting or affecting the validity of such documents; (v) a written certificate of the Trustees to the effect that each of the 2012D Site Lease, the 2012D Facility Lease have been duly authorized, executed and delivered by it and constitute legal, valid and binding obligations of the Trustees and there is no litigation pending or threatened against it in any way contesting or affecting the validity of such documents or any other document, license, permit or approval necessary to the constructing or undertaking of the construction of such Project or its performance under any of the foregoing documents, and (vi) the amended form of Exhibit B to the One Hundred Eleventh Supplemental Indenture listing the Project to be financed which shall be attached thereto and shall automatically supersede the Exhibit B then in effect without any further actions being required on the part of the Board or the State Treasurer.

(d) Effect of Base Rental Adjustment. So long as the applicable provisions of paragraphs (a), (b) and (c) above have been satisfied, any adjustment of the Base Rental payments due under a 2012D Facility Lease may be made without the consent of the Holders of any 2012D Bonds and shall be deemed not to result in any material impairment of the security given or intended to be given to the Holders of the 2012D Bonds.

THE 2012D SITE LEASES

A 2012D Site Lease will be entered into by and between the Trustees and the Board with respect to each 2012D Site, pursuant to which there will be leased to the Board a 2012D Site. In the following summary, the 2012D Site Leases and the 2012D Facility Leases are also respectively referred to herein as the

“Site Leases” and the “Facility Leases”. The 2012D Site Leases are being entered into for the purpose of leasing the 2012D Sites to the Board to enable the Board, in turn, to enter into the 2012D Facility Leases for those 2012D Sites. Pursuant to the 2012D Site Leases, the Board will have jurisdiction over the related 2012D Sites for the term of the related 2012D Facility Leases.

In the following summary, the term “Bonds” refers to the 2012D Bonds; the term “Facility” refers to each 2012D Facility; the term “Project” refers to each 2012D Project; the term “Property” means the real property to which fee title is owned by the Trustees or over which it has jurisdiction.

Lease of Site; Right of Entry Upon Property; Utilities and Parking

The Trustees leases to the Board and the Board leases from the Trustees, on the terms and conditions set forth in the Site Lease, the Site, subject, however, to any conditions, reservations, and easements of record as of the date of the Site Lease.

The Trustees grants, conveys and confirms to the Board, for the use, benefit and enjoyment of the Board and its successors in interest to the Site on which the Facility is located, and their respective employees, invitees, agents, independent contractors, patrons, customers, guests and members of the public visiting the Facility, a right of entry which shall be irrevocable for the term of the Site Lease over, across and under certain adjacent real property controlled by the Trustees to and from the Site for the purpose of: (a) ingress, egress, passage or access to and from the Site by pedestrian or vehicular traffic; (b) installation, maintenance and replacement of utility wires, cables, conduits and pipes; and (c) other purposes and uses necessary or desirable for access to and from and for operation and maintenance of the Facility. The foregoing right of entry is expressly subject to the implementation and application of security measures by the Trustees, in its sole discretion.

The Trustees agrees to provide or cause to be provided to the Board, at reasonable rates and charges payable by the Board (and which rates and charges the Trustees agrees to pay pursuant to the Facility Lease for the Facility), its assigns or sublessees, adequate parking spaces and such utility services, including electricity, gas, water, sewer, garbage disposal, heating, air conditioning and telephone, as the Trustees provides or causes to be provided to buildings similar to the Facility.

Term

The term of the Site Lease shall commence on the date of issuance and initial delivery of the Bonds (as defined in the Facility Lease) and shall end on September 1, 20__, unless such term is extended or sooner terminated as provided in the Site Lease. If on September 1, 20__ any Bonds or other indebtedness incurred by the Board to pay for the Project are not fully paid and retired as a result of the Base Rental (as defined in the Facility Lease) not being paid when due or being abated, then the term of the Site Lease shall be extended until ten (10) days after all Bonds and other indebtedness of the Board outstanding as a result of the nonpayment of Base Rental under the Facility Lease shall be fully paid and retired, except that the term of the Site Lease shall in no event be extended beyond September 1, 20__. If, prior to September 1, 20__, all Bonds and other indebtedness of the Board incurred to pay for the Project are fully paid and retired, the term of the Site Lease shall end ten (10) days thereafter.

Purpose

The Board shall use the Site solely for the purpose of causing the Project to be constructed thereon and leasing the Facility to the Trustees pursuant to the Facility Lease and for such purposes as may be incidental thereto; provided, that in the event of default by the Trustees under the Facility Lease, the Board may exercise the remedies provided in the Facility Lease.

Nonsubordination; Assignments and Subleases

The Site Lease shall be nonsubordinated and unless the Trustees shall be in default under the Facility Lease, the Board shall not assign its rights under the Site Lease or sublet the Site without the prior written consent of the Trustees.

Default

In the event the Board shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for sixty (60) days following notice and demand for correction thereof to the Board, the Trustees may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Facility Lease shall be deemed to occur as a result thereof, provided, however, that the Trustees shall have no power to terminate the Site Lease or any rights of entry granted therein by reason of any default on the part of the Board if such termination would affect or impair any assignment or sublease of all or any part of the Site then in effect between the Board and any assignee or subtenant of the Board (other than the subtenancy created under the Facility Lease); and provided, further, that, so long as any bonds or other indebtedness incurred by the Board to pay for the Project is outstanding and unpaid in accordance with the terms of any indenture authorizing such bonds or other indebtedness, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee. So long as any such assignee or subtenant of the Board shall duly perform the terms and conditions of the Site Lease and of its then existing sublease (if any), such assignee or subtenant shall be deemed to be and shall become the tenant of the Trustees under the Site Lease and shall be entitled to all of the rights and privileges granted under any such assignment or sublease; provided, further, however, that, so long as any bonds or other indebtedness incurred by the Board to pay for the Project is outstanding and unpaid in accordance with the terms of any indenture authorizing such bonds or other indebtedness, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee.

Eminent Domain

In the event the whole or any part of the Site or the improvements thereon (including the Project) is taken permanently or temporarily under the power of eminent domain, the interest of the Board shall be recognized and is determined to be the amount of the then unpaid indebtedness incurred by the Board to finance the construction of the Project, including the unpaid principal of and interest on any then outstanding bonds or other indebtedness of the Board, and shall be paid to the trustee under any indenture authorizing such bonds or other indebtedness and applied as provided in said indenture. The term “unpaid indebtedness,” as used in the preceding sentence, includes the face amount of the indebtedness evidenced by any outstanding bonds or notes of the Board issued to finance construction of the Project, together with the interest thereon and all other payments required to be made by the trustee pursuant to the indenture authorizing the issuance of said bonds or notes on account of said indebtedness, until such indebtedness, together with the interest thereon, has been paid in full in accordance with the terms thereof.

Amendment

The Site Lease may only be amended by a written instrument duly authorized and executed by the Trustees and the Board; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds.

THE 2012D FACILITY LEASES

A 2012D Facility Lease will be executed for each of the 2012D Facilities. Except as specified below, each of the 2012D Facility Leases is substantially identical. The general terms of the 2012D

Facility Leases are summarized below. Each 2012D Facility Lease is by and between the Board, as lessor, and the Trustees, as lessee.

In the following summary, the term "Indenture" refers to the 2012D Indenture; the term "Bonds" refers to the 2012D Bonds; the term "Facility" refers to each 2012D Facility; the term "Facility Lease" refers to each 2012D Facility Lease; and the term "Project" refers to each 2012D Project.

Purpose and Term

The Board leases the Facility to the Trustees and the Trustees leases the Facility from the Board on the terms and conditions set forth in the Facility Lease and subject to all easements, encumbrances and restrictions of record. The Trustees agrees and covenants during the term of the Facility Lease that, except as provided therein, it will use the Facility only to afford the public the benefits contemplated by the Act, the Law and by the Facility Lease and so as to permit the Board to carry out its agreements and covenants contained in the Indenture and further agrees that it will not abandon the Facility.

The term of each Facility Lease will commence with the issuance of the Bonds and will end on the last date on which any Bonds related thereto mature, unless such term is extended or sooner terminated as provided in the Facility Lease. If on the last maturity date for the Bonds, or other indebtedness of the Board incurred to pay for the related Project, shall not have been fully paid and retired as a result of the Base Rental due under the Facility Lease not having been paid when due, or if the Base Rental payable under such Facility Lease shall have been abated at any time and for any reason, then the term of such Facility Lease shall be extended until the date upon which all the Bonds and other indebtedness of the Board outstanding as a result of the nonpayment of such Base Rental shall have been fully paid and retired, except that the term of a Facility Lease shall in no event be extended beyond September 1, 20__. If prior to the stated maturity date of any Facility Lease the portion of the Bonds and other indebtedness of the Board payable from the Base Rental shall have been fully paid and retired, then the term of such Facility Lease shall end simultaneously therewith.

Rental

The Trustees agrees to pay to the Board, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Facility, the following amounts at the following times:

(a) *Base Rental*. In order to allow the Board to pay the principal of and interest on the Bonds when due, subject to the provisions of the following two paragraphs, if applicable, and paragraph (g) below, the Trustees shall pay to the Board Base Rental under the Facility Lease in the semiannual installments set forth therein. Such Base Rental shall be due and payable on or before February 15 and August 15 in each year, commencing February 15, 2013 through the term of the Facility Leases, subject to the provisions of the following two paragraphs, if applicable. If any date for the payment of Base Rental is not a Business Day, such Base Rental shall be paid on the next succeeding Business Day. The payments of the Base Rental due on the applicable dates in each calendar year as set forth in the Facility Lease shall be for the right to the use and occupancy of the Facility for the preceding six month period.

It is contemplated that the Trustees will take possession of the Facility and each and every part thereof on or before the applicable date specified in the related Facility Lease. If the Facility or any part thereof shall be substantially completed before such date, the Trustees may take possession of the Facility or such part thereof upon such substantial completion. The Board covenants that it will cause the Facility to be constructed with all practical dispatch.

If the Board for any reason whatsoever cannot deliver possession of the Facility or any part thereof to the Trustees by the date stated in the Facility Lease, the Facility Lease shall not be void or voidable, nor shall the Board be liable to the Trustees for any loss or damages resulting therefrom, but in that event the Base Rental payable thereunder shall be abated proportionately in the proportion which the construction costs of the part or parts of the Facility not yet delivered to the Trustees bear to the costs of construction of the entire Facility with respect to the period between the date set forth in the Facility Lease and the time when the Board delivers possession of such part.

The Base Rental installments set forth in each Facility Lease have been established based on the expected amount of proceeds of the Bonds to be expended on the Project. If at any time the Board determines that a lesser amount of proceeds of the Bonds will be expended on the Project (the "Cost Reduction"), the Board and the Trustees shall determine whether the amount of the total rental due under such Facility Lease as described in (c) below remains consistent with and does not exceed the fair rental value of the Facility. If the Board and the Trustees are unable to make a determination that the total rental due annually remains consistent with and does not exceed the fair rental value of the Facility or otherwise determine that the Base Rental installments should be adjusted given the Cost Reduction, then the Board, in coordination with the State Treasurer, shall recompute the Base Rental due and reduce each Base Rental installment to an amount determined by the Board and the Trustees to be consistent with and not in excess of the fair rental value of the Facility.

In the event that the Board authorizes an increase in the amount of Bond proceeds to be expended on the Project, then the Board and the Trustees may agree to increase the Base Rental installments due upon a determination by the Board and the Trustees that with such revised Base Rental installments, the amount of total rental due thereunder is consistent with and does not exceed the fair rental value of the Facility.

Any adjustment to the Base Rental installments to be made pursuant to the two preceding paragraphs shall become effective only in accordance with the provisions of the Indenture, following which a revised schedule of Base Rental installments shall be appended to the applicable Facility Lease and shall automatically supersede the schedule of Base Rental installments then in effect without any further action being required on the part of the Board or the Trustees.

(b) *Additional Rental*. In addition to the amounts described under the caption "Maintenance, Utilities, Taxes and Assessments" below, the Trustees shall pay to or upon the order of the Board as Additional Rental such reasonable amounts in each year as shall be required by the Board for the payment of all administrative costs and other expenses of the Board in connection with the Facility, including all expenses, compensation and indemnification of the State Treasurer payable by the Board under the Indenture, fees of accountants, fees of the Attorney General or attorneys, litigation costs, insurance premiums and all other necessary costs of the Board and the State Treasurer or charges required to be paid by them in order to comply with the terms of the Act, the Law, the Indenture, the Facility Lease or the Bonds. Such Additional Rental shall be billed by the Board or the State Treasurer from time to time, together with a statement certifying that the amount so billed has been paid by the Board or by the State Treasurer on behalf of the Board for one or more of the items above described, or that such amount is then payable by the Board or the State Treasurer on behalf of the Board for such items. Amounts so billed shall be due and payable by the Trustees within thirty (30) days after receipt of the bill by the Trustees.

(c) *Total Rental.* Such payments of Base Rental and Additional Rental for each rental payment period during the term of the Facility Lease shall constitute the total rental for such rental payment period, and shall be paid by the Trustees in each rental payment period for and in consideration of the right to the use and occupancy, and the continued quiet enjoyment, of the Facility during each such rental payment period for which such rental is paid. The parties to the Facility Lease have agreed and determined that the amount of such total rental is consistent with and does not exceed the fair rental value of the Facility. In making such determination, consideration has been given to the costs of the construction of the Project to be financed by the Board with the proceeds of the Bonds, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the Facility and the benefits therefrom which will accrue to the Trustees and the general public.

(d) *Payment Terms*. Each installment of rental payable under the Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Board in Sacramento, California, or such other place as the Board shall designate. Any such installment of rental which shall not be paid when due shall bear interest at the legal rate of interest per annum at which judgments for money in the State bear interest from the date when the same is due until the same shall be paid. Notwithstanding any dispute between the Board and the Trustees, the Trustees shall make all rental payments when due without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute.

(e) *Covenant to Budget*. The Trustees covenants to take such action as may be necessary to include or cause to be included all such rental payments due under the Facility Lease in that portion of the budget of the State related to the Trustees and to make or cause to be made the necessary annual allocations for all such rental payments. The Trustees further covenants to take all actions necessary and appropriate to assist in implementing the procedure contained in California Government Code Section 15848 for making rental payments under the Facility Lease if the required rental payments have not been included in the annual budget adopted by the State or the State is operating without a budget. The covenants on the part of the Trustees contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Trustees to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Trustees to carry out and perform the agreements and covenants in the Facility Lease agreed to be carried out and performed by the Trustees.

(f) *Order of Payments*. All rental payments received shall be applied first to the Base Rental due and thereafter to all Additional Rental due, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default.

(g) *Rental Abatement*. The rental shall be abated proportionately during any period in which, by reason of any damage or destruction (other than by eminent domain, which is provided for as described under the caption "Eminent Domain" below) or title defect in the Site, there is substantial interference with the use and occupancy of the Facility or any portion thereof by the Trustees. Such abatement shall continue for the period commencing with such damage or destruction or title defect and ending when such use and occupancy are restored. The Trustees waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such damage or destruction.

Financing the Project

The Board agrees to use a portion of the proceeds of the Bonds to finance the costs of the construction of the Project specified in the Facility Lease and certain related costs (or for making reimbursements to the Board or any other state agency, public agency, person, firm or corporation for such costs theretofore paid by him, her or it), including payment of all costs incidental to or connected with such construction, and to pay for the costs of issuance related to the Bonds and to pay for capitalized interest on the Bonds.

Maintenance, Utilities, Taxes and Assessments

(a) During such time as the Trustees is in possession of the Facility, all maintenance and repair, both ordinary and extraordinary, of the Facility shall be the sole responsibility of the Trustees, which shall at all times maintain or otherwise arrange for the maintenance of the Facility in good condition, and the Trustees shall pay for or otherwise arrange for the payment of all utility services supplied to the Facility and shall pay for or otherwise arrange for the payment of the costs of the repair and replacement of the Facility resulting from ordinary wear and tear or want of care on the part of the Trustees or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Facility. In exchange for the rentals provided in the Facility Lease, the Board agrees to provide on the Facility.

(b) The Trustees shall also pay to the Board or upon the order of the Board, as Additional Rental such amounts, if any, in each year as shall be required by the Board for the payment of all taxes and assessments of any type or nature assessed or levied by any governmental agency or entity having power to levy taxes or assessments charged to the Board or the State Treasurer affecting or relating to the Facility or the respective interests or estates therein, or the amount of rentals received by the Board under the Facility Lease.

Changes to the Facility

At its sole cost and expense, the Trustees shall have the right during the term of the Facility Lease to make additions, betterments, extensions or improvements to the Facility or to attach fixtures, structures or signs to the Facility if such additions, betterments, extensions or improvements or fixtures, structures or signs are necessary or beneficial for the use of the Facility by the Trustees; provided, however, that any such changes to the Facility shall be made in a manner that does not result in an abatement of Base Rental.

Insurance

(a) (1) Not later than the start of construction of the Project, the Trustees shall maintain or cause to be maintained (i) fire, lightning and extended coverage insurance on the Facility which initially may be in the form of a builder's risk policy providing coverage in an amount not less than the construction costs expended for the Project and, if no builder's risk policy is in effect, shall be in the form of a commercial property policy in an amount equal to one hundred percent (100%) of the then current replacement cost of the Facility, excluding the replacement cost of the unimproved real property constituting the Site (except that such insurance may be subject to deductible clauses of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss), and (ii) earthquake insurance (if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost) on any structure comprising part of the Facility in an amount equal to the full insurable value of such structure or the principal amount of all Outstanding Bonds issued to finance the Project, whichever is less (except that such insurance may be subject to a deductible clause of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss). The extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, vandalism and malicious mischief and such other hazards as are normally covered by such endorsement. Each such policy of insurance shall be in a form satisfactory to the Board and shall contain a clause making all losses payable to the Board, the State Treasurer and the Trustees, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem the Bonds as provided in the Facility Lease.

(2) In the event of any damage to or destruction of the Facility caused by the perils covered by the insurance described in the preceding paragraph, or in the event of a loss of use of all or a portion of the Facility due to a title defect for which the Board or the Trustees has obtained any title insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem Outstanding Bonds to the extent possible and in accordance with the provisions of the Indenture, but only if the Base Rental payments due after such a redemption together with other Revenues available under the Indenture would be sufficient to retire the Bonds then Outstanding in accordance with their terms, or (ii) for the repair, reconstruction or replacement of the Facility to the end that the Facility shall be restored to at least the same condition that it was in prior to such damage, destruction or loss of use. If the Board so elects to repair, reconstruct or replace the Facility, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not

required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the Indenture.

(b) The Trustees shall maintain or cause to be maintained, from and after the later of (i) the date any portion of the Facility is available for use and occupancy, and (ii) the last date on which the Base Rental is fully paid from capitalized interest on the Bonds, rental interruption insurance or use and occupancy insurance to cover loss, total or partial, of the use of the Facility as a result of any of the hazards covered by the insurance required by subsection (a)(1) of this section in an amount not less than the succeeding two (2) consecutive years' Base Rental. Any such insurance policy shall be in form satisfactory to the Board and shall contain a loss payable clause making any loss therein payable to the State Treasurer. Any proceeds of such insurance shall be used by the State Treasurer to reimburse the Trustees for any rental theretofore paid by the Trustees under the Facility Lease for a period of time during which the payment of rental is abated, and any proceeds of such insurance not so used shall be applied as provided in the Indenture to the extent required to pay annual debt service on the Bonds or shall be applied as provided in the Indenture to the extent required to pay administrative costs of the Board in connection with the Facility.

(c) The Trustees will deliver or cause to be delivered to the Board and the State Treasurer in the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to this section, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby. Each such insurance policy shall require that the State Treasurer and the Board be given thirty (30) days notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer of the schedule of insurance policies under the provisions of this section shall not confer responsibility upon the State Treasurer as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Board or the State Treasurer, the Trustees shall also deliver or cause to be delivered to the Board and the State Treasurer duplicate originals or certified copies of each insurance policy described in such schedule.

Breach

(a) If the Trustees shall fail to pay any rental payable under the Facility Lease when the same becomes due and payable, time being expressly declared to be of the essence of the Facility Lease, or the Trustees shall fail to keep, observe or perform any other term, covenant or condition contained in the Facility Lease to be kept or performed by a Department for a period of sixty (60) days after notice of the same has been given to the Trustees by the Board or the State Treasurer, plus such additional time as may be reasonably required in the sole discretion of the State Treasurer to correct any of the same, or upon the happening of any of the events specified in subsection (b) below, the Trustees shall be deemed to be in default under the Facility Lease and it shall be lawful for the Board to exercise any and all remedies available pursuant to law or granted pursuant to the Facility Lease. Upon any such default, the Board, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

> (1) To terminate the Facility Lease in the manner provided therein on account of default by the Trustees, notwithstanding any re-entry or re-letting of the Facility as provided for in subparagraph (2) below, and to re-enter the Facility and remove all persons in possession thereof and all personal property whatsoever situated upon the Facility and place such personal property in storage in any warehouse or other suitable place. In the event of such termination, the Trustees agrees to immediately surrender possession of the Facility, without let or hindrance, and to pay the Board all damages recoverable at law that the Board may incur by reason of default by the Trustees, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Facility and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions of the Facility Lease. Neither notice to pay rent or to deliver up possession of the Facility given pursuant to law nor any entry or re-entry by the Board nor any proceeding in unlawful detainer, or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the Facility nor the appointment of a receiver upon

initiative of the Board to protect the Board's interest under the Facility Lease shall of itself operate to terminate the Facility Lease, and no termination of the Facility Lease on account of default by the Trustees shall be or become effective by operation of law or acts of the parties to the Facility Lease, or otherwise, unless and until the Board shall have given written notice to the Trustees of the election on the part of the Board to terminate the Facility Lease. The Trustees covenants and agrees that no surrender of the Facility or of the remainder of the term of the Facility Lease nor any termination of the Facility Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Board by such written notice.

(2) Without terminating the Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Facility Lease to be kept or performed by the Trustees, or (ii) to exercise any and all rights of entry and re-entry upon the Facility. If the Board does not elect to terminate the Facility Lease in the manner provided for in subparagraph (1) above, the Trustees shall remain liable and agrees to keep or perform all covenants and conditions under the Facility Lease contained to be kept or performed by the Trustees, and, if the Facility is not re-let, to pay the full amount of the rent to the end of the term of the Facility Lease or, if the Facility is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent therein, notwithstanding the fact that the Board may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Facility Lease, and notwithstanding any entry or re-entry by the Board or suit in unlawful detainer or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the Facility. Should the Board elect to re-enter as under the Facility Lease provided, the Trustees irrevocably appoints the Board as the agent and attorney-in-fact of the Trustees to re-let the Facility, or any part thereof, from time to time, either in the Board's name or otherwise, upon such terms and conditions and for such use and period as the Board may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Facility and to place such personal property in storage in any warehouse or other suitable place for the Trustees, for the account of and at the expense of the Trustees, and the Trustees exempts and agrees to save harmless the Board from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Facility and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions contained in the Facility Lease except for any such costs, loss or damage resulting from the intentional or negligent actions of the Board or its agents. The Trustees agrees that the terms of the Facility Lease constitute full and sufficient notice of the right of the Board to re-let the Facility in the event of such re-entry without effecting a surrender of the Facility Lease, and further agrees that no acts of the Board in effecting such re-letting shall constitute a surrender or termination of the Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the Trustees, the right to terminate the Facility Lease shall vest in the Board to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The Trustees further waives the right to any rental obtained by the Board in excess of the rental specified in the Facility Lease and conveys and releases such excess to the Board as compensation to the Board for its services in re-letting the Facility. The Trustees further agrees to pay the Board the cost of any alterations or additions to the Facility necessary to place the Facility in condition for re-letting immediately upon notice to the Trustees of the completion and installation of such additions or alterations.

The Trustees waives any and all claims for damages caused or which may be caused by the Board in re-entering and taking possession of the Facility as provided in the Facility Lease and all claims for damages that may result from the destruction of or injury to the Facility and all claims for damages to or loss of any property belonging to the Trustees, or any other person, that may be in or upon the Facility, except for such claims resulting from the intentional or negligent actions of the Board or its agents.

Upon the occurrence of an event of default, payments of Base Rental may not be accelerated.

Each and all of the remedies given to the Board under the Facility Lease or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Facility Lease shall not impair the right of the Board to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term “re-let” or “re-letting” as used in this section shall include, but not be limited to, re-letting by means of the operation or other utilization by the Board of the Facility. If any statute or rule of law validly shall limit the remedies given to the Board under the Facility Lease, the Board nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

If the Board shall prevail in any action brought to enforce any of the terms and provisions of the Facility Lease, the Trustees agrees to pay a reasonable amount as and for attorney’s fees incurred by the Board in attempting to enforce any of the remedies available to the Board under the Facility Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

(b) In addition to any default resulting from breach by the Trustees of any term or covenant of the Facility Lease, if (1) the interest of the Trustees in the Facility Lease or any part thereof be assigned, sublet or transferred without the written consent of the Board, either voluntarily or by operation of law, or (2) the Trustees or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Trustees asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the debts or obligations of the Trustees, or offers to the Trustees’ creditors to effect a composition or extension of time to pay the Trustees’ debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of the Trustees’ debts or for any other similar relief, or if any such petition or if any such proceedings of the same or similar kind or character be filed or be instituted or taken against the Trustees, or if a receiver of the business or of the property or assets of the Trustees shall be appointed by any court, except a receiver appointed at the instance or request of the Board, or if the Trustees shall make a general or any assignment for the benefit of the Trustees’ creditors, or (3) the Trustees shall abandon the Facility, then the Trustees shall be deemed to be in default under the Facility Lease.

(c) The Board shall in no event be in default in the performance of any of its obligations under the Facility Lease unless and until the Board shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the Trustees to the Board properly specifying wherein the Board has failed to perform any such obligation.

Eminent Domain

If the whole or any portion of the Facility shall be taken by eminent domain proceedings (or sold to a governmental entity threatening to exercise the power of eminent domain), the proceeds therefrom shall be deposited with the State Treasurer in a special fund in trust and shall be applied and disbursed by the State Treasurer as follows:

(a) If less than the entire Facility shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, then the Facility Lease shall continue in full force and effect as to such remainder and (i) if the portion taken is replaced by a facility of equal or greater utility and of equal or greater fair rental value within or adjacent to such remainder, the State Treasurer shall disburse such proceeds to the party that incurred the expense of making such replacement and there shall not be any abatement of rental under the Facility Lease, or (ii) failing the making of such replacement, there shall be a partial abatement of rental under the Facility Lease and the State Treasurer shall apply such proceeds as specified in subsection (b) below.

(b) If less than the entire Facility shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entire Facility shall have been so taken, then the term of the Facility Lease shall cease as of the day that possession shall be so taken, and the State Treasurer shall apply such proceeds, together with any other money then available to the State Treasurer for such purpose, for the payment of the entire amount of principal then due or to become due upon the portion of the Outstanding Bonds issued to finance the Project, together with the interest thereon so as to enable the Board to retire such portion of the Bonds then Outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money, then lawfully available to it for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer shall apply such proceeds in accordance with the provisions of the section of the Indenture titled "Application of Funds Upon Acceleration" so far as the same may be applicable.

Right of Entry

The Board shall have the right to enter the Facility during daylight hours (and in emergencies at all times) but only after giving notice to the Trustees and to the chief administrator at the Facility at least one hour prior to such entry to inspect the same for any purpose connected with the Trustees' rights or obligations under the Facility Lease, and for all other lawful purposes; provided, however, that any entry by, or denial of entry to, the Board or its agents shall at all times be subject to the security procedures of the Trustees.

Liens; Prohibition Against Encumbrance

In the event the Trustees shall at any time during the term of the Facility Lease cause any additions, betterments, extensions or improvements to the Facility to be constructed or materials to be supplied in or upon the Facility, the Trustees shall pay or cause to be paid when due all sums of money that may become due, or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the Trustees in, upon or about the Facility and shall keep the Facility free of any and all mechanics' or materialmen's liens or other liens against the Facility or the Board's interest therein. In the event any such lien attaches to or is filed against the Facility or the Board's interest therein, the Trustees shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Trustees desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Trustees shall forthwith pay or cause to be paid and discharged such judgment. The Trustees agrees to and shall, to the maximum extent permitted by law, indemnify and hold the Board, the State Treasurer, and their members, directors, agents, successors and assigns harmless from and against and defend each of them against any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Facility or the Board's interest therein.

The Trustees agrees it will not create or suffer to be created any recorded or unrecorded mortgage, pledge, lien, charge, easement, rights of way or other rights, reservations, covenants, conditions, restrictions or encumbrance upon the Facility except Permitted Encumbrances.

Quiet Enjoyment

The parties to the Facility Lease mutually covenant that the Trustees, so long as it keeps and performs the agreements and covenants contained in the Facility Lease and is not in default thereunder, shall at all times during the term of the Facility Lease peaceably and quietly have, hold and enjoy the Facility without suit, trouble or hindrance from the Board.

Status of Private Activity Use of the Facility

The Trustees covenants and agrees to provide updated information to the Board and the State Treasurer annually regarding the private activity use, if any, of the Facility. The information that must be updated annually is set forth in the Tax Certificate that was executed and delivered by the Board upon the initial issuance of the Bonds.

Continuing Disclosure

The Trustees covenants and agrees that it will cooperate with the Board and the State Treasurer to comply with and carry out all of the provisions of the Continuing Disclosure Agreement, and will provide all information reasonably requested by the Board or the State Treasurer regarding the Facility in connection with continuing disclosure obligations. Notwithstanding any other provision of the Facility Lease, failure of the Trustees to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the Facility Lease and shall not be deemed to create any monetary liability on the part of the Board, the Trustees or the State Treasurer to any other persons, including the owners of the Bonds; however, the State Treasurer may (and, at the request of the owners of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds, shall), or any owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Trustees to comply with its obligations under this section.

Law Governing

The Facility Lease shall be governed exclusively by its provisions and by the laws of the State as the same from time to time exist. Any action or proceeding to enforce or interpret any provision of the Facility Lease, to the extent permitted by law, shall be brought, commenced or prosecuted in Sacramento County, California.

Net Lease

The Facility Lease shall be deemed and construed to be a "net lease" and the Trustees agrees that the rentals provided for therein shall be an absolute net return to the Board, free and clear of any expenses, charges or set-offs whatsoever.

Amendment

The Facility Lease may only be amended by a written instrument duly authorized and executed by the Board and the Trustees with the written consent of the State Treasurer; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds.

Tax Covenants

The Trustees covenants that it will not use or permit any use of the Facility, and shall not take or permit to be taken any other action or actions, which would cause any Bond to be a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time therein. The Trustees further covenants that it will not take any action or fail to take any action, if such action or the failure to take such action would adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. The Trustees covenants and agrees that it will cooperate with the Board and will provide all information reasonably requested by the Board regarding the Facility in connection with maintaining and using the Facility in compliance with covenants in the Tax Certificate or Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time thereunder.

II. 2012E BONDS

THE 2012E INDENTURE

The 2012E Bonds will be issued under a separate indenture between the Trustees and the State Treasurer dated as of September 15, 2012 (the "2012E Indenture") and will be secured by amounts payable by the Trustees under the 2012E Facility Lease between the Trustees and the Board dated as of September 15, 2012 as described below. The 2012E Bonds are separately secured under the 2012E Indenture and are also secured by the Reserve Fund established under the Master Indenture as a result of the 2012E Bonds having been designated as Incorporated Bonds under the Master Indenture.

Definitions

"Act" means the State Building Construction Act of 1955, commencing at Section 15800 of the California Government Code, and all laws amendatory thereof or supplemental thereto.

"Additional Bonds" means all lease revenue bonds of the Board authorized by and at any time Outstanding pursuant to the 2012E Indenture and executed, issued and delivered in accordance with the 2012E Indenture following the issuance of the 2012E Bonds.

"Additional Rental" means the additional rental payments payable by the Trustees to or upon the order of the Board pursuant to the 2012E Facility Lease to pay certain administrative expenses and costs.

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest (including any compound interest) payable on all Outstanding Bonds in such Fiscal Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking account payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds maturing by their terms in such Fiscal Year, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such Fiscal Year (together with the redemption premium, if any, thereon).

"Authorized Denominations" means $5,000 and any integral multiple thereof, or any other amount specified in a Supplemental Indenture for any Additional Bonds.

"Base Rental" means all amounts received by the Board from the Trustees as base rental payments pursuant to the 2012E Facility Lease to be used to pay the interest on and principal of the 2012E Bonds and any Additional Bonds.

"Board" means the State Public Works Board of the State of California, an entity of state government duly organized and validly existing under and pursuant to Chapter 2 of Part 10.5 of Division 3 of Title 2 of the California Government Code.

"Bond Year" means, with respect to each Series of Bonds, that 12-month period commencing on each principal payment date, or the anniversary of such date, for such Series of Bonds; provided, the first Bond Year for any Series of Bonds shall commence on the date of issuance of such Series and end on the day before the next principal payment date, or anniversary thereof.

"Bonds" means the 2012E Bonds and all Additional Bonds authorized by and at any time Outstanding pursuant to the 2012E Indenture.

"Business Day" means a day of the year other than a Saturday or Sunday or a day on which State of California offices or banking institutions located in the State are required or authorized to remain closed.

"Certificate of the Board" means an instrument in writing signed by the Chair or the Administrative Secretary or Assistant Administrative Secretary of the Board, or by any other officer of the Board duly authorized by the Board for that purpose.

"Construction Fund" means the fund by that name established pursuant to the 2012E Indenture.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement among the Board, the Trustees and the State Treasurer dated the date of issuance and delivery of the 2012E Bonds.

"Financed Facilities" means the 2012E Project and the real property on which the 2012E Project is located. The Financed Facilities are located at 25800 Carlos Bee Boulevard, Hayward, CA 94542, Building #29, and are known as "Warren Hall."

"Financial Newspaper" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal printed in the English language publishing financial news and selected by the State Treasurer, whose decision shall be final and conclusive.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period selected and designated by the Board as its Fiscal Year in accordance with applicable law.

"Holder" or "Bondholder" means any person who shall be the registered owner of any Outstanding Bond.

"Incorporated Bonds" means any series of lease revenue bonds of the Board issued other than pursuant to the Master Indenture, which the Board has elected to be secured by the Reserve Fund as provided in the Master Indenture.

"Independent Certified Public Accountant" means the Bureau of State Audits, or its successor, or any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the Board and satisfactory to and approved by the State Treasurer (who shall be under no liability by reason of such approval), and who, or each of whom --

(1) is in fact independent and not under the domination of the Board;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the Board; and

(3) is not connected with the Board as a member, officer or employee of the Board, but who may be regularly retained to audit the accounting records of and make reports thereon to the Board.

"Information Services" means one or more services selected by the State Treasurer which provide information with respect to called bonds, or such services as the Board may designate in a Certificate of the Board delivered to the State Treasurer.

"Interest Account" means the account by that name established pursuant to the 2012E Indenture.

"Interest Payment Date" means, as long as any of the Bonds are Outstanding, March 1, 2013 and each September 1 and March 1 thereafter.

"Law" means Chapter 33, Statutes of 2011, Item 6610-301-0668 (3), as reappropriated by the Budget Act of 2012.

"Maintenance and Operation Account" means any account by that name established pursuant to the 2012E Indenture.

"Master Indenture" means the indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, the Forty-Second Supplemental Indenture, dated as of October 1, 2002, the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and the Ninety-Third Supplemental Indenture, dated as of October 12, 2009, each between the Board and the State Treasurer, as it may from time to time be amended or supplemented by all supplemental indentures executed pursuant to the provisions thereof.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Board and satisfactory to and approved by the State Treasurer (who shall be under no liability by reason of such approval).

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the 2012E Indenture) all Bonds except --

(1) Bonds theretofore cancelled by the State Treasurer or surrendered to the State Treasurer for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the 2012E Indenture; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Board pursuant to the 2012E Indenture.

"Permitted Investments" means any of the following which at the time are legal investments under the laws of the State for moneys held under the 2012E Indenture and then proposed to be invested therein:

(i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;

(ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States;

(iii) bonds of the State or bonds for which the faith and credit of the State are pledged for the payment of principal and interest;

(iv) bonds or warrants, including but not limited to revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the State, municipal utility district or school district of the State;

(v) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by general land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stocks, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended, and the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended;

(vi) commercial paper rated within the top rating designation by a nationally recognized rating service and issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of $500,000,000 and (3) approved by the Pooled Money Investment Board, provided, however that eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation nor exceed 30 percent of the resources of an investment program, and that at the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least 10 percent in excess of the amount of the State's investment;

(vii) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the top two rating categories by a nationally recognized rating service, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System;

(viii) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated in one of the top two rating categories by a nationally recognized rating service;

(ix) bonds, debentures and notes issued by corporations organized and operating within the United States which securities are rated in one of the top two rating categories by a nationally recognized rating service;

(x) interest-bearing accounts in state or national banks or in state or federal savings and loan associations having principal offices in the State, the deposits of which shall be secured at all times and in the same manner as state moneys are by law required to be secured;

(xi) deposits in the Surplus Money Investment Fund referred to in Section 15847 of the California Government Code;

(xii) repurchase agreements or reverse repurchase agreements, as such terms are defined in and pursuant to the terms of Section 16480.4 of the California Government Code;

(xiii) collateralized or uncollateralized investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated within the top two rating categories by a Rating Agency;

(xiv) money market funds that invest solely in obligations described in clause (i) of this definition; or

(xv) such other investments as may be authorized by a Supplemental Indenture, provided each Rating Agency has confirmed that the use of such additional investments will not result in the reduction or withdrawal of any rating on any Outstanding Bonds.

"Permitted Encumbrances" means as of any particular time: (1) liens for general ad valorem taxes and assessments, if any, not then delinquent; (2) the 2012E Facility Lease, as it may be amended from time to time; (3) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of issuance of the 2012E Bonds; and (4) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of issuance of the 2012E Bonds and to which the Board consents in writing.

“Principal Account” means any account by that name established pursuant to the 2012E Indenture.

“Rating Agency” means each nationally recognized bond rating agency which is at any time providing a rating on any Series of Bonds.

“Rebate Fund” means the fund by that name established pursuant to the 2012E Indenture.

“Representation Letter” means any letter of representations relating to a particular Series of Bonds, by and between the State Treasurer and The Depository Trust Company or any other Securities Depository used by the Board for a Series of Bonds.

“Reserve Fund” means the fund by that name established pursuant to the Master Indenture.

“Reserve Fund Credit Facility” has the meaning set forth in the Master Indenture.

“Revenue Fund” means any fund by that name established pursuant to the 2012E Indenture.

“Revenues” means with respect to each Series of Bonds (1) any proceeds of the Bonds of such Series deposited in the Interest Account, (2) all Base Rental payments received by the Board pursuant to the 2012E Facility Lease and all other benefits, charges, income, proceeds, profits, receipts, rents, proceeds of insurance and revenues derived by the Board from the ownership, operation or use of the 2012E Leased Properties, including interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the 2012E Indenture, and (3) any interest rate swap payments or other payments specified in the Supplemental Indenture for such Series of Bonds.

“Securities Depositories” means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, and such other securities depositories as the Board may designate from time to time.

“Serial Bonds” means Bonds for which no sinking account payments are provided.

“Series,” whenever used in the 2012E Indenture in the context of a “Series of Bonds,” means all of the 2012E Bonds or the bonds issued and designated under a Supplemental Indenture as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such bonds as provided the 2012E Indenture.

“State” means the State of California.

“State Treasurer” means the Treasurer of the State of California at his office in Sacramento, California, appointed by the Board in the 2012E Indenture and acting as an independent trustee and fiscal agent with the rights and obligations provided in the 2012E Indenture, and his successors and assigns, or any other association or corporation which may at any time be substituted in his place as provided in the 2012E Indenture.

“Supplemental Indenture” means any indenture then in full force and effect which has been duly executed and delivered by the Board and the State Treasurer amendatory of or supplemental to the 2012E

Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the 2012E Indenture.

"Surplus Account" means the account by that name established pursuant to the 2012E Indenture.

"Tax Certificate" means the tax certificate delivered by the Board at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Trustees" means the Trustees of the California State University, duly organized under the laws of the State of California.

"2012E Bonds" means the Board's Lease Revenue Bonds (Trustees of the California State University) 2012 Series E (California State University: Various Buildings).

"2012E Facility Lease" means the lease of the 2012E Leased Properties dated as of September 15, 2012 entered into between the Board, as lessor, and the Trustees, as lessee, and as it may from time to time be amended or supplemented pursuant to the provisions of the 2012E Indenture and thereof, as specified in a Supplemental Indenture.

"2012E Indenture" means the Indenture, dated as of September 15, 2012, between the Board and the State Treasurer, as originally executed and as it may from time to time be amended or supplemented by all Supplemental Indentures executed pursuant to the provisions thereof.

"2012E Leased Properties" means the 2012E Site and the buildings, structures, fixtures and related improvements located on the 2012E Site, including any and all additions, betterments, extensions and improvements thereto, as described in the 2012E Facility Lease, including any Substituted Property as provided in the 2012E Facility Lease. For purposes of the Master Indenture, the 2012E Leased Properties shall constitute a "Facility" as defined therein.

"2012E Project" means improvements to the buildings, structures, fixtures and related improvements constructed or to be constructed with proceeds of the 2012E Bonds, as more particularly described in the 2012E Facility Lease.

"2012E Site" means that certain land underlying the 2012E Leased Properties as more particularly described in an exhibit to the 2012E Facility Lease.

"2012E Site Lease" means the 2012E Site Lease, dated as of September 15, 2012, by and between the Trustees, as lessor, and the Board, as lessee, as originally executed and as it may from time to time be amended or supplemented pursuant to the provisions the 2012E Site Lease and the 2012E Indenture.

"Written Request of the Board" means an instrument in writing signed by the Chair, the Administrative Secretary or the Assistant Administrative Secretary of the Board, or by any other officer of the Board duly authorized by the Board for that purpose.

Additional Bonds

The 2012E Indenture provides that the Board may at any time issue one or more Series of Additional Bonds payable from the Revenues and secured by a pledge of and charge and lien upon such

Revenues as provided in the 2012E Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any Additional Bonds:

(a) The Board shall be in compliance with all agreements and covenants contained in the 2012E Indenture.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for the purpose of (i) financing or refinancing the design and/or construction of the 2012E Project, (ii) refunding any Series of Bonds then Outstanding, (iii) payment of all costs incidental to or connected with any Additional Bonds issued in accordance with (i) or (ii) above, and/or (iv) making deposits into the Reserve Fund or a separate reserve account securing the Additional Bonds;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The date and the maturity dates of and the sinking account payment dates, if any, for such Additional Bonds; provided that (i) all such Additional Bonds of like maturity shall be identical in all respects, except as to interest rate, number and denomination, (ii) serial maturities for Serial Bonds or sinking account payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective maturity dates;

(4) The Interest Payment Dates for such Additional Bonds;

(5) The denomination or denominations of and method of numbering such Additional Bonds;

(6) The redemption premium, if any, and the redemption terms, if any, for such Additional Bonds;

(7) The amount, if any, to be deposited from the proceeds of sale of such Additional of Bonds in the Interest Account;

(8) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds or as a Reserve Fund Credit Facility in the Reserve Fund or in a separate reserve account securing only the Additional Bonds;

(9) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the funds and accounts established under the 2012E Indenture or the Supplemental Indenture for such Additional Bonds;

(10) The forms of such Additional Bonds; and

(11) Such other provisions as are necessary or appropriate and not inconsistent with the 2012E Indenture.

(c) The 2012E Facility Lease shall have been amended so as to modify the Base Rental payable by the Trustees thereunder by an amount at least sufficient to pay the interest on and principal of Bonds Outstanding as the same become due and accompanied by a certificate of the Trustees to the effect that such Base Rental is consistent with the fair rental value for the 2012E Leased Properties subject to the 2012E Facility Lease.

Nothing contained in the 2012E Indenture shall limit the issuance of any lease revenue bonds of the Board payable from the Revenues and secured by a pledge of and charge and lien upon the Revenues if after the issuance and delivery of such lease revenue bonds none of the Bonds theretofore issued under the 2012E Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds

At any time after the sale of any Additional Bonds in accordance with the Act, the Board shall execute such Additional Bonds for issuance under the 2012E Indenture and shall deliver them to the State Treasurer, and thereupon such Additional Bonds shall be authenticated and delivered by the State Treasurer to the purchaser thereof upon the Written Request of the Board, but only upon receipt by the State Treasurer of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the State Treasurer (unless the State Treasurer shall accept any of such documents bearing a prior date):

(a) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) A Written Request of the Board as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the Board has the right and power under the Act to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Board, is in full force and effect and is valid and binding upon the Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles), (2) the Supplemental Indenture creates the valid pledge of and charge and lien upon the Revenues relating to such Additional Bonds which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the 2012E Indenture, (3) such Additional Bonds are valid and binding special obligations of the Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and entitled to the benefits of the Act and hereof, and such Additional Bonds have been duly and validly authorized, executed, and delivered in accordance with the Act and herewith, (4) the amendments to the 2012E Facility Lease required by the 2012E Indenture have been duly authorized, executed and delivered, and (5) the delivery of such Additional Bonds in and of itself will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on any of the Bonds previously issued and Outstanding;

A Certificate of the Board containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained in the 2012E Indenture; and

Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Pledge of the Revenues

Pursuant to the 2012E Indenture, the Bonds are secured by a pledge of and charge and lien upon the Revenues and amounts on deposit in the funds and accounts established under the 2012E Indenture (other than amounts on deposit in the Rebate Fund). All such Revenues and amounts are irrevocably pledged to the payment of the principal of, interest on and redemption premiums, if any, on the Bonds and such Revenues shall not be used for any other purpose while any of the Bonds remain outstanding. The pledge made in the 2012E Indenture constitutes a first pledge of and charge and lien upon those certain Revenues (other than Revenues on deposit in the Rebate Fund). Upon any Series of Bonds being designated as

Incorporated Bonds pursuant to the Master Indenture, such Series of Bonds shall be secured by the Reserve Fund as and to the extent set forth in the Master Indenture.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the 2012E Indenture: (1) the Construction Fund (in which there shall be established a Cost of Issuance Account and a Project Account); (2) the Revenue Fund, containing an Interest Account, a Principal Account, a Maintenance and Operation Account, and a Surplus Account; and (3) the Rebate Fund.

Construction Fund. The 2012E Indenture provides that the State Treasurer shall apply the moneys in the Construction Fund, from time to time to pay (or to make reimbursements or cash advances to the Board, the Trustees or any other State agency, public agency or person, firm or corporation for such costs) the costs of the design and construction of the 2012E Project, including payment of all costs incidental thereto or connected therewith, including, without limitation, planning, engineering, inspection, legal, State Treasurer's fees incidental thereto, and costs of issuance of the Bonds; such disbursements shall be made upon claims attested to, for, or on behalf of the Board and duly prepared in accordance with the procedures prescribed by the Controller of the State. Prior to completion of construction of the 2012E Project, the Board may by Written Request direct the State Treasurer to transfer monies from one account or subaccount to any other account or subaccount within the Construction Fund. Any moneys remaining in any account in the Construction Fund upon completion or installation of the 2012E Project shall be applied by the State Treasurer to offset scheduled Base Rental or in such other manner as the Board may by Written Request direct.

Revenue Fund. All Revenues when and as received shall be received by the Board in trust under the 2012E Indenture for the benefit of the Holders of the Bonds and shall be deposited when and as received by the Board in the Revenue Fund. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Board shall have no beneficial right or interest in any of the Revenues except only as provided in the 2012E Indenture. All Revenues, whether received by the Board in trust or deposited with the State Treasurer as provided in the 2012E Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the 2012E Indenture and as shall be specified in the Supplemental Indenture for each Series of Bonds, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Board.

Moneys in the Revenue Fund shall be set aside by the State Treasurer in the following respective special accounts within the Revenue Fund:

(1) Interest Account,

(2) Principal Account,

(3) Maintenance and Operation Account, and

(4) Surplus Account.

<u>Interest Account</u>. On or before the fifteenth day of the month next preceding each Interest Payment Date, the State Treasurer shall set aside from the Revenue Fund and deposit in the Interest Account therefor that amount of money which, together with any money contained therein, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the State Treasurer solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity); provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from such Interest Account and pay to or upon order of the Board money sufficient to reimburse the Trustees for any Base Rental theretofore paid by the Trustees under the 2012E Facility Lease for that period of time during which the payment of Base Rental under the 2012E Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance required by the 2012E Indenture and money in the Principal Account and in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

Principal Account On or before August 15 of each year, beginning on August 15, 20__, the State Treasurer shall set aside from the Revenue Fund and deposit into the Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on the next succeeding September 1, and on or before August 15 of each year, in which a sinking account payment is due, the State Treasurer shall set aside from the Revenue Fund and deposit into the Principal Account an amount of money equal to September 1 into the respective sinking accounts for all Outstanding Term Bonds.

No deposit need be made in the Principal Account for any principal payment date if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such principal payment date plus the aggregate amount of all sinking account payments required to be made during the year ending on such principal payment date for all Outstanding Term Bonds.

The State Treasurer is required to establish and maintain within the Principal Account for each Series of Bonds a separate subaccount for the Term Bonds of such Series and maturity, designated as the "____ Series ____ Sinking Account" (the "Sinking Account"), inserting therein the Series and maturity (if more than one such account is established for such Series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the State Treasurer shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the 2012E Indenture and in the Supplemental Indenture; provided that, at any time prior to giving such notice of such redemption, the State Treasurer may apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be determined by the State Treasurer, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the State Treasurer has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce the next succeeding mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the State Treasurer solely for the purpose of paying the principal of the Bonds as they shall become due and payable, except that any money in any Sinking Account shall be used and withdrawn by the State Treasurer only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created; provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from such Principal Account and pay to or upon order of the Board money sufficient to reimburse the Trustees for any Base Rental theretofore paid by the Trustees under the 2012E Facility Lease for that period of time during which the payment of Base Rental under the 2012E Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance required by the 2012E Indenture as supplemented by the appropriate Supplemental Indenture and money in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

Maintenance and Operation Account. If at any time the Board shall operate the 2012E Leased Properties, the State Treasurer, on or before April 15 and October 15 of each year, shall set aside from the Revenue Fund used to finance the cost of the 2012E Leased Properties, and deposit in the Maintenance and Operation Account all amounts which shall be estimated to be required to provide for the payment of all costs of maintenance and operation of the 2012E Leased Properties during the next six months, including costs of repairs and replacements, labor costs and insurance; provided that no transfer shall be made to the Maintenance and Operation Account to the extent there would be insufficient funds in the Revenue Fund after such transfer to make the necessary deposits to the Interest Account or Principal Account during the current Bond Year.

All money in the Maintenance and Operation Account shall be disbursed by the State Treasurer only to pay such costs upon the Written Request of the Board; provided that the State Treasurer upon the written request of the Trustees and upon receipt of such documentation as he may require, shall withdraw from the Maintenance and Operation Account and pay to the Trustees money sufficient to reimburse the Trustees for any Base Rental theretofore paid by the Trustees under the 2012E Facility Lease for a period of time during which the payment of Base Rental under such 2012E Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance which may be provided under the Supplemental Indenture (pursuant to the provisions of the 2012E Indenture) and money in the Surplus Account) is available.

Surplus Account. The State Treasurer, on or before the second Business Day following the end of each Bond Year, shall deposit in the Surplus Account all money remaining in the Revenue Fund after the deposits required by the 2012E Indenture have been made. On or after the second Business Day following the end of each Bond Year, the State Treasurer, if the Board is not then in default under the 2012E Indenture and if the Trustees is not then in default under the 2012E Facility Lease, shall disburse the money in the Surplus Account to or upon the order of the Board unless (1) the State Treasurer has not received all of the Base Rental due and payable in such year from the Trustees for deposit to the Revenue Fund, or (2) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be required for the payment of the principal of or interest on the Bonds on any succeeding Interest Payment Date (assuming for the purpose of such determination that the Trustees shall pay when due all future payments of Base Rental required by the 2012E Facility Lease), or (3) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be necessary to fund the amounts on deposit in the Reserve Fund up to an amount equal to the Reserve Fund Requirement, in which event such money shall be held in the Surplus Account for such purpose and shall be transferred by the State Treasurer to the Reserve Fund upon receipt of a Written Request of the Board; provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from the Surplus Account and pay to or upon order of the Board money sufficient to reimburse the Trustees for any Base Rental theretofore paid by the Trustees under the 2012E Facility Lease for a period of time during which the payment of Base Rental under the 2012E Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance which may be provided under the provisions of the 2012E Indenture and amounts in the Reserve Fund) is available.

Reserve Fund. As and to the extent provided in the Master Indenture, the State Treasurer shall maintain and hold the Reserve Fund, which shall secure all 2012E Bonds issued under the 2012E Indenture and any Additional Bonds designated as Incorporated Bonds under the Master Indenture as and to the extent set forth in the Master Indenture.

If amounts in the Interest Account or the Principal Account are insufficient to pay the principal of, redemption premium, if any, or interest on the 2012E Bonds and Additional Bonds which are Incorporated Bonds and if no other money of the Board is lawfully available therefor (including upon acceleration of the 2012E Bonds and Additional Bonds which are Incorporated Bonds pursuant to the 2012E Indenture), then, subject to the limitation set forth in the 2012E Indenture as to the amount to be transferred following a nonpayment default, the State Treasurer shall transfer amounts available in the Reserve Fund to the

Interest Account and the Principal Account to pay the principal of and interest on the 2012E Bonds and Additional Bonds which are Incorporated Bonds when due.

Deposit and Investment of Money in Accounts and Funds

All money held by the State Treasurer in any of the accounts or funds established under the 2012E Indenture shall be invested in Permitted Investments. Subject to the provisions of the 2012E Indenture, all interest or profits from the funds or accounts relating to the Bonds received prior to completion of the 2012E Project may be deposited in the account for such Series of Bonds within the Construction Fund (as specified in a Written Request of the Board); and thereafter all interest or profits may be deposited in the Revenue Fund.

Covenants of the Board

The 2012E Indenture contains covenants of the Board with respect to the Bonds and the 2012E Leased Properties. Certain of these covenants follow. Reference is made to the full 2012E Indenture for a complete text of such covenants.

Punctual Payment and Performance. The Board will punctually pay the principal of, redemption premium, if any, and interest to become due on every Bond issued under the 2012E Indenture in strict conformity with the terms of the 2012E Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the 2012E Indenture and in the Bonds.

Against Encumbrances. The Board will not make any pledge of or place or permit to be placed any charge or lien upon any of the 2012E Leased Properties or any part thereof or upon any of the Revenues except as provided in the 2012E Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

Against Sale or Other Disposition of the 2012E Leased Properties. Except as permitted by the 2012E Facility Lease, the Board will not sell or otherwise dispose of any of the 2012E Leased Properties or any part thereof essential to their proper operation or to the maintenance of any of the Revenues. The Board will not enter into any agreement which impairs the operation of any of the 2012E Leased Properties or any part thereof necessary to secure adequate Revenues for the payment of the principal of, redemption premium, if any, and interest on any of the Bonds, or which would otherwise impair the rights of the Holders with respect to the Revenues or the operation of the 2012E Leased Properties. Any real or personal property constituting part of the 2012E Leased Properties which has become nonoperative or which is not needed for the efficient and proper operation of the 2012E Leased Properties or any material or equipment constituting part of the 2012E Leased Properties which has become worn out may be sold at not less than the market value thereof if such sale will not reduce the Revenues related to the 2012E Leased Properties and if the net proceeds of such sale are treated as Revenues and applied in the manner provided in the 2012E Indenture. Nothing in the 2012E Indenture, including the foregoing provisions, shall preclude the right of the Board and the Trustees to substitute other real property for all or a part of the 2012E Leased Properties, as set forth in the 2012E Facility Lease.

Tax Covenants; Rebate Fund. The State Treasurer shall establish and maintain a fund separate from any other fund or account established and maintained under the 2012E Indenture designated as the Rebate Fund (the "Rebate Fund"). The State Treasurer shall create within the Rebate Fund a separate account for each Series of Bonds issued under the 2012E Indenture. There shall be deposited in each such separate account of the Rebate Fund such amounts as are required to be deposited therein pursuant to the applicable Tax Certificate related to such Series of Bonds (each such Tax Certificate executed with respect to a Series of Bonds is deemed to be incorporated in the 2012E Indenture by reference). All money at any time deposited in the Rebate Fund shall be held by the State Treasurer in trust, to the extent required to satisfy the applicable Rebate Requirement (as defined in the Tax Certificate for each Series of Bonds), for payment to the United States of America.

The Board and the State Treasurer shall not use or permit the use of any proceeds of the Bonds of any Series or any funds of the Board, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Internal Revenue Code. The Board and the State Treasurer specifically covenant to comply with the provisions and procedures of each Tax Certificate.

If the Board shall provide to the State Treasurer an Opinion of Counsel to the effect that any specified action required under the 2012E Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds of any Series, the State Treasurer and the Board may conclusively rely on such Opinion of Counsel in complying with the requirements of this section, and the covenants under the 2012E Indenture shall be deemed to be modified to that extent.

Maintenance and Operation of the 2012E Leased Properties. The Board will maintain and preserve or cause to be maintained and preserved the 2012E Leased Properties in good order, condition and repair at all times and will operate the 2012E Leased Properties or cause the 2012E Leased Properties to be operated in an efficient and economical manner as required by the Act.

Insurance. The Board shall maintain or cause to be maintained by the Trustees (i) fire, lightning and extended coverage insurance on the 2012E Leased Properties in an amount equal to one hundred percent (100%) of the then current replacement cost of the 2012E Leased Properties (excluding the replacement cost of the unimproved real property constituting the 2012E Site) (except that such insurance may be subject to a deductible clause of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss), and (ii) earthquake insurance (if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost) on any structure comprising part of the Leased Property in an amount equal to the full insurable value of such structure or the principal amount of all Outstanding Bonds, whichever is less (except that such insurance may be subject to a deductible clause of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss). The extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, vandalism and malicious mischief and such other hazards as are normally covered by such endorsement. Each such policy of insurance shall be in form satisfactory to the Board and shall contain a clause making all losses payable to the Board, the State Treasurer and the Trustees, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem the Bonds as provided the 2012E Indenture.

In the event of any damage to or destruction of the 2012E Leased Properties caused by the perils covered by such insurance, or in the event of a loss of use of all or a portion of the Leased Property due to a title defect for which the Board of the Trustees has obtained any title insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem Outstanding Bonds to the extent possible and in accordance with the provisions of the 2012E Indenture, but only if the Base Rental payments due after such a redemption would be sufficient to retire the Bonds then Outstanding in accordance with their terms, or (ii) to repair, reconstruct or replace of the 2012E Leased Properties to the end that the 2012E Leased Properties shall be restored to at least the same condition that it was in prior to such damage or destruction. If the Board so elects to repair, reconstruct or replace the 2012E Leased Properties, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the 2012E Indenture.

The Board shall maintain or cause to be maintained by the Trustees rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the 2012E Leased Properties as a result of any of the hazards covered by the insurance required by the 2012E Indenture in an amount not less than the succeeding two (2) consecutive years' Base Rental. Any such insurance policy shall be in form satisfactory to the Board and shall contain a loss payable clause making any loss thereunder payable to the State Treasurer. Any proceeds of such insurance shall be used by the State Treasurer to reimburse the Trustees for any rental theretofore paid by the Trustees under the 2012E Facility Lease for a period of time during which the payment of rental thereunder is abated, and any proceeds of such insurance not so used shall be applied as provided in the 2012E Indenture to the extent required to pay annual debt service on the Bonds or shall be applied as provided in the 2012E Indenture to the extent required to pay administrative costs of the Board in connection with the 2012E Leased Properties.

The Board will deliver or cause to be delivered to the State Treasurer in the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to the 2012E Indenture, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby. Each such insurance policy shall require that the State Treasurer and the Board be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer of the schedule of insurance policies under the provisions of the 2012E Indenture shall not confer responsibility upon the State Treasurer as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the State Treasurer, the Trustees shall also deliver or cause to be delivered to the State Treasurer duplicate originals or certified copies of each insurance policy described in such schedule.

Trustees Budget. As soon as practicable after the beginning of each Fiscal Year, the Trustees, the State Treasurer and the Board shall coordinate and each shall determine whether the Trustees has made or has caused to be made adequate provision in that portion of the State's annual budget related to the Trustees, for such Fiscal Year for the payment of all rentals due under the 2012E Facility Lease in such Fiscal Year. If in the opinion of the State Treasurer the amounts so budgeted are not adequate for the payment of all rentals due under the 2012E Facility Lease in such Fiscal Year, the Board will take such action as may be necessary and within its power, including any actions pursuant to California Government Code Section 15848, to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be paid by the Trustees in such Fiscal Year for the payment of all rentals due under the 2012E Facility Lease in such Fiscal Year, or otherwise to cause the Base Rentals to be appropriated and paid, and will notify the State Treasurer of the proceedings then taken or proposed to be taken by the Board.

2012E Facility Lease and Other Documents. The Board will at all times maintain and vigorously enforce all its rights under the 2012E Facility Lease and will promptly collect all rents and charges due for the use and occupancy of the 2012E Leased Properties as the same become due under the 2012E Facility Lease, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due under the 2012E Facility Lease. The Board will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the 2012E Facility Lease by the lessee thereunder. Without the written consent of the State Treasurer, the Board will not alter or modify or agree or consent to alter or modify the 2012E Facility Lease, but with the written consent of the State Treasurer, the Board may consent to alterations or modifications thereof authorized in the 2012E Indenture and the 2012E Facility Lease. The State Treasurer shall give such written consent only if (i) in the opinion of the State Treasurer, such alterations or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Bonds, or (ii) the State Treasurer first obtains the written consent of the Holders of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of any Bonds disqualified as provided in the 2012E Indenture; or (iii) such alterations or modifications will facilitate the refunding or defeasance of any of the Bonds pursuant to the 2012E Indenture; provided that no such alterations or modifications shall materially alter or impair the obligation of the Board to pay the principal of, redemption premium, if any, or interest on any Bonds without the written consent of the Holders of all such Bonds so affected. The Trustees and the Board may substitute another public facility or facilities for or add another public facility or facilities to the 2012E Leased Properties in accordance with the 2012E Facility Lease.

Prosecution and Defense of Suits. The Board will promptly, upon request of the State Treasurer, from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the 2012E Leased Properties, whether now existing or developing, and shall prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and hold the State Treasurer harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

Eminent Domain. If the whole or any portion of the 2012E Leased Properties shall be taken by eminent domain proceedings (or sold to a governmental entity threatening to exercise the power of eminent domain), the proceeds therefrom shall be deposited with the State Treasurer in a special fund in trust and shall be applied and disbursed by the State Treasurer as follows:

(a) If less than the entirety of the 2012E Leased Properties shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, and if the portion taken is replaced by a facility of equal or greater utility and of equal or greater fair rental value within or adjacent to such remainder, the State Treasurer shall disburse such proceeds to the party that incurred the expense of making such replacement; but if no such replacement is made, the State Treasurer shall apply such proceeds to redeem all or a portion of the Bonds pursuant to the 2012E Indenture and any Supplemental Indenture relating to the Bonds.

(b) If less than the entirety of the 2012E Leased Properties shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entirety of the 2012E Leased Properties shall have been so taken, the State Treasurer shall apply such proceeds, together with any other money then available to him for such purpose, for the payment of the entire amount of principal then due or to become due upon all of the Outstanding Bonds, together with the interest thereon so as to enable the Board to retire all of such Bonds then Outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money then lawfully available to him for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer shall apply such proceeds in accordance with the 2012E Indenture.

Further Assurances. Whenever and so often as requested to do so by the State Treasurer or any Holder, the Board will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the 2012E Indenture.

Continuing Disclosure. The Board and the State Treasurer covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the 2012E Indenture, failure of the Board, the Trustees or the State Treasurer to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default and shall not be deemed to create any monetary liability on the part of any of them or of the State to any other persons, including any Bondholder or Beneficial Owner; however, the State Treasurer may (and at the request of the Holders or Beneficial Owners of at least 25% of the aggregate principal amount of the 2012E Bonds, shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board or the State Treasurer, as the case may be, to comply with its obligations under the 2012E Indenture. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Amendments

The 2012E Indenture and the rights and obligations of the Board and of the Holders of the Bonds may be amended at any time by a Supplemental Indenture. Such amendments shall become binding when the written consents of the Holders of sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the 2012E Indenture, are filed with the State Treasurer. No such amendment shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Board to pay the principal of, redemption premium, if any, or interest on any Bond at the time and place and at the rate and in the currency provided in the 2012E Indenture without the express written consent of the Holder of such Bond, or (2) permit the creation by the Board of any pledge of or charge or lien upon the Revenues as provided in the 2012E Indenture superior to or on a parity with the pledge, charge and lien created by the 2012E Indenture for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the State Treasurer without his prior written assent thereto.

If any amendment shall not materially adversely affect the interests of the Holders, then the 2012E Indenture and the rights and obligations of the Board and of the Holders may also be amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery thereof without the consent of any of the Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements and covenants required in the 2012E Indenture to be performed by the Board other agreements and covenants thereafter to be performed by the Board, or to surrender any right or power reserved to or conferred on the Board pursuant to the terms of the 2012E Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of correcting, curing or supplementing any defective provision contained in the 2012E Indenture or in regard to questions arising under the 2012E Indenture which the Board may deem desirable or necessary and not inconsistent with the 2012E Indenture;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds and the funds and accounts therefor, subject to the conditions and upon compliance with the procedure set forth in the 2012E Indenture;

(d) to modify the book-entry provisions of the 2012E Indenture or to allow for a substitute depository;

(e) to facilitate the refunding or defeasance of any of the Bonds pursuant to the 2012E Indenture;

(f) to provide for compliance with any future laws or regulations concerning provision of financial information or other notices to Holders;

(g) to facilitate the obtaining of any insurance policy or letter of credit securing the Bonds;

(h) to obtain or maintain a rating on any Series of Bonds from a Rating Agency;

(i) to modify, amend or supplement the 2012E Indenture in such manner as to permit the qualification of the 2012E Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(j) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, including the amendment of any Tax Certificate; or

(k) to modify, amend or supplement the 2012E Indenture to allow for appointment of a successor trustee.

Events of Default

The following events shall be events of default with respect to the Bonds:

(a) if default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(b) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption; or

(c) if default shall be made by the Board in the performance of any of the other agreements or covenants required in the 2012E Indenture to be performed by the Board, and such default shall have continued for a period of sixty (60) days after the Board shall have been given notice in writing of such default by the State Treasurer, or

(d) if the Board shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Board seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Board or of the whole or any substantial part of its property.

Acceleration of Maturities

Upon the occurrence and continuance of an event of default, the State Treasurer may, or shall upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Board, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the 2012E Indenture or in the Bonds to the contrary notwithstanding.

This provision, however, is subject to the following conditions: (i) if, at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, and (ii) if each of the following conditions has occurred or will occur: (a) the Board shall deposit with the State Treasurer a sum sufficient to pay all matured interest on all the Bonds and all principal of such Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable expenses of the State Treasurer, and (b) any and all other defaults known to the State Treasurer (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the State Treasurer or provision deemed by the State Treasurer to be adequate shall have been made therefor, then and in every such case the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, by written notice to the Board and to the State Treasurer, may on behalf of the Holders of all such Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All moneys in the subaccounts, accounts and funds established under the 2012E Indenture, and moneys available in the Reserve Fund (which in the case of an acceleration for a nonpayment default under the 2012E Indenture shall be limited to a pro rata share of the Reserve Fund determined by calculating the principal amount of any Outstanding Bonds secured by the Reserve Fund as a percentage of the principal amount of all outstanding bonds secured by the Reserve Fund), upon the date of the declaration of acceleration by the State Treasurer as provided in the 2012E Indenture and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Board under the 2012E Indenture shall be transmitted to the State Treasurer and shall be applied by the State Treasurer in the following order:

First, to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the State Treasurer, if any, in carrying out the provisions of the 2012E Indenture relating to such default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on the overdue interest and principal at the rate borne by such Bonds. If such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Other Remedies of Holders

Any Holder shall have the right for the equal benefit and protection of all Holders similarly situated:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his or his rights against the Board or any member, officer or employee of the Board, and to compel the Board or any such member, officer or employee to perform, and carry out his or his duties under the Act and the agreements and covenants with the Holders contained in the 2012E Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Holders; or

(c) by suit in equity upon the happening of an event of default to require the Board and its members, officers and employees to account as the trustee of an express trust.

Actions by State Treasurer, as Attorney-in-Fact

Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the 2012E Indenture may be brought by the State Treasurer for the equal benefit and protection of all Holders, and the State Treasurer is appointed (and the successive Holders, by taking and holding the Bonds issued under the 2012E Indenture, shall be conclusively deemed to have so appointed him) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the State Treasurer as such attorney-in-fact.

Remedies Not Exclusive

No remedy conferred in the 2012E Indenture upon or reserved to the Holders or the State Treasurer is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the 2012E Indenture or now or later existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law, including the rights and remedies conferred pursuant to Section 15841 of the California Government Code.

Defeasance

(a) If the Board shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the principal thereof and the redemption premium, if any, and the interest thereon at the times and in the manner stipulated in the 2012E Indenture and therein, then the Holders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the 2012E Indenture, and the agreements, covenants and other obligations of the Board to the Holders of such Bonds under the 2012E Indenture shall thereupon cease, terminate and become void and be discharged and satisfied; provided, however, that the following agreements, covenants and other obligations shall not be discharged and satisfied until such Bonds are paid in full: (i) the obligation of the State Treasurer to pay or cause to be paid to the Holders of the Bonds all sums due with respect to the Bonds from such moneys or investments that may have been set aside for such purposes in accordance with the 2012E Indenture; (ii) the obligation of the State Treasurer to register, transfer and exchange Bonds; (iii) the obligation of the Board to pay the amounts owing to the State Treasurer under the 2012E Indenture, and (iv) the obligation of the Board to comply with tax covenants set forth in the 2012E Indenture. If the Board shall discharge the Bonds, as provided above, the State Treasurer shall execute and deliver to the Board all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the State Treasurer shall pay over or deliver to the Board all money or securities held by him pursuant to the 2012E Indenture which are not required for the payment of the principal of, redemption premium, if any, and interest on such Bonds.

(b) Any Outstanding Bonds shall, prior to the maturity date or redemption date thereof, be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if: (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Board shall have given to the State Treasurer, in form satisfactory to him, irrevocable instructions to mail a notice of redemption of such Bonds in accordance with the provisions of the 2012E Indenture; (2) there shall have been deposited with the State Treasurer either (i) money in an amount which shall be sufficient and/or; (ii) Permitted Investments of the type described in clause (i) or clause (ii) of the definition of Permitted Investments and which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Trustees of the Treasury of the United States of America) or tax-exempt securities rated AAA or its equivalent by a Rating Agency, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the State Treasurer at the same time, shall be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premium, if any, on such Bonds; (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Board shall have given the State Treasurer, in form satisfactory to him, irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the State Treasurer and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premium, if any, on such Bonds; and (4) the Board shall cause to be delivered to the State Treasurer (i) a report of an independent firm of nationally recognized certified public accountants ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds to be defeased in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement, (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds to be defeased are no longer Outstanding under the 2012E Indenture, and (iv) a certificate of discharge of the Trustee with respect to the Bonds defeased; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Board, the State Treasurer.

FIRST SUPPLEMENTAL INDENTURE

Incorporated Bonds and Incorporated Indenture

Pursuant to the terms of the First Supplemental Indenture, the 2012E Bonds will be designated as Incorporated Bonds under and pursuant to the Master Indenture and all references to Incorporated Bonds contained in the Master Indenture shall refer to the 2012E Bonds. All references to an Incorporated Indenture contained in the Master Indenture shall refer to the 2012E Indenture, as supplemented by the First Supplemental Indenture. As a result of such designation as Incorporated Bonds, the 2012E Bonds will be secured by the Reserve Fund established under the Master Indenture.

2012E SITE LEASE

The 2012E Site Lease is being entered into with respect to the 2012E Leased Properties to facilitate the financing of the 2012E Project. The 2012E Site Lease is by and between the Board and the Trustees. Under the 2012E Site Lease, the Trustees leases to the Board and the Board leases from the Trustees the 2012E Leased Properties.

Term

The 2012E Site Lease commences on the date of issuance of the 2012E Bonds and shall end on September 1, 20__, unless such term is extended or sooner terminated as provided in this paragraph. If on such date, the bonds or other indebtedness of the Board incurred to pay for the 2012E Project shall not be fully paid and retired as a result of the Base Rental (as defined in the 2012E Facility Lease) not being paid when due or being abated, then the term of the 2012E Site Lease shall be extended until ten (10) days after all bonds or other indebtedness of the Board outstanding as a result of the nonpayment of Base Rental under the 2012E Facility Lease shall be fully paid and retired, except that the term of the 2012E Site Lease shall in no event be extended beyond September 1, 20__. If, prior to September 1, 20__, all 2012E Bonds or other indebtedness of the Board payable from the Base Rental shall be fully paid and retired, the term of the 2012E Site Lease shall end ten (10) days thereafter.

Purpose

The Board shall use the 2012E Site solely for the purpose of leasing the 2012E Leased Properties to the Trustees pursuant to the 2012E Facility Lease and for such purposes as may be incidental thereto; provided, that in the event of default by the Trustees under the 2012E Facility Lease the Board may exercise the remedies provided in the 2012E Facility Lease.

Nonsubordination; Assignments and Subleases

The 2012E Site Lease shall be nonsubordinated and, unless the Trustees shall be in default under the 2012E Facility Lease, the Board shall not assign its rights under the 2012E Site Lease or sublet the 2012E Leased Properties without the prior written consent of the Trustees.

Default

In the event the Board shall be in default in the performance of any obligation on its part to be performed under the terms of the 2012E Site Lease, which default continues for sixty (60) days following notice and demand for correction thereof to the Board, the Trustees may exercise any and all remedies granted by law, except that no merger of the 2012E Site Lease and of the 2012E Facility Lease shall be deemed to occur as a result thereof; provided, however, that the Trustees shall have no power to terminate the 2012E Site Lease or the rights of entry granted therein by reason of any default on the part of the Board if such termination would affect or impair any assignment or sublease of all or any part of the 2012E Leased Properties then in effect between the Board and any assignee or subtenant of the Board (other than the subtenancy of the Trustees created under the 2012E Facility Lease); and provided, further, that so long as any bonds or other indebtedness incurred by the Board to pay for the 2012E Project is outstanding and unpaid in accordance with the terms of any indenture authorizing such bonds or other indebtedness, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee. So long as any such assignee or subtenant of the Board shall duly perform the terms and conditions of the 2012E Site Lease and of its then existing sublease (if any), such assignee or subtenant shall be deemed to be and shall become the tenant of the Trustees under the 2012E Site Lease and shall be entitled to all of the rights and privileges granted under any such assignment or sublease; provided, further, however, that, so long as any bonds or other indebtedness incurred by the Board to pay for the 2012E Project is outstanding and unpaid in accordance with the terms of any indenture authorizing such bonds or other indebtedness, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee.

Eminent Domain

In the event the whole or any part of the 2012E Leased Properties is taken permanently or temporarily under the power of eminent domain, the interest of the Board shall be recognized and is determined to be the amount of the then unpaid indebtedness incurred by the Board to finance or refinance the design and construction of the 2012E Project, including the unpaid principal of and interest on any then outstanding bonds or other indebtedness of the Board, and shall be paid as required to the trustee under any indenture authorizing such bonds or other indebtedness and applied as provided in said indenture. The term "unpaid indebtedness," as used in the preceding sentence, includes the face amount of the indebtedness evidenced by any outstanding loans, bonds or notes of the Board obtained or issued to finance or refinance the design and construction of the 2012E Project, together with the interest thereon and all other payments required to be made by the trustee pursuant to the indenture authorizing the issuance of said bonds or notes on account of said indebtedness, until such indebtedness, together with the interest thereon, has been paid in full in accordance with the terms thereof.

Right of Entry; Utilities and Parking

The Trustees grants, conveys and confirms to the Board, for the use, benefit and enjoyment of the Board and its successors in interest to the 2012E Site, and their respective employees, invitees, agents, independent contractors, patrons, customers, guests and members of the public visiting the Site, a right of entry which shall be irrevocable for the term of the 2012E Site Lease over, across and under certain adjacent real property controlled by the Trustees to and from the 2012E Site for the purpose of: (a) ingress, egress, passage or access to and from the 2012E Site by pedestrian or vehicular traffic; (b) installation, maintenance and replacement of utility wires, cables, conduits and pipes; and (c) other purposes and uses necessary or desirable for access to and from and for operation and maintenance of the 2012E Site. The foregoing right of entry is expressly subject to the implementation and application of security measures by the Trustees, in its sole discretion.

The Trustees agrees to provide or cause to be provided to the Board, at reasonable rates and charges payable by the Board (and which rates and charges the Trustees agrees to pay pursuant to the 2012E Facility Lease), its assigns or sublessees, adequate parking spaces and such utility services, including electricity, gas, water, sewer, garbage disposal, heating, air conditioning and telephone, as the Trustees provides or causes to be provided to buildings similar to those at the 2012E Site.

Amendment

The 2012E Site Lease may only be amended by a written instrument duly authorized and executed by the Board and the Trustees; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds. The 2012E Site Lease shall be amended to reflect any substitution of property under the 2012E Facility Lease.

THE 2012E FACILITY LEASE

In the following summary the term "Indenture" refers to the 2012E Indenture; the term "Bonds" refers to the 2012E Bonds.

Purpose and Term

The Board leases the 2012E Leased Properties to the Trustees and the Trustees leases the 2012E Leased Properties from the Board on the terms and conditions set forth and subject to all easements, encumbrances and restrictions of record. The Trustees agrees and covenants during the term of the 2012E Facility Lease that, except as provided in the 2012E Facility Lease, it will use the Financed Facilities only as part of a facility to afford the public the benefits contemplated by the Act, the Law and by the 2012E Facility Lease and so as to permit the Board to carry out its agreements and covenants contained in the 2012E Indenture and further agrees that it will not abandon the 2012E Leased Properties.

The term of the 2012E Facility Lease will commence on the date of issuance of the Bonds and shall end on September 1, 20__, unless such term is extended or sooner terminated as provided in the 2012E Facility Lease. If on September 1, 20__, the Bonds and other indebtedness incurred by the Board to pay for the 2012E Project shall not have been fully paid and retired as a result of the Base Rental not being paid when due, or as a result of the Base Rental having been abated at any time and for any reason, then the term of the 2012E Facility Lease shall be extended until the date upon which all the Bonds and other indebtedness outstanding as a result of the nonpayment of such Base Rental are fully paid and retired, except that the term of the Facility Lease shall in no event be extended beyond September 1, 20__. If prior to September 1, 20__, the Bonds and other indebtedness of the Board incurred to pay for the 2012E Project shall have been fully paid and retired or the 2012E Site Lease shall have been terminated, then the term of such 2012E Facility Lease shall end simultaneously therewith.

Rental

The Trustees agrees to pay to the Board, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the 2012E Leased Properties , the following amounts at the following times:

(a) Base Rental. In order to pay the principal of and interest on the Bonds, subject to the provisions of paragraph (g) below, the Trustees shall pay to the Board Base Rental under the 2012E Facility Lease in the semiannual installments set forth therein. Such Base Rental shall be due and payable on or before

February 15 and August 15 in each year through August 15, 20__ and the first Base Rental installment will be due on February 15, 2013. If any date for the payment of Base Rental is not a Business Day, such Base Rental shall be paid on the next succeeding Business Day. The payments of the Base Rental due on the applicable dates in each calendar year as set forth in the 2012E Facility Lease shall be for the right to the use and occupancy of the 2012E Leased Properties for the preceding six-month period.

(b) Additional Rental. In addition to the amounts described under the caption "Maintenance, Utilities, Taxes and Assessments" below, the Trustees shall pay to or upon the order of the Board as Additional Rental such reasonable amounts in each year as shall be required by the Board for the payment of all administrative costs and other expenses of the Board in connection with the 2012E Leased Properties and the Financed Facilities, including all expenses, compensation and indemnification of the State Treasurer payable by the Board under the 2012E Indenture, fees of accountants, fees of the Attorney General or attorneys, litigation costs, insurance premiums and all other necessary costs of the Board and the State Treasurer or charges required to be paid by them in order to comply with the terms of the Act, the Law, the 2012E Indenture or the Bonds. Such Additional Rental shall be billed by the Board or the State Treasurer from time to time, together with a statement certifying that the amount so billed has been paid by the Board or by the State Treasurer on behalf of the Board for one or more of the items above described, or that such amount is then payable by the Board or the State Treasurer on behalf of the Board for such items. Amounts so billed shall be due and payable by the Trustees within thirty (30) days after receipt of the bill by the Trustees.

(c) Total Rental. Such payments of Base Rental and Additional Rental for each rental payment period during the term of the 2012E Facility Lease shall constitute the total rental for such rental payment period, and shall be paid by the Trustees in each rental payment period for and in consideration of the right to the use and occupancy, and the continued quiet enjoyment, of the 2012E Leased Properties during each such rental payment period for which such rental is paid. The parties to the 2012E Facility Lease have agreed and determined that the amount of such total rental is consistent with and does not exceed the fair rental value of the 2012E Leased Properties. In making such determination, consideration has been given to the replacement cost of the 2012E Leased Properties, the costs of the design and construction of the Financed Facilities to be financed or refinanced by the Board with the proceeds of the Bonds, other obligations of the parties under the 2012E Facility Lease, the uses and purposes which may be served by the Financed Facilities and the 2012E Leased Properties and the benefits therefrom which will accrue to the Trustees and the general public.

(d) Payment Terms. Each installment of rental payable shall be paid in lawful money of the United States of America to or upon the order of the Board in Sacramento, California, or such other place as the Board shall designate. Any such installment of rental accruing which shall not be paid when due shall bear interest at the legal rate of interest per annum at which judgments for money in the State bear interest from the date when the same is due under the 2012E Facility Lease until the same shall be paid. Notwithstanding any dispute between the Board and the Trustees, the Trustees shall make all rental payments when due without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute.

(e) Covenant to Budget. The Trustees covenants to take such action as may be necessary to include or cause to be included all such rental payments due under the 2012E Facility Lease in its that portion of the budget of the State related to the Trustees and to make or cause to be made the necessary annual allocations for all such rental payments. The Trustees further covenants to take all actions necessary and appropriate to assist in implementing the procedure contained in California Government Code Section 15848 for making rental payments under the 2012E Facility Lease if the required rental payments have not been included in the annual budget adopted by the State or the State is operating without a budget. The covenants on the part of the Trustees contained in the 2012E Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Trustees to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Trustees to carry out and perform the agreements and covenants in the 2012E Facility Lease agreed to be carried out and performed by the Trustees.

(f) Order of Payments. All rental payments received shall be applied first to the Base Rental due and thereafter to all Additional Rental due, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the 2012E Facility Lease.

(g) Rental Abatement. The rental shall be abated proportionately during any period in which, by reason of any damage or destruction of the 2012E Leased Properties (other than by eminent domain which is provided for under the caption "Eminent Domain" below), or title defect in the 2012E Site, there is substantial interference with the use and occupancy of the 2012E Leased Properties or any portion thereof by the Trustees. Such abatement shall continue for the period commencing with such damage or destruction or title defect and ending when such use and occupancy are restored. The Trustees waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the 2012E Facility Lease by virtue of any such damage or destruction.

Financing the 2012E Project

The Board agrees to use the proceeds of the Bonds to finance the costs of design and construction of the 2012E Project specified in the 2012E Facility Lease and certain related costs (or for making reimbursements to the Board or any other state agency, public agency, person, firm or corporation for such costs theretofore paid by him, her or it), including payment of all costs incidental to or connected with such design and construction, and to pay for the costs of issuance related to the Bonds.

Maintenance, Utilities, Taxes and Assessments

(a) During such time as the Trustees are in possession of the 2012E Leased Properties, all maintenance and repair, both ordinary and extraordinary, of the 2012E Leased Properties shall be the sole responsibility of the Trustees, which shall at all times maintain or otherwise arrange for the maintenance of the 2012E Leased Properties in good condition, and the Trustees shall pay for or otherwise arrange for the payment of all utility services supplied to the 2012E Leased Properties and shall pay for or otherwise arrange for the payment of the costs of the repair and replacement of the 2012E Leased Properties resulting from ordinary wear and tear or want of care on the part of the Trustees or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the 2012E Leased Properties. In exchange for the rentals provided in the 2012E Facility Lease, the Board agrees to provide only the 2012E Leased Properties.

(b) The Trustees shall also pay to the Board or upon the order of the Board, as Additional Rental such amounts, if any, in each year as shall be required by the Board for the payment of all taxes and assessments of any type or nature assessed or levied by any governmental agency or entity having power to levy taxes or assessments charged to the Board or the State Treasurer affecting or relating to the 2012E Leased Properties or the respective interests or estates therein, or the amount of rentals received by the Board under the 2012E Facility Lease.

Changes to the 2012E Leased Properties

At its sole cost and expense, the Trustees shall have the right during the term of the 2012E Facility Lease to make additions, betterments, extensions or improvements to the 2012E Leased Properties or to attach fixtures, structures or signs to the 2012E Leased Properties if such additions, betterments, extensions or improvements or fixtures, structures or signs are necessary or beneficial for the use of the 2012E Leased Properties by the Trustees, provided, however, that changes to the 2012E Leased Properties shall be made in a manner that does not result in an abatement of Base Rental under the 2012E Facility Lease.

Insurance

(a) The Trustees shall maintain, or cause to be maintained, fire, lightning and extended coverage insurance on the 2012E Leased Properties in an amount equal to one hundred percent (100%) of the then current replacement cost of the 2012E Leased Properties (excluding the replacement cost of the unimproved real property constituting the 2012E Site) (except that such insurance may be subject to a deductible clause of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss), and (ii) earthquake insurance (if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost) on any structure comprising part of the Leased Property in an amount equal to the full insurable value of such structure or the principal amount of all Outstanding Bonds, whichever is less (except that such insurance may be subject to a deductible clause of not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000) for any one loss). The extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, vandalism and malicious mischief and such other hazards as are normally covered by such endorsement. Each such policy of insurance shall be in form satisfactory to the Board and shall contain a clause making all losses payable to the Board, the State Treasurer and the Trustees, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem the Bonds as provided in the 2012E Facility Lease.

In the event of any damage to or destruction of the 2012E Leased Properties caused by the perils covered by the insurance described in the preceding paragraph, or in the event of a loss of use of all or a portion of the 2012E Leased Properties due to a title defect for which the Board or the Trustees has obtained any title insurance, the proceeds of such insurance shall be utilized, in the sole discretion of the Board, either (i) to redeem Outstanding Bonds to the extent possible and in accordance with the provisions of the 2012E Indenture, but only if the Base Rental payments due after such a redemption would be sufficient to retire the Bonds then Outstanding in accordance with their terms, or (ii) for the repair, reconstruction or replacement of the 2012E Leased Properties to the end that the 2012E Leased Properties shall be restored to at least the same condition that it was in prior to such damage, destruction or loss of use. If the Board so elects to repair, reconstruct or replace the 2012E Leased Properties, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the 2012E Indenture.

(b) The Trustees shall maintain, or cause to be maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the 2012E Leased Properties as a result of any of the hazards covered by the insurance required by subsection (a) above in an amount not less than the succeeding two (2) consecutive years' Base Rental. Any such insurance policy shall be in form satisfactory to the Board and shall contain a loss payable clause making any loss thereunder payable to the State Treasurer. Any proceeds of such insurance shall be used by the State Treasurer to reimburse the Trustees for any rental theretofore paid by the Trustees under the 2012E Facility Lease for a period of time during which the payment of rental under the 2012E Facility Lease is abated, and any proceeds of such insurance not so used shall be applied as provided in the 2012E Indenture to the extent required to pay annual debt service on the Bonds or administrative costs of the Board in connection with the 2012E Leased Properties.

(c) The Trustees will deliver or cause to be delivered to the State Treasurer and the Board in the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to the 2012E Facility Lease, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby. Each such insurance policy shall require that the State Treasurer and the Board be given thirty (30) days notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer and the Board of the schedule of insurance policies under the provisions of the 2012E Facility Lease shall not confer responsibility upon the State Treasurer as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the Board or the State Treasurer, the Trustees shall also deliver or cause to be delivered to the State Treasurer and the Board duplicate originals or certified copies of each insurance policy described in such schedule.

Breach

(a) If the Trustees shall fail to pay any rental payable under the 2012E Facility Lease when the same becomes due and payable, time being expressly declared to be of the essence of the 2012E Facility Lease, or the Trustees shall fail to keep, observe or perform any other term, covenant or condition contained in the 2012E Facility Lease to be kept or performed by the Trustees for a period of sixty (60) days after notice of the same has been given to the Trustees by the Board or the State Treasurer plus such additional time as may be reasonably required in the sole discretion of the State Treasurer to correct any of the same, or upon the happening of any of the events specified in paragraph (b) below, the Trustees shall be deemed to be in default under the 2012E Facility Lease and it shall be lawful for the Board to exercise any and all remedies available pursuant to law or granted pursuant to the 2012E Facility Lease. Upon any such default, the Board, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the 2012E Facility Lease in the manner provided on account of default by the Trustees, notwithstanding any re-entry or re-letting of the 2012E Leased Properties as provided for in subparagraph (2) below, and to re-enter the 2012E Leased Properties and remove all persons in possession thereof and all personal property whatsoever situated upon the 2012E Leased Properties and place such personal property in storage in any warehouse or other suitable place. In the event of such termination, the Trustees agrees to immediately surrender possession of the 2012E Leased Properties, without let or hindrance, and to pay the Board all damages recoverable at law that the Board may incur by reason of default by the Trustees, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the 2012E Leased Properties and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions contained in the 2012E Facility Lease. Neither notice to pay rent or to deliver up possession of the 2012E Leased Properties given pursuant to law nor any entry or re-entry by the Board nor any proceeding in unlawful detainer, or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the 2012E Leased Properties nor the appointment of a receiver upon initiative of the Board to protect the Board's interest under the 2012E Facility Lease shall of themselves operate to terminate the 2012E Facility Lease, and no termination of the 2012E Facility Lease on account of default by the Trustees shall be or become effective by operation of law or acts of the parties to the 2012E Facility Lease, or otherwise, unless and until the Board shall have given written notice to the Trustees of the election on the part of the Board to terminate the 2012E Facility Lease. The Trustees covenants and agrees that no surrender of the 2012E Leased Properties or of the remainder of the term of the 2012E Facility Lease nor any termination of the 2012E Facility Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Board by such written notice.

(2) Without terminating the 2012E Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the 2012E Facility Lease to be kept or performed by the Trustees, or (ii) to exercise any and all rights of entry and re-entry upon the 2012E Leased Properties. If the Board does not elect to terminate the 2012E Facility Lease in the manner provided for in subparagraph (1) above, the Trustees shall remain liable and agrees to keep or perform all covenants and conditions contained the 2012E Facility Lease to be kept or performed by the Trustees, and, if the 2012E Leased Properties is not re-let, to pay the full amount of the rent to the end of the term of the 2012E Facility Lease or, if the 2012E Leased Properties is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the 2012E Facility Lease for the payment of rent thereunder, notwithstanding the fact that the Board may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the 2012E Facility Lease, and notwithstanding any entry or re-entry by the Board or suit in unlawful detainer or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the 2012E Leased Properties. Should the Board elect to re-enter as provided in the 2012E Facility Lease, the

Trustees irrevocably appoints the Board as the agent and attorney-in-fact of the Trustees to re-let the 2012E Leased Properties, or any part thereof, from time to time, either in the Board's name or otherwise, upon such terms and conditions and for such use and period as the Board may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the 2012E Leased Properties and to place such personal property in storage in any warehouse or other suitable place for the Trustees, for the account of and at the expense of the Trustees, and the Trustees exempts and agrees to save harmless the Board from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the 2012E Leased Properties and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions contained in the 2012E Facility Lease except for any such costs, loss or damage resulting from the intentional or negligent actions of the Board or its agents. The Trustees agree that the terms of the 2012E Facility Lease constitute full and sufficient notice of the right of the Board to re-let the 2012E Leased Properties in the event of such re-entry without effecting a surrender of the 2012E Facility Lease, and further agrees that no acts of the Board in effecting such re-letting shall constitute a surrender or termination of the 2012E Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by the Trustees, the right to terminate the 2012E Facility Lease shall vest in the Board to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The Trustees further waives the right to any rental obtained by the Board in excess of the rental specified in the 2012E Facility Lease and conveys and releases such excess to the Board as compensation to the Board for its services in re-letting the 2012E Leased Properties. The Trustees further agrees to pay the Board the cost of any alterations or additions to the 2012E Leased Properties necessary to place the 2012E Leased Properties in condition for re-letting immediately upon notice to the Trustees of the completion and installation of such additions or alterations.

The Trustees waives any and all claims for damages caused or which may be caused by the Board in re-entering and taking possession of the 2012E Leased Properties as provided in the 2012E Facility Lease and all claims for damages that may result from the destruction of or injury to the 2012E Leased Properties and all claims for damages to or loss of any property belonging to the Trustees, or any other person, that may be in or upon the 2012E Leased Properties, except for such claims resulting from the intentional or negligent actions of the Board or its agents.

Upon the occurrence of an event of default, payments of Base Rental may not be accelerated.

Each and all of the remedies given to the Board under the 2012E Facility Lease or by any law now or later enacted are cumulative and the single or partial exercise of any right, power or privilege under the 2012E Facility Lease shall not impair the right of the Board to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section shall include, but not be limited to, re-letting by means of the operation or other utilization by the Board of the 2012E Leased Properties. If any statute or rule of law validly shall limit the remedies given to the Board under the 2012E Facility Lease, the Board nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

If the Board shall prevail in any action brought to enforce any of the terms and provisions of the 2012E Facility Lease, the Trustees agrees to pay a reasonable amount as and for attorney's fees incurred by the Board in attempting to enforce any of the remedies available to the Board under the 2012E Facility Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

(b) In addition to any default resulting from breach by the Trustees of any term or covenant of the 2012E Facility Lease, if (1) the interest of the Trustees in the 2012E Facility Lease or any part thereof be assigned, sublet or transferred without the written consent of the Board, either voluntarily or by operation of law, or (2) the Trustees or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Trustees asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the debts or obligations of the Trustees, or offers to the Trustees' creditors to effect a composition or extension of time to pay the Trustees' debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of the Trustees' debts or for any other similar relief, or if any such petition or if any such proceedings of the same or similar kind or character be filed or be instituted or taken against the Trustees, or if a receiver of the business or of the property or assets of the Trustees shall be appointed by any court, except a receiver appointed at the instance or request of the Board, or if the Trustees shall make a general or any assignment for the benefit of the Trustees' creditors, or (3) the Trustees shall abandon the 2012E Leased Properties, then the Trustees shall be deemed to be in default under the 2012E Facility Lease.

(c) The Board shall in no event be in default in the performance of any of its obligations under the 2012E Facility Lease unless and until the Board shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by the Trustees to the Board properly specifying wherein the Board has failed to perform any such obligation.

Eminent Domain

If the whole or any portion of the 2012E Leased Properties shall be taken by eminent domain proceedings (or sold to a governmental entity threatening to exercise the power of eminent domain), the proceeds therefrom shall be deposited with the State Treasurer in a special fund in trust and shall be applied and disbursed by the State Treasurer as follows:

(a) If less than the entire 2012E Leased Properties shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, then the 2012E Facility Lease shall continue in full force and effect as to such remainder and (i) if the portion taken is replaced by a facility of equal or greater utility and of equal or greater fair rental value within or adjacent to such remainder, the State Treasurer shall disburse such proceeds to the party that incurred the expense of making such replacement and there shall not be any abatement of rental under the 2012E Facility Lease, or (ii) failing the making of such replacement, there shall be a partial abatement of rental under the 2012E Facility Lease and the State Treasurer shall apply such proceeds as specified in subsection (b).

(b) If less than the entire 2012E Leased Properties shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entire 2012E Leased Properties shall have been so taken, then the term of the 2012E Facility Lease shall cease as of the day that possession shall be so taken, and the State Treasurer shall apply such proceeds, together with any other money then available to the State Treasurer for such purpose, for the payment of the entire amount of principal then due or to become due upon the Outstanding Bonds, together with the interest thereon so as to enable the Board to retire all of the Bonds then Outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money, then lawfully available to it for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer shall apply such proceeds in accordance with the provisions of the 2012E Indenture (Application of Funds Upon Acceleration) so far as the same may be applicable.

Liens; Prohibitions Against Encumbrance

In the event the Trustees shall at any time during the term of the 2012E Facility Lease cause any additions, betterments, extensions or improvements to the 2012E Leased Properties to be constructed or materials to be supplied in or upon the 2012E Leased Properties, the Trustees shall pay or cause to be paid when due all sums of money that may become due, or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the Trustees in, upon or about the 2012E Leased Properties and shall keep the 2012E Leased Properties free of any and all mechanics' or materialmen's liens or other liens against the 2012E Lease Properties or the Board's interest therein. In the event any such lien attaches to or is filed against the 2012E Leased Properties or the Board's interest therein, the Trustees shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the Trustees desire to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Trustees shall forthwith pay or cause to be paid and discharged such judgment. The Trustees agree to and shall, to the maximum extent permitted by law, indemnify and hold the Board, the State Treasurer, and their members, directors, agents, successors and assigns harmless from and against and defend each of them against any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the 2012E Leased Properties or the Board's interest therein.

The Trustees agrees it will not create or suffer to be created any recorded or unrecorded mortgage, pledge, lien, charge, easement, rights of way or other rights, reservations, covenants, conditions, restrictions or encumbrance upon the 2012E Leased Properties except Permitted Encumbrances.

Quiet Enjoyment

The Board and the Trustees mutually covenant that the Trustees, so long as it keeps and performs the agreements and covenants contained in the 2012E Facility Lease and is not in default under the 2012E Facility Lease, shall at all times during the term of the 2012E Facility Lease peaceably and quietly have, hold and enjoy the 2012E Leased Properties without suit, trouble or hindrance from the Board.

Status of Private Activity Use of the Financed Facilities

The Trustees covenants and agrees to provide updated information to the Board and the State Treasurer annually regarding the private activity use, if any, of the Financed Facilities. The information that must be updated annually is set forth in the Tax Certificate as executed and delivered by the Board upon the issuance of the Bonds.

Continuing Disclosure

The Trustees covenants and agrees that it will cooperate with the Board and the State Treasurer to comply with and carry out all of the provisions of the Continuing Disclosure Agreement, and will provide all information reasonably requested by the Board or the State Treasurer regarding the Financed Facilities and the 2012E Leased Properties in connection with continuing disclosure obligations. Notwithstanding any other provision of the 2012E Facility Lease, failure of the Trustees to comply with the Continuing Disclosure Agreement shall not be considered an event of default under the 2012E Facility Lease and shall not be deemed to create any monetary liability on the part of the Board, the Trustees or the State Treasurer to any other persons, including the owners of the Bonds; however, the State Treasurer may (and, at the request of the owners of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds, shall), or any owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Trustees to comply with its obligations under this paragraph.

Law Governing

The 2012E Facility Lease shall be governed exclusively by the provisions of the 2012E Facility Lease and by the laws of the State as the same from time to time exist. Any action or proceeding to enforce or interpret any provision of the 2012E Facility Lease, to the extent permitted by law, shall be brought, commenced or prosecuted in Sacramento County, California.

Amendment

The 2012E Facility Lease may only be amended by a written instrument duly authorized and executed by the Board and the Trustees with the written consent of the State Treasurer; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds. Any amendment of the 2012E Facility Lease made to comply with the provisions of the 2012E Indenture with respect to the issuance of a series of Additional Bonds shall be deemed to not materially adversely affect the owners of the Bonds or any previously issued Additional Bonds.

Net Lease

The 2012E Facility Lease shall be deemed and construed to be a "net lease" and the Trustees agrees that the rentals provided for in the 2012E Facility Lease shall be an absolute net return to the Board, free and clear of any expenses, charges or set-offs whatsoever.

Tax Covenants

The Trustees covenants that the Trustees will not use or permit any use of the Financed Facilities, and shall not take or permit to be taken any other action or actions, which would cause any Bond to be a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time thereunder. The Trustees covenants that it will not take any action or fail to take any action, if such action or the failure to take such action would adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds. The Trustees covenants and agrees that it will cooperate with the Board and will provide all information reasonably requested by the Board regarding the Financed Facilities in connection with maintaining and using the Financed Facilities in compliance with covenants in the Tax Certificate or Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time thereunder.

Substitution

The Trustees and the Board jointly, but not separately, reserve the right at any time to substitute another public facility or facilities and real property under the jurisdiction of the Trustees (the "Substituted Property") for all or any portion of the 2012E Leased Properties without Bondholder consent provided that:

(a) the Trustees and the Board find (and deliver a certificate of the Trustees and the Board to the State Treasurer setting forth such findings) that (i) the Substituted Property and any remaining 2012E Leased Properties has the same or greater annual fair rental value than the annual Base Rental payments remaining unpaid pursuant to the 2012E Facility Lease and (ii) the Base Rental payments being made by the Trustees pursuant to the 2012E Facility Lease will not be reduced as a result of the proposed substitution; and

(b) the Trustees certifies to the Board and the State Treasurer that (i) the Substituted Property has (A) similar or greater utility to the Trustees in performing its essential governmental functions as the 2012E Leased Properties, and (B) equivalent or greater economic useful life than the period remaining until the last maturity of the Bonds, (ii) the Trustees has transferred an appropriate interest in the Substituted Property (by amendment to the 2012E Site Lease or otherwise) to the Board so that the Board may lease such property to the Trustees; and (iii) the 2012E Facility Lease has been amended to include the Substituted Property; and

(c) the Board obtains and delivers to the State Treasurer an Opinion of Counsel to the effect that such substitution will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(d) the Trustees certifies that the Substituted Property is not subject to any liens or encumbrances, except for encumbrances permitted by the Board which will not adversely affect the right of the Trustees to use and occupy the 2012E Leased Property in accordance with the provisions of the 2012E Facility Lease; and

(e) not less than 15 days prior to the date on which the Substituted Property is substituted or added pursuant to the 2012E Facility Lease, the Board shall deliver copies of the proposed amendments to the 2012E Site Lease and the 2012E Facility Lease to any rating agency then rating the Bonds.

Any substitution or addition of Substituted Property in accordance with the foregoing provisions may be made without the consent of any Bondholder and shall be deemed not to result in any material impairment of the security given or intended to be given to the Bondholders under the 2012E Indenture.

III. 2012F BONDS

THE 2012F INDENTURE

The 2012F Bonds will be issued under a separate indenture between The Regents and the State Treasurer dated as of October 1, 2002, as amended by the First Supplemental Indenture dated as of October 1, 2002 (the "First Supplemental Indenture" and, together, the "Original Indenture") and the Second Supplemental Indenture dated as of September 15, 2012 (collectively, the "2012F Indenture") and will be secured by amounts payable by The Regents under a Facility Lease, dated as of October 1, 2002, between The Regents and the Board, as amended by the First Amendment to Facility Lease dated as of September 15, 2012 (the "2012F Facility Lease"), as described below. The 2012F Bonds are separately secured under the 2012F Indenture and are also secured by the Reserve Fund established under the Master Indenture as a result of the 2012F Bonds having been designated as Incorporated Bonds under the Master Indenture.

The 2002 Bonds were insured by the Insurance Policy (defined below). Once the 2002 Bonds are no longer Outstanding under the 2012F Indenture, the provisions relating to the Insurance Policy and the Insurer will be of no further force and effect.

Definitions

"Act" means the State Building Construction Act of 1955, commencing at Section 15800 of the California Government Code, and all laws amendatory thereof or supplemental thereto.

"Additional Bonds" means all lease revenue bonds of the Board authorized by and at any time Outstanding pursuant to the 2012F Indenture and executed, issued and delivered in accordance with the 2012F Indenture following the issuance of the 2012F Bonds.

"Additional Rental" means the additional rental payments payable by The Regents to or upon the order of the Board pursuant to the 2012F Facility Lease to pay certain administrative expenses and costs.

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest (including any compound interest) payable on all Outstanding Bonds in such Fiscal Year, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking account payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) the principal amount of all Outstanding Serial Bonds maturing by their terms in such Fiscal Year, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid in such Fiscal Year (together with the redemption premium, if any, thereon).

"Authorized Denominations" means $5,000 and any integral multiple thereof, or any other amount specified in a Supplemental Indenture for any Additional Bonds.

"Base Rental" means all amounts received by the Board from The Regents as base rental payments pursuant to the 2012F Facility Lease to be used to pay the interest on and principal of the 2002 Bonds, if any, that remain outstanding following the issuance of the 2012F Bonds, the 2012F Bonds and any Additional Bonds.

"Board" means the State Public Works Board of the State of California, an entity of state government duly organized and validly existing under and pursuant to Chapter 2 of Part 10.5 of Division 3 of Title 2 of the California Government Code.

"Bond Year" means, with respect to each Series of Bonds, that 12-month period commencing on each principal payment date, or the anniversary of such date, for such Series of Bonds; provided, the first

Bond Year for any Series of Bonds shall commence on the date of issuance of such Series and end on the day before the next principal payment date, or anniversary thereof.

"Bonds" means the 2002 Bonds, if any, that remain outstanding following the issuance of the 2012F Bonds, the 2012F Bonds and all Additional Bonds authorized by and at any time Outstanding pursuant to the 2012F Indenture.

"Business Day" means a day of the year other than a Saturday or Sunday or a day on which State of California offices or banking institutions located in the State are required or authorized to remain closed.

"Certificate of the Board" means an instrument in writing signed by the Chair or the Administrative Secretary or Assistant Administrative Secretary of the Board, or by any other officer of the Board duly authorized by the Board for that purpose.

"Construction Fund" means the fund by that name established pursuant to the 2012F Indenture.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement among the Board, The Regents and the State Treasurer dated the date of issuance and delivery of the 2012F Bonds.

"Financed Facilities" means the 2012F Project and the real property on which the 2012F Project is located. The Financed Facilities are located at 757 Westwood Plaza, Los Angeles, California 90095, and the Santa Monica Orthopaedic Hospital located at 1250 16th Street, Santa Monica, California 90404, which are known as the "UCLA Replacement Hospitals."

"Financial Newspaper" means The Wall Street Journal or The Bond Buyer or any other newspaper or journal printed in the English language publishing financial news and selected by the State Treasurer, whose decision shall be final and conclusive.

"Fiscal Year" means the twelve-month period terminating on June 30 of each year, or any other annual accounting period selected and designated by the Board as its Fiscal Year in accordance with applicable law.

"Holder" or "Bondholder" means any person who shall be the registered owner of any Outstanding Bond.

"Incorporated Bonds" means any series of lease revenue bonds of the Board issued other than pursuant to the Master Indenture, which the Board has elected to be secured by the Reserve Fund as provided in the Master Indenture.

"Independent Certified Public Accountant" means the Bureau of State Audits, or its successor, or any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State, appointed and paid by the Board and satisfactory to and approved by the State Treasurer (who shall be under no liability by reason of such approval), and who, or each of whom --

(1) is in fact independent and not under the domination of the Board;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the Board; and

(3) is not connected with the Board as a member, officer or employee of the Board, but who may be regularly retained to audit the accounting records of and make reports thereon to the Board.

"Information Services" means one or more services selected by the State Treasurer which provide information with respect to called bonds, or such services as the Board may designate in a Certificate of the Board delivered to the State Treasurer.

"Insurance Policy" means the Insurance Policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the 2002 Bonds when due.

"Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"Insurer's Fiscal Agent" means a fiscal agent appointed by the Insurer for purposes of, and in accordance with the terms contained in, the Insurance Policy.

"Interest Account" means the account by that name established pursuant to the 2012F Indenture.

"Interest Payment Date" means, as long as any of the Bonds are Outstanding, each April 1 and October 1, commencing April 1, 2013 with respect to the 2012F Bonds.

"Interim Loan" means the loan from the Pooled Money Investment Account, the proceeds of which were applied to the design, installation or construction of the 2012F Project.

"Maintenance and Operation Account" means any account by that name established pursuant to the 2012F Indenture.

"Master Indenture" means the indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, the Forty-Second Supplemental Indenture, dated as of October 1, 2002, the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and the Ninety-Third Supplemental Indenture, dated as of October 12, 2009, each between the Board and the State Treasurer, as it may from time to time be amended or supplemented by all supplemental indentures executed pursuant to the provisions thereof.

"Opinion of Counsel" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the Board and satisfactory to and approved by the State Treasurer (who shall be under no liability by reason of such approval).

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the 2012F Indenture) all Bonds except --

(1) Bonds theretofore cancelled by the State Treasurer or surrendered to the State Treasurer for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the 2012F Indenture; and

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the Board pursuant to the 2012F Indenture.

"Permitted Investments" means any of the following which at the time are legal investments under the laws of the State for moneys held under the 2012F Indenture and then proposed to be invested therein:

(i) bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;

(ii) bonds or interest-bearing notes or obligations that are guaranteed as to principal and interest by a federal agency of the United States;

(iii) bonds of the State or bonds for which the faith and credit of the State are pledged for the payment of principal and interest;

(iv) bonds or warrants, including but not limited to revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the State, municipal utility district or school district of the State;

(v) bonds, consolidated bonds, collateral trust debentures, consolidated debentures or other obligations issued by general land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stocks, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended, and the bonds of any federal home loan bank established under said act, obligations of the Federal Home Loan Mortgage Corporation, and bonds, notes and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended;

(vi) commercial paper rated within the top rating designation by a nationally recognized rating service and issued by corporations (1) organized and operating within the United States, (2) having total assets in excess of $500,000,000 and (3) approved by the Pooled Money Investment Board, provided, however that eligible commercial paper may not exceed 180 days' maturity, represent more than 10 percent of the outstanding paper of an issuing corporation nor exceed 30 percent of the resources of an investment program, and that at the request of the Pooled Money Investment Board, such investment shall be secured by the issuer by depositing with the State Treasurer securities authorized by Section 53651 of the California Government Code of a market value of at least 10 percent in excess of the amount of the State's investment;

(vii) bills of exchange or time drafts drawn on and accepted by a commercial bank the general obligations of which are rated within the top two rating categories by a nationally recognized rating service, otherwise known as banker's acceptances, which are eligible for purchase by the Federal Reserve System;

(viii) negotiable certificates of deposit issued by a nationally or state-chartered bank or savings and loan association or by a state-licensed branch of a foreign bank which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated in one of the top two rating categories by a nationally recognized rating service;

(ix) bonds, debentures and notes issued by corporations organized and operating within the United States which securities are rated in one of the top two rating categories by a nationally recognized rating service;

(x) interest-bearing accounts in state or national banks or in state or federal savings and loan associations having principal offices in the State, the deposits of which shall be secured at all times and in the same manner as state moneys are by law required to be secured;

(xi) deposits in the Surplus Money Investment Fund referred to in Section 15847 of the California Government Code;

(xii) repurchase agreements or reverse repurchase agreements, as such terms are defined in and pursuant to the terms of Section 16480.4 of the California Government Code;

(xiii) collateralized or uncollateralized investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated within the top two rating categories by a Rating Agency;

(xiv) money market funds that invest solely in obligations described in clause (i) of this definition; or

(xv) such other investments as may be authorized by a Supplemental Indenture, provided each Rating Agency has confirmed that the use of such additional investments will not result in the reduction or withdrawal of any rating on any Outstanding Bonds.

"Permitted Encumbrances" means as of any particular time: (1) liens for general ad valorem taxes and assessments, if any, not then delinquent; (2) the 2012F Facility Lease, as it may be amended from time to time; (3) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of issuance of the 2012F Bonds; and (4) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of issuance of the 2012F Bonds and to which the Board consents in writing.

"Principal Account" means any account by that name established pursuant to the 2012F Indenture.

"Rating Agency" means each nationally recognized bond rating agency which is at any time providing a rating on any Series of Bonds.

"Rebate Fund" means the fund by that name established pursuant to the 2012F Indenture.

"Representation Letter" means any letter of representations relating to a particular Series of Bonds, by and between the State Treasurer and The Depository Trust Company or any other Securities Depository used by the Board for a Series of Bonds.

"Reserve Fund" means the fund by that name established pursuant to the Master Indenture.

"Reserve Fund Credit Facility" has the meaning set forth in the Master Indenture.

"Revenue Fund" means any fund by that name established pursuant to the 2012F Indenture.

"Revenues" means with respect to each Series of Bonds (1) certain proceeds of the Bonds of such Series deposited in the Interest Account, (2) all Base Rental payments received by the Board pursuant to the 2012F Facility Lease and all other benefits, charges, income, proceeds, profits, receipts, rents, proceeds of insurance and revenues derived by the Board from the ownership, operation or use of the 2012F Leased Properties, including interest or profits from the investment of money in any account or fund (other than the Rebate Fund) pursuant to the 2012F Indenture, and (3) any interest rate swap payments or other payments specified in the Supplemental Indenture for such Series of Bonds.

"Securities Depositories" means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190, and such other securities depositories as the Board may designate from time to time.

"Serial Bonds" means Bonds for which no sinking account payments are provided.

"Series," whenever used in the 2012F Indenture in the context of a "Series of Bonds," means all of the 2002 Bonds, the 2012F Bonds or the bonds issued and designated under a Supplemental Indenture as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such bonds as provided the 2012F Indenture.

"State" means the State of California.

"State Treasurer" means the Treasurer of the State of California at his office in Sacramento, California, appointed by the Board in the 2012F Indenture and acting as an independent trustee and fiscal agent with the rights and obligations provided in the 2012F Indenture, and his successors and assigns, or any other association or corporation which may at any time be substituted in his place as provided in the 2012F Indenture.

"Supplemental Indenture" means any indenture then in full force and effect which has been duly executed and delivered by the Board and the State Treasurer amendatory of or supplemental to the 2012F Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the 2012F Indenture.

"Surplus Account" means the account by that name established pursuant to the 2012F Indenture.

"Tax Certificate" means the tax certificate delivered by the Board at the time of the issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking account payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"The Regents" means The Regents of the University of California, a corporation duly organized and validly existing under Article IX, Section 9, of the Constitution of the State of California.

"University" means the University of California.

"2002 Bonds" means the Lease Revenue Bonds (The Regents of the University of California) 2002 Series A (UCLA Replacement Hospitals) [a portion of which are] to be refunded from proceeds of the 2012F Bonds.

"2012F Bonds" means the Board's Lease Revenue Refunding Bonds (The Regents of the University of California) 2012 Series F (UCLA Replacement Hospitals).

"2012F Facility Lease" means the lease of the 2012F Leased Properties dated as of October 1, 2002 entered into between the Board, as lessor, and The Regents, as lessee, as amended by that certain First Amendment to Facility Lease dated as of September 15, 2012, and as it may from time to time be further amended or supplemented pursuant to the provisions of the 2012F Indenture and thereof, as specified in a Supplemental Indenture.

"2012F Indenture" means the Indenture, dated as of October 1, 2002, between the Board and the State Treasurer, as amended by the First Supplemental Indenture, dated as of October 1, 2002, and by the Second Supplemental Indenture, dated as of September 15, 2012, and as it may from time to time be further amended or supplemented by all Supplemental Indentures executed pursuant to the provisions thereof.

"2012F Leased Properties" means the 2012F Sites and the buildings, structures, fixtures and related improvements located on the 2012F Sites, including any and all additions, betterments, extensions and improvements thereto, as described in the 2012F Facility Lease, including any Substituted Property as provided in the 2012F Facility Lease. For purposes of the Master Indenture, the 2012F Leased Properties shall constitute a "Facility" as defined therein.

"2012F Project" means improvements to the buildings, structures, fixtures and related improvements constructed with proceeds of the 2002 Bonds, as more particularly described in the 2012F Facility Lease.

"2012F Sites" means that certain land underlying the 2012F Leased Properties as more particularly described in an exhibit to the 2012F Facility Lease.

"2012F Site Lease" means the 2012F Site Lease, dated as of October 1, 2002, by and between The Regents, as lessor, and the Board, as lessee, as amended by the First Amendment to Site Lease, dated as of September 15, 2012, and as it may from time to time be further amended or supplemented pursuant to the provisions the 2012F Site Lease and the 2012F Indenture.

"Written Request of the Board" means an instrument in writing signed by the Chair, the Administrative Secretary or the Assistant Administrative Secretary of the Board, or by any other officer of the Board duly authorized by the Board for that purpose.

Additional Bonds

The 2012F Indenture provides that the Board may at any time issue one or more Series of Additional Bonds payable from the Revenues and secured by a pledge of and charge and lien upon such Revenues as provided in the 2012F Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any Additional Bonds:

(a) The Board shall be in compliance with all agreements and covenants contained in the 2012F Indenture.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for the purpose of (i) refunding any Series of Bonds then Outstanding, (ii) payment of all costs incidental to or connected with any refunding described in (i) above, and/or (iii) making deposits into the Reserve Fund or a separate reserve account securing the Additional Bonds;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The date and the maturity dates of and the sinking account payment dates, if any, for such Additional Bonds; provided that (i) all such Additional Bonds of like maturity shall be identical in all respects, except as to interest rate, number and denomination, (ii) serial maturities for Serial Bonds or sinking account payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective maturity dates;

(4) The Interest Payment Dates for such Additional Bonds;

(5) The denomination or denominations of and method of numbering such Additional Bonds;

(6) The redemption premium, if any, and the redemption terms, if any, for such Additional Bonds;

(7) The amount, if any, to be deposited from the proceeds of sale of such Additional of Bonds in the Interest Account;

(8) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds or as a Reserve Fund Credit Facility in the Reserve Fund or in a separate reserve account securing only the Additional Bonds;

(9) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the funds and accounts established under the 2012F Indenture or the Supplemental Indenture for such Additional Bonds;

(10) The forms of such Additional Bonds; and

(11) Such other provisions as are necessary or appropriate and not inconsistent with the 2012F Indenture.

(c) The 2012F Facility Lease shall have been amended so as to modify the Base Rental payable by The Regents thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due and accompanied by a certificate of The Regents to the effect that such Base Rental is consistent with the fair rental value for the 2012F Leased Properties subject to the 2012F Facility Lease.

Nothing contained in the 2012F Indenture shall limit the issuance of any lease revenue bonds of the Board payable from the Revenues and secured by a pledge of and charge and lien upon the Revenues if after the issuance and delivery of such lease revenue bonds none of the Bonds theretofore issued under the 2012F Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds

At any time after the sale of any Additional Bonds in accordance with the Act, the Board shall execute such Additional Bonds for issuance under the 2012F Indenture and shall deliver them to the State Treasurer, and thereupon such Additional Bonds shall be authenticated and delivered by the State Treasurer to the purchaser thereof upon the Written Request of the Board, but only upon receipt by the State Treasurer of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the State Treasurer (unless the State Treasurer shall accept any of such documents bearing a prior date):

(a) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) A Written Request of the Board as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the Board has the right and power under the Act to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Board, is in full force and effect and is valid and binding upon the

Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles), (2) the Supplemental Indenture creates the valid pledge of and charge and lien upon the Revenues relating to such Additional Bonds which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted under the 2012F Indenture, (3) such Additional Bonds are valid and binding special obligations of the Board (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and entitled to the benefits of the Act and hereof, and such Additional Bonds have been duly and validly authorized, executed, and delivered in accordance with the Act and herewith, (4) the amendments to the 2012F Facility Lease required by the 2012F Indenture have been duly authorized, executed and delivered, and (5) the delivery of such Additional Bonds in and of itself will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on any of the Bonds previously issued and Outstanding;

A Certificate of the Board containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained in the 2012F Indenture; and

Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Pledge of the Revenues

Pursuant to the 2012F Indenture, the Bonds are secured by a pledge of and charge and lien upon the Revenues and amounts on deposit in the funds and accounts established under the 2012F Indenture for the Bonds (other than amounts on deposit in the Rebate Fund). All such moneys are irrevocably pledged to the payment of the principal of, interest on and redemption premiums, if any, on the Bonds and such Revenues shall not be used for any other purpose while any of the Bonds remain outstanding; provided, however, that out of the Revenues there may be allocated such sums as are permitted to be set aside in the accounts of the Revenue Fund as described below. The pledge made in the 2012F Indenture constitutes a first pledge of and charge and lien upon those certain Revenues (other than Revenues on deposit in the Rebate Fund). Upon any Series of Bonds being designated as Incorporated Bonds pursuant to the Master Indenture, such Series of Bonds shall be secured by the Reserve Fund as and to the extent set forth in the Master Indenture.

Establishment of Funds and Accounts

The following funds and accounts are established pursuant to the 2012F Indenture: (1) the Construction Fund (in which there shall be established a Cost of Issuance Account and a Project Account); (2) the Revenue Fund, containing an Interest Account, a Principal Account, a Maintenance and Operation Account, and a Surplus Account; and (3) the Rebate Fund.

Construction Fund. All amounts have been disbursed from the Construction Fund to finance the 2012F Project.

Revenue Fund. All Revenues when and as received shall be received by the Board in trust under the 2012F Indenture for the benefit of the Holders of the Bonds and shall be deposited when and as received by the Board in the Revenue Fund. All Revenues shall be accounted for through and held in trust in the Revenue Fund, and the Board shall have no beneficial right or interest in any of the Revenues except only as provided in the 2012F Indenture. All Revenues, whether received by the Board in trust or deposited with the State Treasurer as provided in the 2012F Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the 2012F Indenture and as shall be specified in the Supplemental Indenture for each Series of Bonds, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Board.

Moneys in the Revenue Fund shall be set aside by the State Treasurer in the following respective special accounts within the Revenue Fund in the following order of priority:

(1) Interest Account,

(2) Principal Account,

(3) Maintenance and Operation Account, and

(4) Surplus Account.

Interest Account. On or before the fifteenth day of the month next preceding each Interest Payment Date, the State Treasurer shall set aside from the Revenue Fund and deposit in the Interest Account therefor that amount of money which, together with any money contained therein, is equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date. No deposit need be made in the Interest Account if the amount contained therein is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the State Treasurer solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity); provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from such Interest Account and pay to or upon order of the Board money sufficient to reimburse The Regents for any Base Rental theretofore paid by The Regents under the 2012F Facility Lease for that period of time during which the payment of Base Rental under the 2012F Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance required by the 2012F Indenture and money in the Principal Account and in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

Principal Account On or before September 15 of each year, beginning on September 15, 2013, the State Treasurer shall set aside from the Revenue Fund and deposit into the Principal Account an amount of money equal to the aggregate principal amount of all Outstanding Serial Bonds maturing on the next succeeding October 1, and on or before September 15 of each year, in which a sinking account payment is due, the State Treasurer shall set aside from the Revenue Fund and deposit into the Principal Account an amount of money equal the aggregate amount of all sinking account payments required to be made on the next succeeding October 1 into the respective sinking accounts for all Outstanding Term Bonds.

No deposit need be made in the Principal Account for any principal payment date if the amount contained therein is at least equal to the aggregate amount of the principal of all Outstanding Serial Bonds maturing by their terms on such principal payment date plus the aggregate amount of all sinking account payments required to be made during the year ending on such principal payment date for all Outstanding Term Bonds.

The State Treasurer is required to establish and maintain within the Principal Account for each Series of Bonds a separate subaccount for the Term Bonds of such Series and maturity, designated as the "____ Series ____ Sinking Account" (the "Sinking Account"), inserting therein the Series and maturity (if more than one such account is established for such Series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the State Treasurer shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the 2012F Indenture and in the Supplemental Indenture; provided that, at any time prior to giving such notice of such redemption, the State Treasurer may apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be determined by the State Treasurer, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the State Treasurer has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof, to reduce the next succeeding mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the State Treasurer solely for the purpose of paying the principal of the Bonds as they shall become due and payable, except that any money in any Sinking Account shall be used and withdrawn by the State Treasurer only to purchase or to redeem or to pay Term Bonds for which such Sinking Account was created; provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from such Principal Account and pay to or upon order of the Board money sufficient to reimburse The Regents for any Base Rental theretofore paid by The Regents under the 2012F Facility Lease for that period of time during which the payment of Base Rental under the 2012F Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance required by the 2012F Indenture as supplemented by the appropriate Supplemental Indenture and money in the Reserve Fund and in the Maintenance and Operation Account and in the Surplus Account) is available.

Maintenance and Operation Account. If at any time the Board shall operate the 2012F Leased Properties, the State Treasurer, on or before May 15 and November 15 of each year, shall set aside from the Revenue Fund, and deposit in the Maintenance and Operation Account all amounts which shall be estimated to be required to provide for the payment of all costs of maintenance and operation of the 2012F Leased Properties during the next six months, including costs of repairs and replacements, labor costs and insurance; provided that no transfer shall be made to the Maintenance and Operation Account to the extent there would be insufficient funds in the Revenue Fund after such transfer to make the necessary deposits to the Interest Account or Principal Account during the current Bond Year.

All money in the Maintenance and Operation Account shall be disbursed by the State Treasurer only to pay such costs upon the Written Request of the Board; provided that the State Treasurer upon the written request of The Regents and upon receipt of such documentation as he may require, shall withdraw from the Maintenance and Operation Account and pay to The Regents money sufficient to reimburse The Regents for any Base Rental theretofore paid by The Regents under the 2012F Facility Lease for a period of time during which the payment of Base Rental under such 2012F Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance which may be provided under the Supplemental Indenture (pursuant to the provisions of the 2012F Indenture) and money in the Surplus Account) is available.

Surplus Account. The State Treasurer, on or before the second Business Day following the end of each Bond Year, shall deposit in the Surplus Account all money remaining in the Revenue Fund after the deposits required by the 2012F Indenture have been made. On the second Business Day following the end of each Bond Year, the State Treasurer, if the Board is not then in default under the 2012F Indenture and if The Regents is not then in default under the 2012F Facility Lease, shall disburse the money in the Surplus Account to or upon the order of the Board unless (1) the State Treasurer has not received all of the Base Rental due and payable in such year from The Regents for deposit to the Revenue Fund, or (2) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be required for the payment of the principal of or interest on the Bonds on any succeeding Interest Payment Date (assuming for the purpose of such determination that The Regents shall pay when due all future payments of Base Rental required by the 2012F Facility Lease), or (3) the State Treasurer, in his discretion, shall determine that any money in the Surplus Account is or will be necessary to fund the amounts on deposit in the Reserve Fund up to an amount equal to the Reserve Fund Requirement, in which event such money shall be held in the Surplus Account for such purpose and shall be transferred by the State Treasurer to the Reserve Fund upon receipt of a Written Request of the Board; provided that the State Treasurer, upon the Written Request of the Board and upon receipt of such documentation as he may require, shall withdraw from the Surplus Account and pay to or upon order of the Board money sufficient to reimburse The Regents for any Base Rental theretofore paid by The Regents under the 2012F Facility Lease for a period of time during which the payment of Base Rental under the 2012F Facility Lease is abated and for which no other money (including proceeds of the rental interruption or use and occupancy insurance which may be provided under the provisions of the 2012F Indenture and amounts in the Reserve Fund) is available.

Reserve Fund. As and to the extent provided in the Master Indenture, the State Treasurer shall maintain and hold the Reserve Fund, which shall secure all 2012F Bonds issued under the 2012F Indenture and any Additional Bonds designated as Incorporated Bonds under the Master Indenture as and to the extent set forth in the Master Indenture.

If amounts in the Interest Account or the Principal Account are insufficient to pay the principal of, redemption premium, if any, or interest on the 2002 Bonds, the 2012F Bonds and Additional Bonds which are Incorporated Bonds and if no other money of the Board is lawfully available therefor (including upon acceleration of the 2002 Bonds, the 2012F Bonds and Additional Bonds which are Incorporated Bonds pursuant to the 2012F Indenture), then, subject to the limitation set forth in the 2012F Indenture as to the amount to be transferred following a nonpayment default, the State Treasurer shall transfer amounts available in the Reserve Fund to the Interest Account and the Principal Account to pay the principal of and interest on the 2002 Bonds, the 2012F Bonds and Additional Bonds which are Incorporated Bonds when due.

Deposit and Investment of Money in Accounts and Funds

All money held by the State Treasurer in any of the accounts or funds established under the 2012F Indenture shall be invested in Permitted Investments. Subject to the provisions of the 2012F Indenture, all interest or profits from the funds or accounts relating to the Bonds received prior to completion of the 2012F Project may be deposited in the account for such Series of Bonds within the Construction Fund (as specified in a Written Request of the Board); and thereafter all interest or profits may be deposited in the Revenue Fund.

Covenants of the Board

The 2012F Indenture contains covenants of the Board with respect to the Bonds and the 2012F Leased Properties. Certain of these covenants follow. Reference is made to the full 2012F Indenture for a complete text of such covenants.

Punctual Payment and Performance. The Board will punctually pay the principal of, redemption premium, if any, and interest to become due on every Bond issued under the 2012F Indenture in strict conformity with the terms of the 2012F Indenture and of the Bonds, and will faithfully observe and perform all the agreements and covenants contained in the 2012F Indenture and in the Bonds.

Against Encumbrances. The Board will not make any pledge of or place or permit to be placed any charge or lien upon any of the 2012F Leased Properties or any part thereof or upon any of the Revenues except as provided in the 2012F Indenture, and will not issue any bonds, notes or obligations payable from the Revenues or secured by a pledge of or charge or lien upon the Revenues except the Bonds.

Against Sale or Other Disposition of the 2012F Leased Properties. Except as permitted by the 2012F Facility Lease, the Board will not sell or otherwise dispose of any of the 2012F Leased Properties or any part thereof essential to their proper operation or to the maintenance of any of the Revenues. The Board will not enter into any agreement which impairs the operation of any of the 2012F Leased Properties or any part thereof necessary to secure adequate Revenues for the payment of the principal of, redemption premium, if any, and interest on any of the Bonds, or which would otherwise impair the rights of the Holders with respect to the Revenues or the operation of the 2012F Leased Properties. Any real or personal property constituting part of the 2012F Leased Properties which has become nonoperative or which is not needed for the efficient and proper operation of the 2012F Leased Properties or any material or equipment constituting part of the 2012F Leased Properties which has become worn out may be sold at not less than the market value thereof if such sale will not reduce the Revenues related to the 2012F Leased Properties and if the net proceeds of such sale are treated as Revenues and applied in the manner provided in the 2012F Indenture. Nothing in the 2012F Indenture, including the foregoing provisions, shall preclude the right of the Board and The Regents to substitute other real property for all or a part of the 2012F Leased Properties with the prior written consent of the Insurer, as set forth in the 2012F Facility Lease.

Tax Covenants; Rebate Fund. The State Treasurer shall establish and maintain a fund separate from any other fund or account established and maintained under the 2012F Indenture designated as the Rebate Fund (the "Rebate Fund"). The State Treasurer shall create within the Rebate Fund a separate account for each Series of Bonds issued under the 2012F Indenture. There shall be deposited in each such separate account of the Rebate Fund such amounts as are required to be deposited therein pursuant to the applicable Tax Certificate related to such Series of Bonds (each such Tax Certificate executed with respect to a Series of Bonds is deemed to be incorporated in the 2012F Indenture by reference). All money at any time deposited in the Rebate Fund shall be held by the State Treasurer in trust, to the extent required to satisfy the applicable Rebate Requirement (as defined in the Tax Certificate for each Series of Bonds), for payment to the United States of America.

The Board and the State Treasurer shall not use or permit the use of any proceeds of the Bonds of any Series or any funds of the Board, directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Internal Revenue Code. The Board and the State Treasurer specifically covenant to comply with the provisions and procedures of each Tax Certificates.

If the Board shall provide to the State Treasurer an Opinion of Counsel to the effect that any specified action required under the 2012F Indenture is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds of any Series, the State Treasurer and the Board may conclusively rely on such Opinion of Counsel in complying with the requirements of this section, and the covenants under the 2012F Indenture shall be deemed to be modified to that extent.

Maintenance and Operation of the 2012F Leased Properties. The Board will maintain and preserve or cause to be maintained and preserved the 2012F Leased Properties in good order, condition and repair at all times and will operate the 2012F Leased Properties or cause the 2012F Leased Properties to be operated in an efficient and economical manner as required by the Act.

Insurance. The Board shall maintain or cause to be maintained by The Regents fire, lightning and extended coverage insurance on the 2012F Leased Properties in an amount equal to one hundred percent (100%) of the then current replacement cost of the 2012F Leased Properties (excluding the replacement cost of the unimproved real property constituting the 2012F Sites) (except that such insurance may be subject to deductible clauses which do not exceed, in each case, an amount equal to the self-insurance coverage which is maintained and fully funded by The Regents during the term of the 20112F Facility Lease; such self-insurance coverage is currently Seven Million Five Hundred Thousand Dollars ($7,500,000)), and earthquake insurance (if, in the sole discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost) on any structure comprising part of the Leased Properties in an amount equal to the full insurance value of such structure or the principal amount of all Outstanding Bonds, whichever is less (except that such insurance may be subject to a deductible clause which does not exceed, in each case, an amount equal to the self-insurance coverage which is maintained and fully funded by The Regents during the term of the 2012F Facility Lease; such self-insurance coverage is currently Seven Million Five Hundred Thousand Dollars ($7,500,000)). The extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, vandalism and malicious mischief and such other hazards as are normally covered by such endorsement. Each such policy of insurance shall be in form reasonably satisfactory to the Board and shall contain a clause making all losses payable to the Board, the State Treasurer and The Regents, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem the Bonds as provided the 2012F Indenture. Each policy of insurance shall be from an insurance provider rated "A" or better by Standard & Poor's Ratings Services or Moody's Investors Service, or "A-" by A.M. Best, or be otherwise approved by the Insurer.

In the event of any damage to or destruction of the 2012F Leased Properties caused by the perils covered by such insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem Outstanding Bonds to the extent possible and in accordance with the provisions of the 2012F Indenture, but only if the Base Rental payments due after such a redemption would be sufficient to retire the Bonds then Outstanding in accordance with their terms, or (ii) for the repair, reconstruction or replacement of the 2012F Leased Properties to the end that the 2012F Leased Properties shall be restored to at least the same condition that they were in prior to such damage or destruction. If the Board so elects to repair, reconstruct or replace the 2012F Leased Properties, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the 2012F Indenture.

The Board shall maintain or cause to be maintained by The Regents rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the 2012F Leased Properties as a result of any of the hazards covered by the insurance required by the 2012F Indenture in an amount not less than the succeeding two (2) consecutive years' Base Rental. Alternatively, the Board may maintain or cause to be maintained by the Board or The Regents rental interruption or use and occupancy insurance under a blanket or umbrella or similar type of policy to cover loss, total or partial, of the use of all of the 2012F Leased Properties as a result of the hazards covered by the insurance required by paragraph (a) above in an amount not less than the succeeding two (2) consecutive years' Base Rental. Any such insurance policy shall be in form satisfactory to the Board and shall contain a loss payable clause making any loss thereunder payable to the State Treasurer. Each policy of insurance shall be from an insurance provider rated "A" or better by Standard & Poor's Ratings Services or Moody's Investors Service, or "A-" by A.M. Best, or be otherwise approved by the Insurer. Any proceeds of such insurance shall be used by the State Treasurer to reimburse The Regents for any rental theretofore paid by The Regents under the 2012F Facility Lease for a period of time during which the payment of rental thereunder is abated, and any proceeds of such insurance not so used shall be applied as provided in the 2012F Indenture to the extent required to pay annual debt service on the Bonds or shall be applied as provided in the 2012F Indenture to the extent required to pay administrative costs of the Board in connection with the 2012F Leased Properties.

If The Regents do not pay any deductible amount provided in any insurance policy obtained pursuant to Subsections (a) and (b) above, the Board covenants and agrees to promptly seek an appropriation from the State Legislature to pay any such deductible amount. The Board expressly acknowledges and agrees that this Subsection (c) shall be deemed to be and shall be construed to be a ministerial, nondiscretionary duty imposed by law and that the State Treasurer may take whatever action, proceeding or suit, including (without limitation) mandamus or other legal or equitable remedy, as may be required to compel the Board to comply with this subsection.

The Board will deliver or cause to be delivered to the State Treasurer in the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to the 2012F Indenture, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby. Each such insurance policy shall require that the State Treasurer be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer of the schedule of insurance policies under the provisions of the 2012F Indenture shall not confer responsibility upon the State Treasurer as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the State Treasurer, The Regents shall also deliver or cause to be delivered to the State Treasurer duplicate originals or certified copies of each insurance policy described in such schedule.

The Regents Budget. As soon as practicable after the beginning of each Fiscal Year of The Regents, the Board and the State Treasurer shall coordinate and each shall determine whether The Regents has made or has caused to be made adequate provision in its annual budget for such Fiscal Year for the payment of all rentals due under the 2012F Facility Lease in such Fiscal Year. If in the opinion of the State Treasurer the amounts so budgeted are not adequate for the payment of all rentals due under the 2012F Facility Lease in such Fiscal Year, the Board will take such action as may be necessary and within its power, including any actions pursuant to California Government Code Section 15848, to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be paid by The Regents in such Fiscal Year for the payment of all rentals due under the 2012F Facility Lease in such Fiscal Year, or otherwise to cause the Base Rentals to be appropriated and paid, and will notify the State Treasurer of the proceedings then taken or proposed to be taken by the Board.

2012F Facility Lease and Other Documents. The Board will at all times maintain and vigorously enforce all its rights under the 2012F Facility Lease and will promptly collect all rents and charges due for the use and occupancy of the 2012F Leased Properties as the same become due under the 2012F Facility Lease, and will promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due under the 2012F Facility Lease. Following a default under the 2012F Facility Lease, the Board will give a notice of default to The Regents if so directed by the Insurer. The Board will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the 2012F Facility Lease by the lessee thereunder. Without the written consent of the State Treasurer, the Board will not alter or modify or agree or consent to alter or modify the 2012F Facility Lease, but with the written consent of the State Treasurer, the Board may consent to alterations or modifications thereof authorized in the 2012F Indenture and the 2012F Facility Lease. The State Treasurer shall give such written consent only if (i) in the opinion of the State Treasurer, such alterations or modifications will not result in any material impairment of the security given or intended to be given for the payment of the Bonds, or (ii) the State Treasurer first obtains the written consent of the Holders of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of any Bonds disqualified as provided in the 2012F Indenture; or (iii) such alterations or modifications will facilitate the refunding or defeasance of any of the Bonds pursuant to the 2012F Indenture; provided that no such alterations or modifications shall materially alter or impair the obligation of the Board to pay the principal of, redemption premium, if any, or interest on any Bonds without the written consent of the Holders of all such Bonds so affected. The Regents and the Board, with the prior written consent of the Insurer, may substitute another public facility or facilities for 2012F Leased Properties in accordance with the 2012F Facility Lease. So long as the Insurance Policy is in full force and effect, the Board shall not terminate the 2012F Facility Lease or the 2012F Site Lease without the prior written consent of the Insurer.

Prosecution and Defense of Suits. The Board will promptly, upon request of the State Treasurer, from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the 2012F Leased Properties, whether now existing or developing, and shall prosecute or cause to be prosecuted all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and hold the State Treasurer harmless from all loss, cost, damage and expense, including attorney's fees, which it may incur by reason of any such defect, cloud, suit, action or proceeding.

Eminent Domain. If the whole or any portion of the 2012F Leased Properties shall be taken by eminent domain proceedings (or sold to a governmental entity threatening to exercise the power of eminent domain), the proceeds therefrom shall be deposited with the State Treasurer in a special fund in trust and shall be applied and disbursed by the State Treasurer as follows:

(a) If less than the entirety of the 2012F Leased Properties shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, and if the portion taken is replaced by a facility of equal or greater utility and of equal or greater fair rental value within or adjacent to such remainder, the State Treasurer shall disburse such proceeds to the party that incurred the expense of making such replacement; but if no such replacement is made, the State Treasurer shall apply such proceeds to redeem all or a portion of the Bonds pursuant to the 2012F Indenture and any Supplemental Indenture relating to the Bonds.

(b) If less than the entirety of the 2012F Leased Properties shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entirety of the 2012F Leased Properties shall have been so taken, the State Treasurer shall apply such proceeds, together with any other money then available to him for such purpose, for the payment of the entire amount of principal then due or to become due upon all of the Outstanding Bonds, together with the interest thereon so as to enable the Board to retire all of such Bonds then Outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money then lawfully available to him for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer shall apply such proceeds in accordance with the 2012F Indenture.

Further Assurances. Whenever and so often as requested to do so by the State Treasurer or any Holder, the Board will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the 2012F Indenture.

Continuing Disclosure. The Board and the State Treasurer covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the 2012F Indenture, failure of the Board, The Regents or the State Treasurer to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board or the State Treasurer, as the case may be, to comply with its obligations under the 2012F Indenture. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Amendments

The 2012F Indenture and the rights and obligations of the Board and of the Holders of the Bonds may be amended at any time by a Supplemental Indenture. Such amendments shall become binding when the written consents of the Insurer and the Holders of sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the 2012F Indenture, are filed with the State Treasurer. No such amendment shall (1) extend the maturity of or reduce the interest rate on or otherwise alter or impair the obligation of the Board to pay the principal of, redemption premium, if any, or interest on any Bond at the time and place and at the rate and in the currency provided in the 2012F Indenture without the express written consent of the Holder of such Bond, or (2) permit the creation by the Board of any pledge of or charge or lien upon the Revenues as provided in the 2012F Indenture superior to or on a parity with the pledge, charge and lien created by the 2012F Indenture for the benefit of the Bonds, or (3) reduce the percentage of Bonds required for the written consent to any such amendment, or (4) modify any rights or obligations of the State Treasurer without his prior written assent thereto.

If any amendment shall not materially adversely affect the interests of the Holders, then the 2012F Indenture and the rights and obligations of the Board and of the Holders may also be amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery thereof without the consent of any of the Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements and covenants required in the 2012F Indenture to be performed by the Board other agreements and covenants thereafter to be performed by the Board, or to surrender any right or power reserved to or conferred on the Board pursuant to the terms of the 2012F Indenture;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of correcting, curing or supplementing any defective provision contained in the 2012F Indenture or in regard to questions arising under the 2012F Indenture which the Board may deem desirable or necessary and not inconsistent with the 2012F Indenture;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds and the funds and accounts therefor, subject to the conditions and upon compliance with the procedure set forth in the 2012F Indenture;

(d) to modify the book-entry provisions of the 2012F Indenture or to allow for a substitute depository;

(e) to facilitate the refunding or defeasance of any of the Bonds pursuant to the 2012F Indenture;

(f) to provide for compliance with any future laws or regulations concerning provision of financial information or other notices to Holders;

(g) to facilitate the obtaining of any insurance policy or letter of credit securing the Bonds;

(h) to obtain or maintain a rating on any Series of Bonds from a Rating Agency;

(i) to modify, amend or supplement the 2012F Indenture in such manner as to permit the qualification of the 2012F Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(j) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, including the amendment of any Tax Certificate; or

(k) to modify, amend or supplement the 2012F Indenture to allow for appointment of a successor trustee.

The Insurer's prior written consent shall be required with respect to amendments made pursuant to paragraphs (a), (b), (e), (g) and (h) above.

Events of Default

The following events shall be events of default with respect to the Bonds:

(a) if default shall be made in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable; or

(b) if default shall be made in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption; or

(c) if default shall be made by the Board in the performance of any of the other agreements or covenants required in the 2012F Indenture to be performed by the Board, and such default shall have continued for a period of sixty (60) days after the Board shall have been given notice in writing of such default by the State Treasurer or the Insurer, or

(d) if the Board shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Board seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Board or of the whole or any substantial part of its property.

Acceleration of Maturities

Upon the occurrence and continuance of an event of default, the State Treasurer may, or shall upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, by notice in writing to the Board, declare the principal of all of the Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the 2012F Indenture or in the Bonds to the contrary notwithstanding.

This provision, however, is subject to the following conditions: (i) if, at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, and (ii) if each of the following conditions has occurred or will occur: (a) the Board shall deposit with the State Treasurer a sum sufficient to pay all matured interest on all the Bonds and all principal of such Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable expenses of the State Treasurer, and (b) any and all other defaults known to the State Treasurer (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the State Treasurer or provision deemed by the State Treasurer to be adequate shall have been made therefor, then and in every such case the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, by written notice to the Board and to the State Treasurer, may on behalf of the Holders of all such Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration

All moneys in the subaccounts, accounts and funds established under the 2012F Indenture, and moneys available in the Reserve Fund (which in the case of an acceleration for a nonpayment default under the 2012F Indenture shall be limited to a pro rata share of the Reserve Fund determined by calculating the principal amount of any Outstanding Bonds secured by the Reserve Fund as a percentage of the principal amount of all outstanding bonds secured by the Reserve Fund), upon the date of the declaration of acceleration by the State Treasurer as provided in the 2012F Indenture and all Revenues (other than Revenues on deposit in the Rebate Fund) thereafter received by the Board under the 2012F Indenture shall be transmitted to the State Treasurer and shall be applied by the State Treasurer in the following order:

First, to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the State Treasurer, if any, in carrying out the provisions of 2012F Indenture relating to such default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on the overdue interest and principal at the rate borne by such Bonds. If such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Other Remedies of Holders

Any Holder shall have the right for the equal benefit and protection of all Holders similarly situated:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his or his rights against the Board or any member, officer or employee of the Board, and to compel the Board or any such member, officer or employee to perform, and carry out his or his duties under the Act and the agreements and covenants with the Holders contained in the 2012F Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Holders; or

(c) by suit in equity upon the happening of an event of default to require the Board and its members, officers and employees to account as the trustee of an express trust.

Actions by State Treasurer, as Attorney-in-Fact

Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the 2012F Indenture may be brought by the State Treasurer for the equal benefit and protection of all Holders, and the State Treasurer is appointed (and the successive Holders, by taking and holding the Bonds issued under the 2012F Indenture, shall be conclusively deemed to have so appointed him) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the State Treasurer as such attorney-in-fact.

Remedies Not Exclusive

No remedy conferred in the 2012F Indenture upon or reserved to the Holders or the State Treasurer is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the 2012F Indenture or now or later existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law, including the rights and remedies conferred pursuant to Section 15841 of the California Government Code.

Defeasance

(a) If the Board shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the principal thereof and the redemption premium, if any, and the interest thereon at the times and in the manner stipulated in the 2012F Indenture and therein, then the Holders of such Bonds shall cease to be entitled to the pledge of and charge and lien upon the Revenues as provided in the 2012F Indenture, and the agreements, covenants and other obligations of the Board to the Holders of such Bonds under the 2012F Indenture shall thereupon cease, terminate and become void and be discharged and satisfied; provided, however, that the following agreements, covenants and other obligations shall not be discharged and satisfied until such Bonds are paid in full: (i) the obligation of the State Treasurer to pay or cause to be paid to the Holders of the Bonds all sums due with respect to the Bonds from such moneys or investments that may have been set aside for such purposes in accordance with the 2012F Indenture; (ii) the obligation of the State Treasurer to register, transfer and exchange Bonds; (iii) the obligation of the Board to pay the amounts owing to the State Treasurer under the 2012F Indenture, and (iv) the obligation of the Board to comply with tax covenants set forth in the 2012F Indenture. If the Board shall discharge the Bonds, as provided above, the State Treasurer shall execute and deliver to the Board all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the State Treasurer shall pay over or deliver to the Board all money or securities held by him pursuant to the 2012F Indenture which are not required for the payment of the principal of, redemption premium, if any, and interest on such Bonds.

(b) Any Outstanding Bonds shall, prior to the maturity date or redemption date thereof, be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if: (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the Board shall have given to the State Treasurer, in form satisfactory to him, irrevocable instructions to mail a notice of redemption of such Bonds in accordance with the provisions of the 2012F Indenture; (2) there shall have been deposited with the State Treasurer either (i) money in an amount which shall be sufficient and/or; (ii) Permitted Investments of the type described in clause (i) or clause (ii) of the definition of Permitted Investments and which are not subject to redemption prior to maturity except by the holder thereof (including any such Permitted Investments issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or tax-exempt securities rated AAA or its equivalent by a Rating Agency, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the State Treasurer at the same time, shall be sufficient to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premium, if any, on such Bonds; (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Board shall have given the State Treasurer, in form satisfactory to him, irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the State Treasurer and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premium, if any, on such Bonds; and (4) the Board shall cause to be delivered to the State Treasurer (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the 2002 Bonds to be defeased in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the 2002 Bonds to be defeased are no longer Outstanding under the 2012F Indenture, and (iv) a certificate of discharge of the Trustee with respect to the 2002 Bonds defeased; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Board, the State Treasurer and the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

2012F SITE LEASE

An original Site Lease (the "Original Site Lease") was entered into in connection with the issuance of the 2002 Bonds with respect to the 2012F Leased Properties to facilitate the financing and refinancing of the 2012F Project. The Original Site Lease will be amended upon the issuance of the 2012F Bonds and, as amended, shall be the 2012F Site Lease. The 2012F Site Lease is by and between the Board and The Regents. Under the 2012F Site Lease, The Regents leases to the Board and the Board leases from The Regents the 2012F Leased Properties.

Term

The 2012F Site Lease commenced on the date of issuance of the 2002 Bonds and shall end on October 1, 2022, unless such term is extended or sooner terminated as provided in this paragraph. If on such date, the bonds or other indebtedness of the Board issued to finance or refinance the design, construction and installation of the 2012F Project shall not be fully paid and retired or the indenture authorizing such bonds shall not be discharged by its terms, or if the rental payable under the 2012F Facility Lease shall have been abated at any time and for any reason, then the term of the 2012F Site Lease shall be extended until ten (10) days after all bonds shall be fully paid and retired and any such indenture shall be discharged by its terms, except that the term of the 2012F Site Lease shall in no event be extended beyond October 1, 2032. If prior to October 1, 2022, all 2012F Bonds and any such indenture shall be discharged by its terms, the term of the 2012F Site Lease shall end ten (10) days thereafter or ten (10) days after written notice by The Regents to the Board, whichever is earlier.

Purpose

The Board shall use the 2012F Sites solely for the purpose of leasing the 2012F Leased Properties to The Regents pursuant to the 2012F Facility Lease and for such purposes as may be incidental thereto; provided, that in the event of default by The Regents under the 2012F Facility Lease the Board may exercise the remedies provided in the 2012F Facility Lease.

Nonsubordination; Assignments and Subleases

The 2012F Site Lease shall be nonsubordinated and, unless The Regents shall be in default under the 2012F Facility Lease, the Board shall not assign its rights under the 2012F Site Lease or sublet the 2012F Leased Properties without the prior written consent of The Regents and the Insurer.

Default

In the event the Board shall be in default in the performance of any obligation on its part to be performed under the terms of the 2012F Site Lease, which default continues for sixty (60) days following notice and demand for correction thereof to the Board, The Regents may exercise any and all remedies granted by law, except that no merger of the 2012F Site Lease and of the 2012F Facility Lease shall be deemed to occur as a result thereof; provided, however, that The Regents shall have no power to terminate the 2012F Site Lease by reason of any default on the part of the Board if such termination would affect or impair any assignment or sublease of all or any part of the 2012F Leased Properties then in effect between the Board and any assignee or subtenant of the Board (other than The Regents created under the 2012F Facility Lease); and provided, further, that so long as any 2012F Bonds remain outstanding and unpaid in accordance with the terms of any indenture authorizing such bonds or other indebtedness, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee. So long as any such assignee or subtenant of the Board shall duly perform the terms and conditions of the 2012F Site Lease and of its then existing sublease (if any), such assignee or subtenant shall be deemed to be and shall become the tenant of The Regents under the 2012F Site Lease and shall be entitled to all of the rights and privileges granted under any such assignment or sublease; provided, further, however, that, so long as the Bonds remain outstanding and unpaid in accordance with the terms of any indenture authorizing the Bonds or other indebtedness incurred by the Board to pay for the Project is outstanding, the rentals or any part thereof payable to the trustee pursuant to such indenture (by the terms of such assignment or sublease) shall continue to be paid to said trustee.

Eminent Domain

In the event the whole or any part of the 2012F Leased Properties are taken permanently or temporarily under the power of eminent domain, the interest of the Board shall be recognized and is determined to be the amount of the then unpaid indebtedness incurred by the Board to finance or refinance the design, construction and installation of the 2012F Project, including the unpaid principal of and interest on any then outstanding bonds or other indebtedness of the Board, and shall be paid as required by any interim loan to the trustee under any indenture authorizing such bonds or other indebtedness and applied as provided in said indenture. The term "unpaid indebtedness," as used in the preceding sentence, includes the face amount of the indebtedness evidenced by any outstanding loans, bonds or notes of the Board obtained or issued to finance or refinance the design and construction of the 2012F Project, together with the interest thereon and all other payments required to be made by the trustee pursuant to the indenture authorizing the issuance of said bonds or notes on account of said indebtedness, until such indebtedness, together with the interest thereon, has been paid in full in accordance with the terms thereof.

Right of Entry; Utilities and Parking

The Regents irrevocably grants to the Board and the Board accepts from The Regents, during the term of the 2012F Site Lease, a license for ingress and egress to the 2012F Leased Properties across the real property situated in Los Angeles County, State of California, and described in the Site Lease. Unless The Regents shall be in default under the 2012F Facility Lease, the Board shall not assign its rights under this license or sublicense this license without the prior written consent of The Regents.

Amendment

The 2012F Site Lease may only be amended by a written instrument duly authorized and executed by the Board and The Regents; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds or shall take effect without the prior written consent of the Insurer. The 2012F Site Lease shall be amended to reflect any substitution of property under the 2012F Facility Lease.

THE 2012F FACILITY LEASE

An original Facility Lease (the "Original Facility Lease") was entered into in connection with the issuance of the 2002 Bonds with respect to the 2012F Leased Properties to facilitate the financing and refinancing of the 2012F Project. The Original Facility Lease will be amended upon the issuance of the 2012F Bonds and, as amended, shall be the 2012F Facility Lease. The 2012F Facility Lease is by and between the Board and The Regents. Under the 2012F Facility Lease, the Board leases to The Regents and The Regents leases from the Board the 2012F Leased Properties.

In the following summary the term "Indenture" refers to the 2012F Indenture; the term "Bonds" refers to the 2012F Bonds and any 2002 Bonds that remain Outstanding following the issuance of the 2012F Bonds.

Purpose and Term

The Board leases the 2012F Leased Properties to The Regents on the terms and conditions set forth in the 2012F Facility Lease and subject to all easements, encumbrances and restrictions of record. The Regents agrees and covenants during the term of the 2012F Facility Lease that, except as provided in the

2012F Facility Lease, it will use the Financed Facilities only as part of a facility to afford the public the benefits contemplated by the Act, and will use the 2012F Leased Properties in a manner consistent with the 2012F Facility Lease and so as to permit the Board to carry out its agreements and covenants contained in the Indenture and further agrees that it will not abandon the 2012F Leased Properties.

The term of the 2012F Facility Lease commenced on the date of issuance of the 2002 Bonds and shall end on October 1, 2022, unless such term is extended or sooner terminated as provided in the 2012F Facility Lease. If on October 1, 2022, the Bonds shall not have been fully paid and retired, or if the rental payable under the 2012F Facility Lease shall have been abated at any time and for any reason, then the term of the 2012F Facility Lease shall be extended until the date upon which all the Bonds and other indebtedness of the Board for such purposes shall have been fully paid and retired, except that the term of this 2012F Facility Lease shall in no event be extended beyond October 1, 2032. If prior to October 1, 2022, the Bonds shall have been fully paid and retired or the 2012F Site Lease shall have been terminated, then the term of the 2012F Facility Lease shall end simultaneously therewith.

Rental

The Regents agrees to pay to the Board, its successors or assigns, without deduction or offset of any kind, from any lawfully available funds of The Regents, as rental for the use and occupancy of the 2012F Leased Properties , the following amounts at the following times:

(a) (1) 2002 Base Rental. In order to pay the principal of and interest on the 2002 Bonds that remain outstanding, The Regents shall pay to the Board Base Rental under the 2012F Facility Lease at such semiannual amounts set forth therein. Such Base Rental shall be paid in time and amount to pay the principal of and interest on the outstanding 2002 Bonds on each April 1 and October 1 in each year through October 1, 2022. Such installments of Base Rental shall be payable commencing March 15, 2013, and shall thereafter be due and payable on or before March 15 and September 15 in each year immediately preceding each Interest Payment Date for the 2002 Bonds. If any date for the payment of Base Rental is not a Business Day, such Base Rental shall be paid on the next succeeding Business Day. The Base Rental due and payable on March 15, 2013 shall be for the use and occupancy of the Facility to April 1, 2013, and each payment of Base Rental thereafter shall be for the use and occupancy of the Leased Properties for the preceding six-month period.

(2) 2012 Series F Base Rental. In order to pay the principal of and interest on the 2012F Bonds, The Regents shall pay to the Board Base Rental under the 2012F Facility Lease at such semiannual amounts set forth therein. Such Base Rental shall be paid in time and amount to pay the principal of and interest on the Bonds on April 1 and October 1 in each year through October 1, 2022. Such installments of Base Rental shall be payable commencing March 15, 2013, and shall thereafter be due and payable on or before March 15 and September 15 in each year immediately preceding each interest payment date for the Bonds. If any date for the payment of Base Rental is not a Business Day, such Base Rental shall be paid on the next succeeding Business Day. The Base Rental due and payable on March 15, 2013 shall be for the use and occupancy of the Facility to April 1, 2013, and each payment of Base Rental thereafter shall be for the use and occupancy of the Facility for the preceding six-month period.

(b) Additional Rental. The Regents shall pay to or upon the order of the Board as Additional Rental such reasonable amounts in each year as shall be required by the Board for the payment of all administrative costs and other expenses of the Board in connection with the 2012F Leased Properties and the Financed Facilities, including all expenses, compensation and indemnification of the State Treasurer payable by the Board under the 2012F Indenture, fees of accountants, fees of the Attorney General or attorneys, litigation costs, insurance premiums and all other necessary costs of the Board and the State Treasurer or charges required to be paid by them in order to comply with the terms of the Act, the 2012F Indenture or the Bonds. Such Additional Rental shall be billed by the Board or the State Treasurer from time to time, together with a statement certifying that the amount so billed has been paid by the Board or by the

State Treasurer on behalf of the Board for one or more of the items above described, or that such amount is then payable by the Board or the State Treasurer on behalf of the Board for such items. Amounts so billed shall be due and payable by The Regents within thirty (30) days after receipt of the bill by The Regents.

(c) Such payments of Base Rental and Additional Rental for each rental payment period during the term of the 2012F Facility Lease shall constitute the total rental for such rental payment period, and shall be paid by The Regents in each rental payment period for and in consideration of the right to the use and occupancy, and the continued quiet enjoyment, of the 2012F Leased Properties during each such rental payment period for which such rental is paid. The parties to the 2012F Facility Lease have agreed and determined that the amount of such total rental does not exceed the fair rental value of the 2012F Leased Properties. In making such determination, consideration has been given to the replacement cost of the 2012F Leased Properties other obligations of the parties under the 2012F Facility Lease, the uses and purposes which may be served by the 2012F Leased Properties and the benefits therefrom which will accrue to The Regents and the general public.

(d) Each installment of rental payable shall be paid in lawful money of the United States of America to or upon the order of the Board in Sacramento, California, or such other place as the Board shall designate. Any such installment of rental accruing which shall not be paid when due shall bear interest at the legal rate of interest per annum at which judgments for money in the State bear interest from the date when the same is due under the 2012F Facility Lease until the same shall be paid. Notwithstanding any dispute between the Board and The Regents, The Regents shall make all rental payments when due without deduction or offset of any kind and shall not withhold any rental payments pending the final resolution of such dispute.

(e) The Regents covenants to take such action as may be necessary to include or cause to be included all such rental payments due under the 2012F Facility Lease in its annual budgets (and that portion of the budgets of the State related to The Regents) and to make or cause to be made the necessary annual allocations for all such rental payments. The Regents will furnish to the Board and the State Treasurer copies of each annual budget of The Regents (and that portion of the budget of the State related to The Regents) that contains the appropriation to pay rent under the 2012F Facility Lease, within ten (10) days after the Governor submits his budget to the State Legislature. The Regents further covenants to take all actions necessary and appropriate to assist in implementing the procedure contained in California Government Code Section 15848 for making rental payments under the 2012F Facility Lease if the required rental payments have not been included in the annual budget adopted by the State or the State is operating without a budget. The covenants on the part of The Regents contained in the 2012F Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of The Regents to take such action and do such things as are required by law in the performance of the official duty of such officials to enable The Regents to carry out and perform the agreements and covenants in the 2012F Facility Lease agreed to be carried out and performed by The Regents. To the greatest degree possible, the rental paid by The Regents to the Board under the 2012F Facility Lease shall utilize teaching hospital revenues of The Regents, but only to the extent lawfully available to pay such rental.

(f) All rental payments received shall be applied first to the Base Rental due and thereafter to all Additional Rental due, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the 2012F Facility Lease.

(g) The rental shall be abated proportionately during any period in which, by reason of any damage or destruction of the 2012F Leased Properties (other than by condemnation which is provided for under the caption "Eminent Domain" below), or title defect in the 2012F Sites, there is substantial interference with the use and occupancy of the 2012F Leased Properties or any portion thereof by The Regents. Such abatement shall continue for the period commencing with such damage or destruction or title defect and ending when such use and occupancy are restored. The Regents waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the 2012F Facility Lease by virtue of any such damage or destruction.

Financing the 2012F Project

The Board agrees to use the proceeds of the Bonds to finance and refinance the costs of design, construction, and installation of the 2012F Project and certain related costs (or for making reimbursements to the Board or any other state agency, public agency, person, firm or corporation for such costs theretofore paid by him, her or it), including payment of all costs incidental to or connected with such design and construction, and to pay for the costs of issuance related to the Bonds.

Maintenance, Utilities, Taxes and Assessments

(a) During such time as The Regents is in possession of the 2012F Leased Properties, all maintenance and repair, both ordinary and extraordinary, of the 2012F Leased Properties shall be the sole responsibility of The Regents, which shall at all times maintain or otherwise arrange for the maintenance of the 2012F Leased Properties in good condition, and The Regents shall pay for or otherwise arrange for the payment of all utility services supplied to the 2012F Leased Properties and shall pay for or otherwise arrange for the payment of the costs of the repair and replacement of the 2012F Leased Properties resulting from ordinary wear and tear or want of care on the part of The Regents or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the 2012F Leased Properties. In exchange for the rentals provided in the 2012F Facility Lease, the Board agrees to provide only the 2012F Leased Properties.

(b) The Regents shall also pay to the Board or upon the order of the Board, as Additional Rental such amounts, if any, in each year as shall be required by the Board for the payment of all taxes and assessments of any type or nature assessed or levied by any governmental agency or entity having power to levy taxes or assessments charged to the Board or the State Treasurer affecting or relating to the 2012F Leased Properties or the respective interests or estates therein, or the amount of rentals received by the Board under the 2012F Facility Lease.

Changes to the 2012F Leased Properties

At its sole cost and expense, The Regents shall have the right during the term of the 2012F Facility Lease to make additions, betterments, extensions or improvements to the 2012F Leased Properties or to attach fixtures, structures or signs to the 2012F Leased Properties if such additions, betterments, extensions or improvements or fixtures, structures or signs are necessary or beneficial for the use of the 2012F Leased Properties. The Regents covenants that any changes to the Leased Properties shall be made in a manner that does not result in an abatement of base rental.

Insurance

(a) The Board shall maintain or cause to be maintained by the Regents fire, lightning and extended coverage insurance on the 2012F Leased Properties in an amount equal to one hundred percent (100%) of the then current replacement cost of the 2012F Leased Properties (excluding the replacement cost of the unimproved real property constituting the 2012F Sites) (except that such insurance may be subject to deductible clauses which do not exceed, in each case, an amount equal to the self-insurance coverage which is maintained and fully funded by The Regents during the term of the 2012F Facility Lease; such self-insurance coverage is currently seven million five hundred thousand dollars ($7,500,000)), and earthquake insurance (if, in the discretion of the Board, such insurance is available on the open market from reputable insurance companies at a reasonable cost) on any structure comprising part of the Leased Properties in an amount equal to the full insurable value of such structure or the principal amount of all Outstanding Bonds, whichever is less (except that such insurance may be subject to a deductible clause which does not exceed, in each case, an amount equal to the self-insurance coverage which is maintained and fully funded by The Regents during the term of the 2012F Facility Lease; such self-insurance coverage is currently seven million five hundred thousand dollars ($7,500,000)). The extended coverage endorsement shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, vandalism and malicious mischief and such other hazards as are normally covered by such endorsement. Each such policy of insurance shall be in form reasonably satisfactory to the Board and shall contain a clause making all losses payable to the Board, the State Treasurer and The Regents, as their interests may appear, and all proceeds thereof shall be paid over to the party contractually responsible for making repairs of casualty damage or to the Board to redeem the Bonds as provided in the 2012F Facility Lease. Each policy of insurance shall be from an insurance provider rated "A" or better by Standard & Poor's Ratings Services or Moody's Investors Service, or "A-" by A.M. Best, or be otherwise approved by the Insurer.

In the event of any damage to or destruction of the 2012F Leased Properties caused by the perils covered by such insurance, the proceeds of such insurance shall be utilized, in the discretion of the Board, either (i) to redeem Outstanding Bonds to the extent possible and in accordance with the provisions of the 2012F Indenture, but only if the Base Rental payments due after such a redemption would be sufficient to retire the Bonds then Outstanding in accordance with their terms, or (ii) for the repair, reconstruction or replacement of the 2012F Leased Properties to the end that the 2012F Leased Properties shall be restored to at least the same condition that they were in prior to such damage or destruction. If the Board so elects to repair, reconstruct or replace the 2012F Leased Properties, it shall do so with all practicable dispatch in an expeditious manner and in conformity with the law so as to complete the same as soon as possible. Any balance of such proceeds not required for such repair, reconstruction or replacement shall be transferred to the Board and treated as Revenues and applied in the manner provided in the 2012F Indenture.

(b) The Board shall maintain, or cause to be maintained by the Regents rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the 2012F Leased Properties as a result of any of the hazards covered by the insurance required by subsection (a) above in an amount not less than the succeeding two (2) consecutive years' Base Rental. Alternatively, the Board may maintain or cause to be maintained by the Board or The Regents rental interruption or use and occupancy insurance under a blanket or umbrella or similar type of policy to cover loss, total or partial, of the use of all of the 2012F Leased Properties as a result of the hazards covered by the insurance required by paragraph (a) above in an amount not less than the succeeding two (2) consecutive years' Base Rental. Any such insurance policy shall be in form satisfactory to the Board and shall contain a loss payable clause making any loss thereunder payable to the State Treasurer. Each policy of insurance shall be from an insurance provider rated "A" or better by Standard & Poor's Ratings Services or Moody's Investors Service, or "A-" by A.M. Best, or be otherwise approved by the Insurer. Any proceeds of such insurance shall be used by the State Treasurer to reimburse The Regents for any rental theretofore paid by The Regents under the 2012F Facility Lease for a period of time during which the payment of rental under the 2012F Facility Lease is abated, and any proceeds of such insurance not so used shall be treated as Revenues and applied in the manner provided in the 2012F Indenture.

(c) If The Regents does not pay any deductible amount provided in any insurance policy obtained pursuant to subsections (a) and (b) above, the Board covenants and agrees to promptly seek an appropriation from the State Legislature to pay any such deductible amount. The Board expressly acknowledges and agrees that this subsection (c) shall be deemed to be and shall be construed to be a ministerial, nondiscretionary duty imposed by law and that the State Treasurer may take whatever action, proceeding or suit, including (without limitation) mandamus or other legal or equitable remedy, as may be required to compel the Board to comply with this subsection.

(d) The Regents will deliver or cause to be delivered to the State Treasurer in the month of July in each year a schedule, in such detail as the State Treasurer in his discretion may request, setting forth the insurance policies then in force pursuant to the 2012F Facility Lease, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby. Each such insurance policy shall require that the State Treasurer be given thirty (30) days notice of any intended cancellation thereof or reduction of the coverage provided thereby. Delivery to the State Treasurer of the schedule of insurance policies under the provisions of the 2012F Facility Lease shall not confer responsibility upon the

State Treasurer as to the sufficiency of coverage or amounts of such policies. If so requested in writing by the State Treasurer, The Regents shall also deliver or cause to be delivered to the State Treasurer duplicate originals or certified copies of each insurance policy described in such schedule.

Breach

(a) If The Regents shall fail to pay any rental payable under the 2012F Facility Lease when the same becomes due and payable, time being expressly declared to be of the essence of the 2012F Facility Lease, or The Regents shall fail to keep, observe or perform any other term, covenant or condition contained in the 2012F Facility Lease to be kept or performed by The Regents for a period of sixty (60) days after notice of the same has been given to The Regents by the Board or the State Treasurer plus such additional time as may be reasonably required in the sole discretion of the State Treasurer to correct any of the same, or upon the happening of any of the events specified in paragraph (b) below, The Regents shall be deemed to be in default under the 2012F Facility Lease and it shall be lawful for the Board to exercise any and all remedies available pursuant to law or granted pursuant to the 2012F Facility Lease. Upon any such default, the Board, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(1) To terminate the 2012F Facility Lease in the manner provided on account of default by The Regents, notwithstanding any re-entry or re-letting of the 2012F Leased Properties as provided for in subparagraph (2) below, and to re-enter the 2012F Leased Properties and remove all persons in possession thereof and all personal property whatsoever situated upon the 2012F Leased Properties and place such personal property in storage in any warehouse or other suitable place. In the event of such termination, The Regents agrees to immediately surrender possession of the 2012F Leased Properties, without let or hindrance, and to pay the Board all damages recoverable at law that the Board may incur by reason of default by The Regents, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the 2012F Leased Properties and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions contained in the 2012F Facility Lease. Neither notice to pay rent or to deliver up possession of the 2012F Leased Properties given pursuant to law nor any entry or re-entry by the Board nor any proceeding in unlawful detainer, or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the 2012F Leased Properties nor the appointment of a receiver upon initiative of the Board to protect the Board's interest under the 2012F Facility Lease shall of themselves operate to terminate the 2012F Facility Lease, and no termination of the 2012F Facility Lease on account of default by The Regents shall be or become effective by operation of law or acts of the parties to the 2012F Facility Lease, or otherwise, unless and until the Board shall have given written notice to The Regents of the election on the part of the Board to terminate the 2012F Facility Lease. The Regents covenants and agrees that no surrender of the 2012F Leased Properties or of the remainder of the term of the 2012F Facility Lease nor any termination of the 2012F Facility Lease shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Board by such written notice.

(2) Without terminating the 2012F Facility Lease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the 2012F Facility Lease to be kept or performed by The Regents, or (ii) to exercise any and all rights of entry and re-entry upon the 2012F Leased Properties. If the Board does not elect to terminate the 2012F Facility Lease in the manner provided for in subparagraph (1) above, The Regents shall remain liable and agrees to keep or perform all covenants and conditions contained the 2012F Facility Lease to be kept or performed by The Regents, and, if the 2012F Leased Properties are not re-let, to pay the full amount of the rent to the end of the term of the 2012F Facility Lease or, if the 2012F Leased Properties are re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the 2012F Facility Lease for the payment of rent thereunder, notwithstanding the fact that the Board may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the 2012F Facility Lease, and notwithstanding any entry or re-entry by the Board or suit in unlawful detainer or otherwise, brought by the Board for the purpose of effecting such re-entry or obtaining possession of the 2012F Leased Properties. Should the Board elect to re-enter as provided in the 2012F Facility Lease,

The Regents irrevocably appoints the Board as the agent and attorney-in-fact of The Regents to re-let the 2012F Leased Properties, or any part thereof, from time to time, either in the Board's name or otherwise, upon such terms and conditions and for such use and period as the Board may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the 2012F Leased Properties and to place such personal property in storage in any warehouse or other suitable place for The Regents, for the account of and at the expense of The Regents, and The Regents exempts and agrees to save harmless the Board from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the 2012F Leased Properties and removal and storage of such property by the Board or its duly authorized agents in accordance with the provisions contained in the 2012F Facility Lease except for any such costs, loss or damage resulting from the intentional or negligent actions of the Board or its agents. The Regents agree that the terms of the 2012F Facility Lease constitute full and sufficient notice of the right of the Board to re-let the 2012F Leased Properties in the event of such re-entry without effecting a surrender of the 2012F Facility Lease, and further agrees that no acts of the Board in effecting such re-letting shall constitute a surrender or termination of the 2012F Facility Lease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, in the event of such default by The Regents, the right to terminate the 2012F Facility Lease shall vest in the Board to be effected in the sole and exclusive manner provided for in subparagraph (1) above. The Regents further waives the right to any rental obtained by the Board in excess of the rental specified in the 2012F Facility Lease and conveys and releases such excess to the Board as compensation to the Board for its services in re-letting the 2012F Leased Properties. The Regents further agrees to pay the Board the cost of any alterations or additions to the 2012F Leased Properties necessary to place the 2012F Leased Properties in condition for re-letting immediately upon notice to The Regents of the completion and installation of such additions or alterations.

The Regents waives any and all claims for damages caused or which may be caused by the Board in re-entering and taking possession of the 2012F Leased Properties as provided in the 2012F Facility Lease and all claims for damages that may result from the destruction of or injury to the 2012F Leased Properties and all claims for damages to or loss of any property belonging to The Regents, or any other person, that may be in or upon the 2012F Leased Properties, except for such claims resulting from the intentional or negligent actions of the Board or its agents.

Upon the occurrence of an event of default, payments of Base Rental under the 2012F Facility Lease may not be accelerated.

Each and all of the remedies given to the Board under the 2012F Facility Lease or by any law now or later enacted are cumulative and the single or partial exercise of any right, power or privilege under the 2012F Facility Lease shall not impair the right of the Board to other or further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section shall include, but not be limited to, re-letting by means of the operation or other utilization by the Board of the 2012F Leased Properties. If any statute or rule of law validly shall limit the remedies given to the Board under the 2012F Facility Lease, the Board nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

If the Board shall prevail in any action brought to enforce any of the terms and provisions of the 2012F Facility Lease, The Regents agrees to pay a reasonable amount as and for attorney's fees incurred by the Board in attempting to enforce any of the remedies available to the Board under the 2012F Facility Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

(b) In addition to any default resulting from breach by The Regents of any term or covenant of the 2012F Facility Lease, if (1) the interest of The Regents in the 2012F Facility Lease or any part thereof be assigned, sublet or transferred without the written consent of the Board, either voluntarily or by operation of law, or (2) The Regents or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby The Regents asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the debts or obligations of The Regents, or offers to The Regents' creditors to effect a composition or extension of time to pay The Regents' debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of The Regents' debts or for any other similar relief, or if any such petition or if any such proceedings of the same or similar kind or character be filed or be instituted or taken against The Regents, or if a receiver of the business or of the property or assets of The Regents shall be appointed by any court, except a receiver appointed at the instance or request of the Board, or if The Regents shall make a general or any assignment for the benefit of The Regents' creditors, or (3) The Regents shall abandon the 2012F Leased Properties, then The Regents shall be deemed to be in default under the 2012F Facility Lease.

(c) The Board shall in no event be in default in the performance of any of its obligations under the 2012F Facility Lease unless and until the Board shall have failed to perform such obligations within sixty (60) days or such additional time as is reasonably required to correct any such default after notice by The Regents to the Board properly specifying wherein the Board has failed to perform any such obligation.

Eminent Domain

If the whole or any portion of the 2012F Leased Properties shall be taken by eminent domain proceedings (or sold to a governmental entity threatening to exercise the power of eminent domain), the proceeds therefrom shall be deposited with the State Treasurer in a special fund in trust and shall be applied and disbursed by the State Treasurer as follows:

(a) If less than the entire 2012F Leased Properties shall have been so taken and the remainder is usable for purposes substantially similar to those for which it was constructed, then the 2012F Facility Lease shall continue in full force and effect as to such remainder and (i) if the portion taken is replaced by a facility of equal or greater utility, the State Treasurer shall disburse such proceeds to the party that incurred the expense of making such replacement and there shall not be any abatement of rental under the 2012F Facility Lease, or (ii) failing the making of such replacement, there shall be a partial abatement of rental under the 2012F Facility Lease and the State Treasurer shall apply such proceeds as specified in subsection (b).

(b) If less than the entire 2012F Leased Properties shall have been so taken and the remainder is not usable for purposes substantially similar to those for which it was constructed, or if the entire 2012F Leased Properties shall have been so taken, then the term of the 2012F Facility Lease shall cease as of the day that possession shall be so taken, and the State Treasurer shall apply such proceeds, together with any other money then available to it for such purpose, for the payment of the entire amount of principal then due or to become due upon all outstanding Bonds, together with the interest thereon so as to enable the Board to retire all of the Bonds then outstanding by redemption or by payment at maturity; except that if such proceeds, together with any other money, then lawfully available to it for such purpose, are insufficient to provide for the foregoing purpose, the State Treasurer shall apply such proceeds in accordance with the provisions of the 2012F Indenture (Application of Funds Upon Acceleration) so far as the same may be applicable.

Liens; Prohibitions Against Encumbrance

In the event The Regents shall at any time during the term of the 2012F Facility Lease cause any additions, betterments, extensions or improvements to the 2012F Leased Properties to be constructed or materials to be supplied in or upon the 2012F Leased Properties, The Regents shall pay or cause to be paid when due all sums of money that may become due, or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for The Regents in, upon or about the 2012F Leased Properties and shall keep the 2012F Leased Properties free of any and all mechanics' or materialmen's liens or other liens against the Facility or the Board's interest therein. In the event any such lien attaches to or is filed against the 2012F Leased Properties or the Board's interest therein, The Regents shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if The Regents desire to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, The Regents shall forthwith pay or cause to be paid and discharged such judgment. The Regents agree to and shall, to the maximum extent permitted by law, indemnify and hold the Board, the State Treasurer, and their members, directors, agents, successors and assigns harmless from and against and defend each of them against any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the 2012F Leased Properties or the Board's interest therein.

The Regents agrees it will not create or suffer to be created any recorded or unrecorded mortgage, pledge, lien, charge, easement, rights of way or other rights, reservations, covenants, conditions, restrictions or encumbrance upon the Leased Properties except Permitted Encumbrances.

Quiet Enjoyment

The Board and The Regents mutually covenant that The Regents, so long as it keeps and performs the agreements and covenants contained in the 2012F Facility Lease and is not in default under the 2012F Facility Lease, shall at all times during the term of the 2012F Facility Lease peaceably and quietly have, hold and enjoy the 2012F Leased Properties without suit, trouble or hindrance from the Board.

Status of Private Activity Use of the Financed Facilities

The Regents covenants and agrees to provide updated information to the Board and the State Treasurer annually regarding the private activity use, if any, of the Financed Facilities. The information that must be updated annually is set forth in the Tax Certificate as executed and delivered by the Board upon the issuance of the Bonds.

Continuing Disclosure

The Board and The Regents covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the 2012F Facility Lease, failure of the Board or The Regents to comply with the Continuing Disclosure Agreement shall not be considered a breach or event of default; however, any registered owner or Beneficial Owner of the 2012F Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board or The Regents, as the case may be, to comply with its obligations under this paragraph. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the 2012F Bonds (including persons holding 2012F Bonds through nominees, depositories or other intermediaries).

Law Governing

The 2012F Facility Lease shall be governed exclusively by the provisions of the 2012F Facility Lease and by the laws of the State as the same from time to time exist. Any action or proceeding to enforce or interpret any provision of the 2012F Facility Lease, shall be brought, commenced or prosecuted in Sacramento County, California.

Amendment

The 2012F Facility Lease may only be amended by a written instrument duly authorized and executed by the Board and The Regents and so long as the 2002 Bonds are Outstanding with the prior written consent of the Insurer; provided, however, that no such amendment shall materially adversely affect the owners of the Bonds.

Net Lease

The 2012F Facility Lease shall be deemed and construed to be a "net lease" and The Regents agrees that the rentals provided for in the 2012F Facility Lease shall be an absolute net return to the Board, free and clear of any expenses, charges or set-offs whatsoever.

Tax Covenants

The Regents covenants that The Regents will not use or permit any use of the Financed Facilities or the 2012F Leased Properties, and shall not take or permit to be taken any other action or actions, which would cause any Bond to be a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and any applicable regulations promulgated from time to time thereunder.

Substitution and Release

The Regents and the Board jointly, but not separately, reserve the right at any time to substitute another public facility or facilities and real property owned by The Regents (the "Substituted Property") for all or any portion of the 2012F Leased Properties with the prior written consent of the Insurer, but without Bondholder consent, provided that:

(a) The Regents and the Board find (and deliver a certificate of The Regents and the Board to the State Treasurer setting forth such findings) that (i) the Substituted Property and any remaining 2012F Leased Properties has the same or greater annual fair rental value than the annual Base Rental payments remaining unpaid pursuant to the 2012F Facility Lease and (ii) the Base Rental payments being made by The Regents pursuant to the 2012F Facility Lease will not be reduced as a result of the proposed substitution; and

(b) The Regents certifies to the Board and the State Treasurer that (i) the Substituted Property has (A) similar or greater utility to The Regents in performing its essential governmental functions than the portion of the 2012F Leased Properties being substituted and (B) equivalent or greater economic useful life than the period remaining from the time of such substitution until the last maturity of the Bonds; (ii) The Regents has transferred an appropriate interest in the Substituted Property (by amendment to the 2012F Site Lease or otherwise) to the Board so that the Board may lease such property to The Regents; and (iii) the 2012F Facility Lease has been amended to include the Substituted Property; and

(c) The Regents provides the Board and the State Treasurer with an Opinion of Bond Counsel to the effect that such substitution will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(d) The Regents certifies that the Substituted Property is not subject to any liens or encumbrances, except for encumbrances permitted by the Board; and

(e) The Regents shall deliver copies of the amended 2012F Site Lease and 2012F Facility Lease to any rating agency then rating the Bonds.

The Regents and the Board jointly, but not separately, reserve the right, following the date on which 2002 Bonds are no longer outstanding, to amend the 2012F Facility Lease to release a portion of the 2012F Leased Properties from the property leased under the 2012F Facility Lease, provided that:

(a) The Regents and the Board each deliver a certificate to the State Treasurer to the effect that (i) the total rental due under the 2012F Facility Lease annually following the release of a portion of the 2012F Leased Properties remains consistent with and does not exceed the fair rental value of the portion of the 2012F Leased Properties remaining subject to the terms of the 2012F Facility Lease, (ii) the Base Rental payments being made by The Regents pursuant to the 2012F Facility Lease will not be reduced as a result of the release, and (iii) a right of entry to the released portion of the 2012F Leased Properties is being granted by The Regents to the Board under an amendment to the 2012F Site Lease, or no right of entry is required in order for The Regents to continue its beneficial use and occupancy of the remainder of the 2012F Leased Properties; and

(b) the Board causes to be delivered to the State Treasurer (i) a certificate of the Board pursuant to Section 3.01(c) of the 2012F Indenture, (ii) an opinion of counsel to the Board to the effect that the 2012F Facility Lease will remain a valid and binding agreement of the Board following the amendment made pursuant to this section, (iii) an opinion of counsel to The Regents to the effect that the 2012F Facility Lease will remain a valid and binding agreement of The Regents following the amendment made pursuant to this section, and (iv) an Opinion of Counsel to the effect that such release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes; and

(c) the State Treasurer consents to the amendment in accordance with the provision of the 2012F Indenture under “Facility Lease and Other Documents” above; and

(d) at least 15 days prior to the release taking effect, The Regents deliver copies of the proposed amendments to the 2012F Site Lease and the 2012F Facility Lease to any rating agency then rating the Bonds.

Upon the substitution or release of any portion of the 2012F Leased Properties pursuant to this section, the Board and The Regents shall provide the necessary information to the State Treasurer for a material event notice to be filed under the Continuing Disclosure Agreement describing the release.

Any substitution or release of a portion of the 2012F Leased Properties made in accordance with the provisions of this section may be made without the consent of any owners of the Bonds and shall be deemed not to materially adversely affect the owners of the Bonds or to result in any material impairment of the security given or intended to be given to the owners of the Bonds under the 2012F Indenture.

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE CONTINUING DISCLOSURE AGREEMENTS

Selected provisions of the Continuing Disclosure Agreements relating to the Bonds are briefly summarized below.

Definitions

Pursuant to separate Continuing Disclosure Agreements (each, a "Disclosure Agreement" and collectively, the "Disclosure Agreements"), to be executed and delivered by and among the Board, each Department and the State Treasurer, acting as trustee, the following additional definitions will apply:

"Annual Report" means the Annual Report provided by the State Treasurer, on behalf of the Board, pursuant to, and as described in the Disclosure Agreement.

"Beneficial Owner" means any person who has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of the Bonds (including persons holding Bonds through nominees, depositories, or other intermediaries).

"Bonds" means the 2012D Bonds, the 2012E Bonds and the 2012F Bonds.

"Department" means, with respect to the 2012D Bonds and 2012E Bonds, the Trustees, and with respect to the 2012F Bonds, The Regents.

"Dissemination Agent" means the State Treasurer, acting in its capacity as Dissemination Agent under the Disclosure Agreement, or any successor Dissemination Agent designated in writing by the State Treasurer and which has filed with the State Treasurer a written acceptance of such designation.

"Holder" means any person in whose name any Bond is registered.

"Listed Events" means any of the events listed below under *"Reporting of Significant Events"* herein.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" means the Official Statement relating to the Bonds, dated September ___, 2012.

"Participating Underwriter" means any original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"The Regents" means The Regents of the University of California.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" means the State of California.

"Trustees" means the Trustees of the California State University.

Provision of Annual Reports

On behalf of the Board, the State Treasurer shall, not later than April 1 of each year in which each Series of Bonds are outstanding commencing with the report for the 2011-2012 fiscal year to be delivered by April 1, 2013, provide to the MSRB an Annual Report that is consistent with the requirements of the Disclosure Agreement, with a copy of such Annual Report to the Administrative Secretary of the Board. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in the Disclosure Agreement; provided that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, the State Treasurer, on behalf of the Board, shall give notice of such change in the same manner as for a Listed Event. The Annual Report shall be submitted in an electronic format as prescribed by the MSRB and shall identify the Bonds by name and CUSIP number.

The Board and the Department shall each provide to the State Treasurer (i) not later than March 1 of each year, commencing with information to be provided by March 1, 2013, any information requested by the State Treasurer in connection with the Annual Report, and (ii) at any other time in the year, any information with respect to any other disclosure obligations hereunder.

If in any year the State Treasurer does not provide the Annual Report to the MSRB in the manner and by the time specified above, the State Treasurer shall submit notice thereof, on behalf of the Board, to the MSRB in substantially the form attached as Exhibit A to the Disclosure Agreement. The giving of a notice shall not excuse the failure to file the Annual Report.

Content of Annual Reports

The Annual Report shall contain or include by reference the following financial information or operating data:

(1) The audited Basic Financial Statements of the State, and, with respect to the 2012F Bonds, the audited financial statements for The Regents for the fiscal year ended on the previous June 30, prepared in accordance with generally accepted accounting principles promulgated to apply to government entities from time to time by the Governmental Accounting Standards Board. If the State's or The Regents audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to the Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(2) Financial information relating to the State's General Fund budget for the fiscal year ended on the previous June 30 and for the fiscal year in which the Annual Report is issued, which information shall describe the sources of revenues, the principal categories of expenditures, and changes in fund balances and include a summary of expected State revenues and budgeted expenditures and significant assumptions relating to revenue and expenditure expectations, including updating the following tables which appear in APPENDIX A — "THE STATE OF CALIFORNIA" of the Official Statement:

<u>Table Entitled</u>

Statement of Estimated Revenues, Expenditures, and Changes in Fund Balance—General Fund (Budgetary Basis)

General Fund Revenue Sources and Expenditures

(3) Information concerning the total amount of the State's authorized and outstanding debt, long-term lease obligations, and other long-term liabilities as of the end of the most recent June 30, which debt is supported by payments from the State's General Fund and which includes short-term debt. Such information shall include schedules of debt service for outstanding general obligation bonds and lease-revenue debt. This shall be accomplished by updating the table entitled: "State Public Works Board of the State of California outstanding Lease Revenue Bonds Secured by the Master Indenture Reserve Fund" appearing under the caption "SECURITY AND SOURCES OF PAYMENT FOR EACH SERIES OF BONDS — Master Indenture Reserve Fund" in the Official Statement and the following tables which appear under the caption APPENDIX A — "THE STATE OF CALIFORNIA — STATE DEBT TABLES":

<u>Table Entitled</u>

Outstanding State Debt

Authorized and Outstanding General Obligation Bonds

General Obligation and Revenue Bonds - Summary of Debt Service Requirements

Schedule of Debt Service Requirements for General Fund Non-Self Liquidating Bonds - Fixed Rate

Schedule of Debt Service Requirements for General Fund Non-Self Liquidating Bonds -Variable Rate

Schedule of Debt Service Requirements for State of California Proposition 1A Receivables Program Revenue Bonds – Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund Self Liquidating Bonds - Fixed Rate

Schedule of Debt Service Requirements for Special Revenue Fund Self Liquidating Bonds - Variable Rate

Schedule of Debt Service Requirements for Enterprise Fund Self Liquidating Bonds - Fixed Rate

State Public Works Board and Other Lease-Revenue Financing Outstanding Issues

Schedule of Debt Service Requirements for Lease-Revenue Debt – Fixed Rate

State Agency Revenue Bonds and Conduit Financing

(4) A statement confirming that the insurance required by each Facility Lease to be in effect is in effect or, if insurance is not in effect, naming the reason therefor.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the State or bond issues of the Board, which have been made available to the public on the MSRB's EMMA website. The State Treasurer shall clearly identify in the Annual Report each such other document so included by reference.

Reporting of Significant Events

On behalf of the Board, the State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) business days after the occurrence of the event:

(1) principal or interest payment delinquencies;

(2) tender offers;

(3) defeasances;

(4) rating changes;

(5) Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);

(6) unscheduled draws on debt service reserves reflecting financial difficulties;

(7) unscheduled draws on credit enhancements reflecting financial difficulties;

(8) substitution of credit or liquidity providers, or their failure to perform;

(9) any event which causes a Facility not to be available for beneficial use or occupancy by the Department; or

(10) bankruptcy, insolvency, receivership or similar proceedings of the Board or a Department, as further described below.

Note: for the purposes of the event described in subparagraph (10) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the

Board or a Department in a proceeding under the United States Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board or such Department, as applicable, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board or such Department.

On behalf of the Board, the State Treasurer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, no later than ten (10) business days after the occurrence of the event:

(1) unless described in paragraph (5) above, other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds;

(2) non-payment related defaults;

(3) modifications to the rights of Holders;

(4) optional, contingent, or unscheduled bond calls;

(5) release, substitution, or sale of property securing repayment of the Bonds;

(6) appointment of a successor or additional trustee or the change of the name of a trustee; or

(7) the consummation of a merger, consolidation or acquisition involving the Board or a Department or the sale of all or substantially all of the assets of the Board or a Department other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of the a definitive agreement relating to any such actions, other than pursuant to its terms.

The State Treasurer, on behalf of the Board, shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in the Disclosure Agreement.

Whenever the Board obtains knowledge of the occurrence of a Listed Event, the Board shall determine if such event would be material under applicable federal securities laws.

If the Board learns of the occurrence of a Listed Event, or the Board determines that knowledge of a Listed Event would be material under applicable federal securities laws, the Board shall direct the State Treasurer to file, on the Board's behalf, a notice of such occurrence, within ten (10) business days of the occurrence, with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of defeasance or optional, contingent or unscheduled bond calls need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

Termination of Obligations

Each party's obligations under the Disclosure Agreement shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the outstanding Bonds. If such termination occurs prior to the final maturity of the Bonds, the State Treasurer shall give notice of such termination in the same manner as for a Listed Event as described in the last paragraph of "*Reporting of Significant Events*" above.

Dissemination Agent

The State Treasurer may, from time to time, appoint or engage a Dissemination Agent to assist in carrying out the obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State Treasurer pursuant to the Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the State Treasurer shall be the Dissemination Agent. The initial Dissemination Agent shall be the State Treasurer.

Amendment; Waiver

Notwithstanding any other provision of the Disclosure Agreement, the Board, the applicable Department and the

State Treasurer may amend or waive any provision of the Disclosure Agreement, provided that the following conditions are satisfied:

(1) If the amendment or waiver relates to a provision of the Disclosure Agreement that pertains to the content or provision of Annual Reports, reporting of significant events or amendments thereto, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or the type of business conducted;

(2) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the related Indenture for amendments to such Indenture with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The Board, the Department and the State Treasurer may amend the Disclosure Agreement without approval of the Holders to the extent permitted by rule, order or other official pronouncement of the Securities and Exchange Commission.

Default

In the event of a failure of the Board, the State Treasurer or any Department to comply with any provision of the Disclosure Agreement, the State Treasurer may (and, at the request of the Holders or Beneficial Owners of at least 25% aggregate principal amount of outstanding Bonds, shall), or any Holder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Board, the State Treasurer or such Department, as the case may be, to comply with its obligations under the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed an event of default under the related Indenture. The Disclosure Agreement shall not be deemed to create any monetary liability on the part of the Board, the Departments or the State Treasurer to any person, including the Holders. The sole remedy in the event of any failure of the Board, the Departments or the State Treasurer to comply with the Disclosure Agreement shall be an action to compel performance of any act required thereunder.

Beneficiaries

The Disclosure Agreement shall inure solely to the benefit of the Participating Underwriter, the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the State Treasurer to enforce the provisions of the Disclosure Agreement on behalf of the Holders).

Additional Information

Nothing in the Disclosure Agreement shall be deemed to prevent the Board, the Departments or the State Treasurer from disseminating any other information, using the means of dissemination set forth in the Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Disclosure Agreement. If the Board, any Department or the State Treasurer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Disclosure Agreement, neither the Board nor such Department nor the State Treasurer shall have any obligation under the Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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APPENDIX F

DTC AND THE BOOK-ENTRY SYSTEM

The information in the following section entitled "DTC and the Book-Entry System" has been provided by DTC for use in securities offering documents, and the Board, the State Treasurer and the Participating Agencies take no responsibility for the accuracy or completeness thereof. Neither the Board nor the State of California can give or does give any assurances that DTC, DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited,

which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Neither the Board nor the State Treasurer will have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Bonds. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State Treasurer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State Treasurer, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board or the State Treasurer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the State Treasurer, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Board or the State Treasurer. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. The Board or the State Treasurer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). If the Board or State Treasurer determines not to continue the DTC book-entry only system, or DTC discontinues providing its services with respect to the Bonds and the State Treasurer does not select another qualified securities depository, the State Treasurer will deliver physical Bond certificates to the Beneficial Owners. The Bonds may thereafter be transferred upon the books of the State Treasurer by the registered owners, in person or by authorized attorney, upon surrender of Bonds at the Office of the State Treasurer in Sacramento, California, accompanied by delivery of an executed instrument of transfer in a form approved by the State Treasurer and upon payment of any charges provided for in the Indentures. Certificated Bonds may be exchanged for Bonds of other authorized denominations of the same aggregate principal amount and maturity at the Office of the State Treasurer in Sacramento, California, upon payment of any charges provided for in the Indentures. No transfer or exchange of Bonds will be made by the State Treasurer during the period between the record date and the next Interest Payment Date.

THE STATE TREASURER, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS TO ONLY DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE

VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

11. The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest and other payments with respect to the Bonds to Direct Participants, Indirect Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in such Bonds and other related transactions by and between DTC, the Direct Participants, the Indirect Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the Direct Participants, the Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters but should instead confirm the same with DTC or the Participants, as the case may be.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE BONDS (OTHER THAN UNDER THE CAPTION “TAX MATTERS” HEREIN) SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

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APPENDIX G

**PROPOSED FORMS OF FINAL LEGAL OPINIONS
OF THE ATTORNEY GENERAL, COUNSEL TO THE BOARD AND BOND COUNSEL**

FORM OF OPINION OF THE ATTORNEY GENERAL

The Attorney General will deliver an opinion for each Series of Bonds, which will be substantially in the following form:

September __, 2012

State Public Works Board of the State of California
Sacramento, California

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA

$___________
Lease Revenue [Refunding] Bonds
([Participating Agency])
2012 Series [__]
([Project Description])

Final Opinion

Ladies and Gentlemen:

We have acted as counsel to the State Public Works Board of the State of California (the "Board") in connection with the issuance of the above-captioned bonds (the "Bonds"), issued pursuant to Part 10b of Division 3 of Title 2 of the California Government Code, as amended (commencing with section 15800) (the "Act"), [the Law,] and the [One Hundred Eleventh Supplemental Indenture, defined below, and an indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, by the Forty-Second Supplemental Indenture, dated as of October 1, 2002, by the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and by the Ninety-Third Supplemental Indenture, dated as of October 12, 2009 (collectively, the "Master Indenture"), as supplemented by the One Hundred Eleventh Supplemental Indenture, dated as of September 15, 2012 (the "One Hundred Eleventh Supplemental Indenture," and together with the Master Indenture, the "Indenture")][an indenture dated as of [September 15, 2012] [October 1, 2002], as supplemented by a First Supplemental Indenture, dated as of [September 15, 2012] [October 1, 2002], [and as further supplemented by a Second Supplemental Indenture, dated as of September 15, 2012 (the "Second Supplemental Indenture")] (together, the "Indenture")]] entered into by the Board and the Treasurer of the State of California (the "State Treasurer"), as trustee. The Bonds are being issued to [re]finance [a] capital project[s] undertaken by [the Participating Agency[ies]] [by refunding the Board's Lease Revenue Bonds (The Regents of the University of California) 2002 Series A (UCLA Replacement Hospitals) (the "2002A Bonds")]. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In rendering the opinions set forth herein, we have reviewed the Indenture, the Facility Lease[s], dated as of [September 15, 2012] [October 1, 2002] (the "[Original] Facility Lease[s]"), [the First Amendment to Facility Lease, dated as of September 15, 2012 (the "First Amendment to Facility Lease," and with the Original Facility Lease, the "Facility Lease")], the Site Lease[s], dated as of [September 15, 2012] [October 1, 2002] (the "[Original] Site Lease[s]"), the [First Amendment to Site Lease, dated as of September 15, 2012 (the "First Amendment to Site Lease" and with the Original Site Lease, the "Site Lease"], opinions of counsel to [the Participating Agency] and the Board, and certifications of [the Participating Agency], the State Treasurer, the Board and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than [the Participating Agency], the Board and the State Treasurer. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to above. [We express no opinion on subsections (b)(1)(iv) and (c) of Section ________ of the Indenture, entitled "Adjustment of Base Rental Payments for Projects and Addition of Projects," and we have assumed proceeds of the sale of the Bonds are not spent in accordance with those subsections.]

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Site Lease[s], the Facility Lease[s], and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof, and we disclaim any obligation to update this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Site Lease[s] and the Facility Lease[s].

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Site Lease[s] and the Facility Lease[s] and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against state and local governmental entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or separability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Site Lease[s], Facility Lease[s] or the Indenture, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Further, while the Act and the Law authorize the use of proceeds as described in the aforementioned documents, we otherwise give no opinion regarding the use of proceeds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special obligations of the Board.

2. The [One Hundred Eleventh Supplemental Indenture] [Indenture] [Second Supplemental Indenture] has been duly executed and delivered by the parties thereto, and the Indenture constitutes a valid and binding agreement of the parties thereto. The Indenture creates a valid pledge, to secure the payment of the principal of, and interest on, the Bonds [equally with the outstanding 2002A Bonds], of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the State Treasurer in any of the funds and accounts established for the Bonds pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The [Site Lease[s] and the Facility Lease[s]] [First Amendment to Site Lease and First Amendment to Facility Lease] have been duly authorized, executed and delivered and constitute valid and binding agreements of the parties thereto. The obligation of [the Participating Agency] to pay Base Rental during the term of the Facility Lease[s] constitutes a valid and binding obligation of [the Participating Agency]. Such Base Rental payable by [the Participating Agency] to the Board under the terms of the Facility Lease[s], and subject to the terms and conditions set forth therein, constitutes the primary source of funds of the Board for payment of the principal of, redemption premium, if any, and interest on, the Bonds [and the outstanding 2002A Bonds], and such rental is payable only from funds of [the Participating Agency] legally available therefor.

4. The Bonds are not a lien or charge upon the funds or property of the Board except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on, the Bonds.

The Bonds are not a debt of [the Participating Agency], the Board or the State of California within the meaning of any constitutional or statutory debt limit or restriction and the State of California is not liable for payment thereof.

Sincerely,

Deputy Attorney General

For KAMALA D. HARRIS
Attorney General

<u>FORM OF OPINION OF COUNSEL TO THE BOARD</u>

Counsel to the Board will deliver an opinion for each Series of Bonds, which will be substantially in the following form:

[Closing Date]

State Public Works Board of the State of California
Sacramento, California

STATE PUBLIC WORKS BOARD OF THE STATE OF CALIFORNIA
[PARTICIPATING AGENCY]
LEASE REVENUE [REFUNDING] BONDS
2012 SERIES [D] [E] [F]
([PROJECT DESIGNATION])

Ladies and Gentlemen:

I am a staff attorney with the Department of Finance and have acted as legal counsel to the State Public Works Board of the State of California (the "Board") in connection with the issuance and sale of the above-captioned bonds (the "Bonds") and have been authorized to deliver this opinion on behalf of the Board.

The Lease Revenue [Refunding] Bonds [Participating Agency] 2012 Series __ ([Project Designation])] are being issued pursuant to the State Building Construction Act of 1955, being Part 10b of Division 3 of Title 2 of the California Government Code, as amended (commencing with Section 15800) and all laws amendatory thereof or supplementary thereto (the "Act"), [the Law (as defined in the One Hundred Eleventh Supplemental Indenture defined below)] and [the indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, the Forty-Second Supplemental Indenture, dated as of October 1, 2002, the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and the Ninety-Third Supplemental Indenture, dated as of October 12, 2009 (collectively, the "Master Indenture"), as supplemented by the One Hundred Eleventh Supplemental Indenture, dated as of April 15, 2012 (the "One Hundred Eleventh Supplemental Indenture," and together with the Master Indenture, the "Indenture") each] [an indenture, dated as of September 15, 2012, as supplemented by a First Supplemental Indenture, dated as of September 15, 2002 (together, the "Indenture")] [an indenture, dated as of October 1, 2002, as supplemented by a First Supplemental Indenture dated as of October 1, 2002 (collectively, the "Original Indenture"), as supplemented by a Second Supplemental Indenture, dated as of September 15, 2012 (the "Second Supplemental Indenture" and, together with the Original Indenture, collectively, the "Indenture")] by and between the Board and the State Treasurer of the State of California, as Trustee. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms as set forth in the Indenture, and if not defined in the Indenture in the Purchase Contract, dated as of September __, 2012 (the "Purchase Contract"), by and among the Board, the State Treasurer of the State of California, acting as agent for sale on behalf of the Board, and the representative of the underwriters of the Bonds named therein.

In rendering the opinions set forth herein, I have reviewed the Indenture, the Purchase Contract, [the Law,] the Site Lease[s], the Facility Lease[s] [, and] the [2012F] Continuing Disclosure Agreement [and the Escrow Agreement,] and have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, related certificates, opinions (including, without limitation, the opinion of Bond Counsel to the Board), and other instruments and have conducted such other investigations of fact and law as I deemed necessary for the purpose of this opinion. I have assumed the genuineness of all documents and signatures presented to me (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Board. I have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to above. I express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability or waiver provisions contained in the foregoing documents, nor do I express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Site Lease[s] or the Facility Lease[s], or the accuracy or sufficiency of the description contained therein.

I am of the opinion that as of the date hereof:

1. The Board is an entity of state government of the State of California created upon enactment by the State Legislature as set forth in Part 10.5 of Division 3 of Title 2 of the Government Code of the State of California, as amended (commencing at Section 15752), with full legal right, power and authority to enter into and perform its obligations under the Indenture, the Purchase Contract, the Site Lease[s] [as amended by the First Amendment to Site Lease] ("Site Lease[s]"), the Facility Lease[s] [as amended by the First Amendment to Facility Lease] ("Facility Lease[s]") and the [2012F] Continuing Disclosure Agreement.

2. The resolution of the Board (the "Resolution") approving the execution and delivery of the [One Hundred Eleventh Supplemental Indenture] [Indenture][First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s], and approving the delivery of the Official Statement relating to the Bonds dated September __, 2012 (the "Official Statement") was duly adopted at a meeting of the Board which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Resolution has not been amended or rescinded and is still in full force and effect.

3. The [One Hundred Eleventh Supplemental Indenture] [Indenture] [First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s] have been duly authorized, executed and delivered by the Board and each of the Indenture, the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the Site Lease[s] and the Facility Lease[s] are valid and binding upon and enforceable against the Board in accordance with their respective terms if they are in like fashion valid and binding upon and enforceable against the respective other parties thereto, except that enforceability may be limited by bankruptcy, insolvency and other laws affecting the enforcement of creditors' rights in general and by the application of equitable principles if equitable remedies are sought.

4. The execution and delivery by the Board of the [One Hundred Eleventh Supplemental Indenture] [Indenture] [First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s] and compliance with the respective provisions of the Indenture, the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the Site Lease[s] and the Facility Lease[s], and the issuance, delivery and sale of the Bonds do not and will not materially conflict with or constitute on the part of the Board a breach of or a default under any law, administrative regulation, judgment, decree or any agreement or other instrument known to me to which the Board is a party or otherwise subject, nor will any such delivery, issuance, sale or compliance result in the creation or imposition of any lien, charge, encumbrance or security interest of any nature whatsoever upon any of the revenues, property or assets of the Board, except as expressly provided or permitted by the Act, [the Law], the Indenture, the Facility Lease[s], the Site Lease[s] and the Bonds.

5. All actions on the part of the Board necessary for the execution and delivery of the Bonds, the [One Hundred Eleventh Supplemental Indenture] [Indenture][First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s] and the undertaking of the activities with respect to the Facility described in the Official Statement as activities which the Board has undertaken have been duly and validly taken. No consent, authorization or approval of, or filing or registration with, any governmental or regulatory office or body not already obtained by the Board is required to be obtained by the Board for the execution and delivery by the Board of the Bonds, the [One Hundred Eleventh Supplemental Indenture] [Indenture][First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s], and except as set forth in the Official Statement, no consent, authorization or approval of or filing or registration with, any governmental or regulatory office or body not already obtained by the Board is required to be obtained by the Board for the performance thereof. To my knowledge, all consents, authorizations and approvals remaining to be obtained by the Board will be obtainable in due course.

6. Based on the foregoing opinions, the Bonds constitute valid and binding special obligations of the Board.

7. Except as set forth in the Official Statement, to the best of my knowledge after due investigation, there is no litigation pending (with service of process having been accomplished) or threatened against the Board, to restrain or enjoin the execution or delivery of the Bonds, the [One Hundred Eleventh Supplemental Indenture] [Indenture][First Supplemental Indenture] [Second Supplemental Indenture], the Purchase Contract, the [2012F] Continuing Disclosure Agreement, [the Escrow Agreement,] the [First Amendment to] Site Lease[s], the [First Amendment to] Facility Lease[s] or in any way contesting or affecting the validity of the Bonds, the Indenture, the Purchase Contract, the Site Lease[s], the Facility Lease[s], the Continuing Disclosure Agreement or any proceedings of the Board taken with respect to the foregoing.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. I have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to my attention after the date hereof, and I disclaim any obligation to update this opinion.

Very truly yours,

By: ____

Senior Staff Counsel representing the
State Public Works Board

FORM OF OPINION OF BOND COUNSEL

Bond Counsel will deliver a single opinion for the Bonds, which will be substantially in the following form:

[Closing Date]

State Public Works Board of the State of California
Sacramento, California

Re: *$______________ State Public Works Board of the State of California Lease Revenue Bonds (Trustees of the California State University) 2012 Series D (Various California State University Projects)*

$______________ State Public Works Board of the State of California Lease Revenue Bonds (Trustees of the California State University) 2012 Series E (California State University: Various Buildings)

$______________ State Public Works Board of the State of California Lease Revenue Refunding Bonds (The Regents of the University of California) 2012 Series F (UCLA Replacement Hospitals)

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the State Public Works Board of the State of California (the "Board") of the $__________ aggregate principal amount of the Board's Lease Revenue Bonds (Trustees of the California State University) 2012 Series D (Various California State University Projects) (the "2012D Bonds"), the $__________ aggregate principal amount of the Board's Lease Revenue Bonds (Trustees of the California State University) 2012 Series E (California State University: Various Buildings) (the "2012E Bonds"), and the $__________ aggregate principal amount of the Board's Lease Revenue Refunding Bonds (The Regents of the University of California) 2012 Series F (UCLA Replacement Hospitals) (the "2012F Bonds") (collectively, the "Bonds").

The 2012D Bonds are being issued pursuant to an indenture, dated as of April 1, 1994, as amended by the Tenth Supplemental Indenture, dated as of September 1, 1996, the Forty-Second Supplemental Indenture, dated as of October 1, 2002, the Fifty-Second Supplemental Indenture, dated as of October 15, 2004, and the Ninety-Third Supplemental Indenture, dated as of October 12, 2009 (collectively, the "Master Indenture"), as supplemented by the One Hundred Eleventh Supplemental Indenture, dated as of April 15, 2012 (the "One Hundred Eleventh Supplemental Indenture," and together with the Master Indenture, the "2012D Indenture") each by and between the Board and the State Treasurer of the State of California, as Trustee. The 2012D Bonds are payable, in part, from Base Rental payments made by the Trustees of the California State University (the "Trustees") pursuant to the terms of three Facility Leases, each dated as of September 15, 2012, by and between the Trustees and the Board (together the "2012D Facility Leases").

The 2012E Bonds are being issued pursuant to an indenture, dated as of September 15, 2012 (the "2012E Indenture") by and between the Board and the State Treasurer of the State of California, as Trustee. The 2012E Bonds are payable, in part, from Base Rental payments made by the Trustees pursuant to the terms of a Facility Lease, dated as of September 15, 2012, by and between the Trustees and the Board (the "2012E Facility Lease").

The 2012F Bonds are being issued pursuant to an indenture, dated as of October 1, 2002, as supplemented by a First Supplemental Indenture dated as of October 1, 2002 (collectively, the "Original Indenture"), and by a Second Supplemental Indenture, dated as of September 15, 2012 (the "Second Supplemental Indenture" and, together with the Original Indenture, collectively, the "2012F Indenture") by and between the Board and the State Treasurer of the State of California, as Trustee. The 2012F Bonds are payable, in part, from Base Rental payments made by The Regents of the University of California ("The Regents") pursuant to the terms of a Facility Lease, dated as of October 1, 2002, as amended by a First Amendment to Facility Lease dated as of September 15, 2012, by and between The Regents and the Board (the "2012F Facility Lease").

The Trustees and The Regents are collectively referred to herein as the "Participating Agencies" and individually as a "Participating Agency." The 2012D Indenture, the 2012E Indenture and the 2012F Indenture are collectively referred to herein as the "Indentures" and individually as an "Indenture." The 2012D Facility Leases, the

2012E Facility Lease, and the 2012F Facility Lease are collectively referred to herein as the "Facility Leases." Capitalized terms not defined herein shall have the meanings set forth in the Indentures.

The Bonds are dated their date of delivery, have been issued in fully registered form for the purposes set forth in the Indentures, bear interest from their dated date at the rates described in, and mature and are subject to redemption prior to maturity in the manner and upon the terms and conditions as set forth in, the Indentures. The description of the Bonds and other statements concerning the terms and conditions of the issuance of the Bonds set forth herein do not purport to set forth all of the terms and conditions of the Bonds or of any other document relating to the issuance of the Bonds, but are intended only to identify the Bonds and to describe briefly certain features thereof. This opinion shall not be deemed or treated as an offering circular, prospectus or official statement, and is not intended in any way to be a disclosure document used in connection with the sale or delivery of the Bonds.

In rendering the opinions set forth below, we have examined certified copies of the proceedings of the Board, and other information submitted to us relative to the issuance and sale by the Board of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies, of the Indentures, the Facility Leases, the Tax Certificate relating to the Bonds (the "Tax Certificate"), the resolutions of the Board adopted on September 5, 2012 with respect to the Bonds, opinions of counsel to the Participating Agencies and the Board, certificates of the Participating Agencies, the State Treasurer, the Board and others, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indentures, the Facility Leases and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indentures, the Facility Leases and the Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

We express no opinion herein with respect to any indemnification, contribution, choice of law, choice of forum, penalty or waiver provisions contained in the Bonds, the Indentures or the Facility Leases, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in the Facility Leases, or the accuracy or sufficiency of the description of any such property contained therein.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal income tax law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

Based on and subject to the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The Bonds constitute the valid and binding limited obligations of the Board.

2. The Indentures have been duly authorized, executed and delivered by, and constitute valid and binding obligations of, the Board. Each Indenture creates a valid pledge, to secure the payment of the principal of and interest on the related series of Bonds issued thereunder, of the Revenues and any other amounts (including proceeds of the sale of such Bonds) held by the State Treasurer in any of the funds and accounts established pursuant to such Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Facility Leases have been duly authorized and executed by the Board and the Participating Agencies and constitute valid and binding agreements of the parties thereto. The obligation of each Participating Agency to pay Base Rental during the term of the related Facility Lease constitutes a valid and binding obligation of such

Participating Agency. The Base Rental payable by a Participating Agency to the Board under the terms of each Facility Lease related to a series of the Bonds, subject to the terms and conditions set forth therein, constitutes the primary source of funds of the Board for payment of the principal of, redemption premium, if any, and interest on such series of the Bonds, and such Base Rental is payable only from funds of the Participating Agency legally available therefor.

4. The Bonds are not a lien or charge upon the funds or property of the Board except to the extent of the aforementioned pledge under the Indentures. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of, redemption premium, if any, or interest on the Bonds. The Bonds are not a debt of the Board or the State of California within the meaning of any constitutional or statutory debt limit or restriction, and the State is not liable for payment thereof.

5. Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. The foregoing opinion is subject to the condition that the Board and the Participating Agencies comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Board and the Participating Agencies have covenanted to comply with all such requirements.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. Original issue discount that accrues for the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph 5 above) and is exempt from State of California personal income tax.

7. The amount by which a Bondholder's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Bondholder's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondholder realizing a taxable gain when a Bond is sold by the holder for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the holder.

8. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Except as set forth in paragraphs 5 through 8 above, we express no opinion as to any tax consequences related to the Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular Bondholders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indentures, the Facility Leases, and the Tax Certificate relating to the Bonds and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion herein as to the effect on the exclusion from gross income for federal income tax purposes of interest (or original issue discount) on any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur, and we disclaim any obligation to update this opinion. Our engagement as Bond Counsel terminates upon the issuance of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged or undertaken to review, confirm or verify, and therefore express no opinion herein as to, the accuracy, completeness, fairness or sufficiency of any of the statements in the Official Statement or any exhibits or appendices thereto or any other offering material relating to the Bonds. In addition, we have not been engaged to and therefore express no opinion as to the compliance by the Board or the underwriters with any federal or state statute, regulation or ruling with respect to the sale or distribution of the Bonds.

Respectfully submitted,

APPENDIX H

LETTERS FROM CERTAIN UNDERWRITERS

J.P.Morgan

August 22, 2012

Mr. Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capitol Mall, Room 110
Sacramento, CA 95814

Mr. Greg Rogers
Administrative Secretary
State Public Works Board of the State of California
915 L Street, 9th Floor
Sacramento, CA 95814

RE: State Public Works Board of the State of California September 2012 Lease Revenue Bonds (the "Bonds")

Dear Mr. Fowler and Mr. Rogers:

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

J.P. MORGAN SECURITIES LLC

PRAGER & CO., LLC

INVESTMENT BANKERS

August 30, 2012

Blake Fowler
Director, Public Finance Division
Office of the Treasurer of the State of California
915 Capital Mall, Room 261
Sacramento, CA 95814

Greg Rogers
Administrative Secretary
State of California Department of Finance
915 L Street, 9th Floor
Sacramento, CA 95814

Re: State Public Works Board of the State of California, Lease Revenue Bonds Series 2012 Series D, E, and F (the "Bonds")

Dear Mr. Fowler & Mr. Rogers:

Prager & Co., LLC, Co-Senior Managing Underwriter of the State Public Works Board of the State of California, Lease Revenue Bonds Series 2012 Series D, E, and F, has entered into a distribution agreement (the "Distribution Agreement") with HSBC Securities (USA) Inc. and IDB Capital for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to the Distribution Agreements, Prager & Co., LLC may share a portion of its underwriting compensation with respect to the Bonds with HSBC Securities (USA) Inc. and/or IDB Capital.

Sincerely,

PRAGER & CO., LLC

SNW

August 23, 2012

Mr. Blake Fowler
Executive Director
Office of the Treasurer of the State of California
915 Capitol Mall, Room 270
Sacramento, CA 95814

Mr. Greg Rogers
Administrative Secretary
State Public Works Board of the State of California
915 L Street, 9th Floor
Sacramento, CA 95814

RE: State Public Works Board of the State of California, 2012 Lease Revenue Bonds, September Sale

Dear Mr. Fowler and Mr. Rogers:

This is to inform you that SNW Securities Corp., will serve as a Co-Manager on the above referenced transaction and currently has a distribution agreement ("Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, at the original prices. Pursuant to the Agreement (and if applicable to this transaction), SNW Securities will share a portion of its underwriting compensation with respect to the above referenced transaction.

SNW Securities

4 Embarcadero, Suite 1400 • San Francisco, CA 94111 • (415) 766-3517 • www.snwsc.com
Washington • Oregon • Idaho • Utah • California

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APPENDIX I

AUDITED BASIC FINANCIAL STATEMENTS OF THE STATE OF CALIFORNIA FOR THE YEAR ENDED JUNE 30, 2011

State of California

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

Controller *John Chiang*

California State Controller's Office

STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2011

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 23, 2012

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

I am pleased to submit the State of California Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. 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.

California's economic recovery continued throughout the last fiscal year, but at a slow pace. Although the State's "bottom-line" (primary government net assets) does not reflect it, there is some evidence that California's downward trend has stopped and its financial position is improving. For the fiscal year ended June 30, 2011, the State's expenses exceeded revenues by $3.5 billion for governmental activities, a $7.7 billion improvement from last year's $11.2 billion shortfall. Governmental activities include most services and expenses normally associated with state government, such as health and human services, education, business and transportation, correctional programs, and general government.

The State's three major sources of revenue—personal income taxes, corporation taxes, and sales and use taxes—increased in total by 8.6%, from $87.1 billion in the 2009-10 fiscal year to $94.6 billion in the 2010-11 fiscal year. The significant factor was an increase of $7.9 billion in personal income taxes, while corporate and sales and use taxes remained almost static.

Recent indicators show that California's fiscal outlook is not improving as quickly as was forecast. Specifically, as of February 2012, the State's year-to-date cash receipts from its three largest revenue sources was approximately $830 million less than estimated and $6 billion less than the amount received by the end of February 2011. However, while California's unemployment rate was 12.4% in July 2010, it had dropped to 11.8% by June of 2011. In addition, State personal income showed consistent increases in each quarter of fiscal year 2010-11, increasing 5.5% over the course of the fiscal year.

Although California's economy is showing modest signs of recovery, the State still faces budgetary and cash shortfalls in the current and following fiscal years. In the short term, the State needs budget tactics that continue to focus on multiyear results and ongoing solutions. The State must develop consistent funding strategies that will reduce its long-term obligations such as those for infrastructure, retirement, and budgetary borrowing. A focus on achieving long-term fiscal stability must be maintained to ensure sound financial results.

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 compliance with 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 $501 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 is reported as a special revenue fund 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

California's economy has continued to improve during the first half of fiscal year 2011-12. Since hitting bottom at the end of the first fiscal quarter of fiscal year 2010-11, the State has added back 351,100 of the non-farm jobs lost during the downturn. Personal income in California, which stood at $1.67 trillion in the third quarter of 2011, has already surpassed its pre-recession peak after almost two years of consecutive growth on a quarterly basis. In addition to growing consumer demand from domestic sources, international trade also has been playing a large role in speeding up California's recovery. California's exports, including industrial machinery, vehicles and parts, aircrafts, pharmaceuticals, and plastics, are booming. While home prices have yet to rebound across the State, the housing market has stabilized and is beginning to move in the right direction. New single-family building permits were still declining through the first six months of fiscal year 2011-12, but multi-family building permits have been trending upward since mid-2010 and nonresidential permit values have steadily increased through 2011.

Budget Outlook

2011-12 Fiscal Year

California's 2011-12 Budget Act was enacted on June 30, 2011. The Budget enacted $27.2 billion in actions to solve a General Fund gap between resources and expenditures. However, revised estimates show that significantly less revenue is expected from the federal government and other sources, and that the State will not be able to achieve all of its other planned budget solutions. The proposed 2012-13 Governor's Budget projects that the General Fund will end fiscal year 2011-12 with a deficit of $4.1 billion.

2012-13 Fiscal Year

The Governor released his proposed 2012-13 Budget on January 5, 2012. This proposed Budget projects a $9.2 billion gap between estimated revenues and state expenditures over the next 18 months. The Governor's Budget proposes $4.2 billion in expenditure-related solutions, $4.7 billion in new revenues, and $1.4 billion borrowed from special funds and other sources. The 2012-13 Governor's Budget (with all budget solutions enacted) projects General Fund revenues and transfers of $95.4 billion and expenditures of $92.6 billion, resulting in a $1.1 billion reserve. A significant element included in the Governor's plan is a proposed initiative to be placed on the November 2012 general election ballot. If approved by the voters, this measure will temporarily increase the personal income tax on annual earnings of more than $250,000 for seven years and temporarily increase the sales tax by one-quarter percent for four years, generating an estimated $6.8 billion to $9 billion for 2012-13, and $5.4 billion to $7.6 billion, on average, in the following five fiscal years. Expenditure-related solutions include reductions of $1.4 billion for CalWorks and $1 billion in combined reductions to Medi-Cal and In-Home Supportive Services.

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, 2010. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

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

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Principal Officials of the State of California

Executive Branch

Edmund G. Brown, Jr.
Governor

Gavin Newsom
Lieutenant Governor

John Chiang
State Controller

Kamala D. Harris
Attorney General

Bill Lockyer
State Treasurer

Debra Bowen
Secretary of State

Tom Torlakson
Superintendent of Public Instruction

Dave Jones
Insurance Commissioner

Board of Equalization
Betty T. Yee, Member, First District
George Runner, Member, Second District
Michelle Steel, Member, Third District
Jerome E. Horton, Member, Fourth District

Legislative Branch

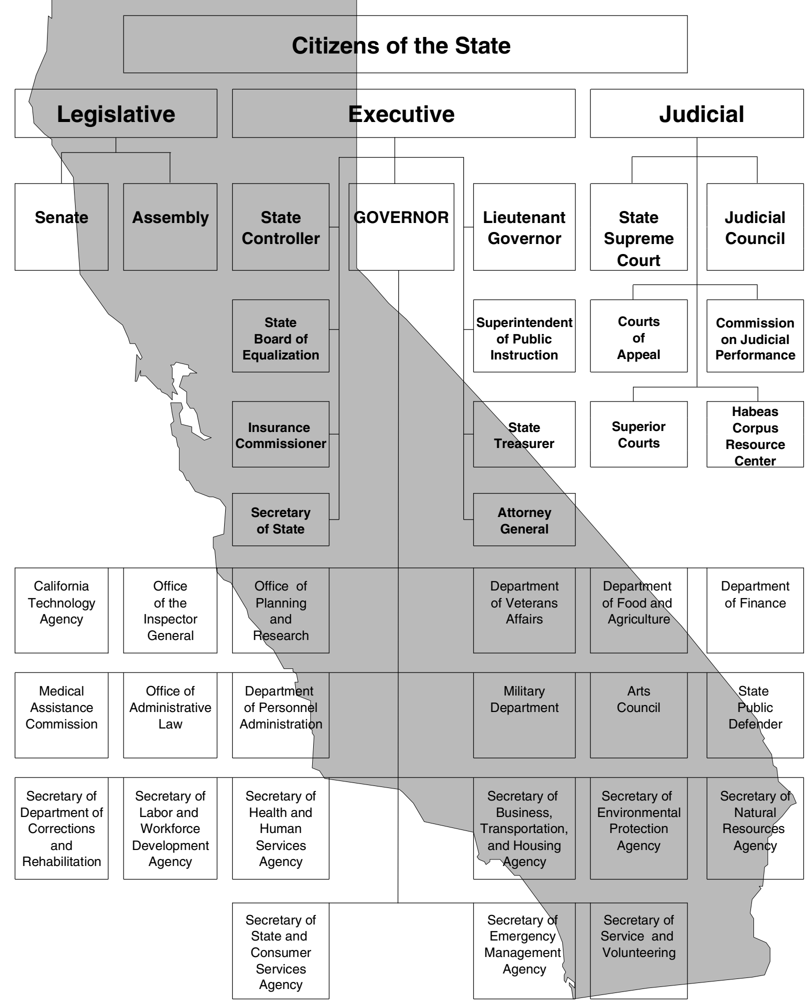
Darrell Steinberg
President pro Tempore, Senate

John A. Pérez
Speaker of the Assembly

Judicial Branch

Tani Cantil-Sakauye
Chief Justice, State Supreme Court

Organization Chart of the State of California




Palm Trees at Sunset, Redlands

Financial Section

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Elaine M. Howle
State Auditor
Doug Cordiner
Chief Deputy

CALIFORNIA STATE AUDITOR
Bureau of State Audits

555 Capitol Mall, Suite 300 Sacramento, CA 95814 916.445.0255 916.327.0019 fax www.bsa.ca.gov

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, 2011, 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:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 86 percent and 36 percent, respectively, of the 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 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, State Lottery fund, and California State University fund.

- Certain nonmajor enterprise funds that represent 92 percent and 66 percent, respectively, of the assets and revenues of the nonmajor enterprise funds.

- The funds of the Public Employees' Retirement System and the State Teachers' Retirement System, and certain other funds that, in the aggregate, represent 90 percent and 76 percent, respectively, of the 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, 2011, and the respective changes in financial position, and where applicable, cash flows 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*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 accounting principles generally accepted in the United States of America. 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 by us and the other auditors 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.

CALIFORNIA STATE AUDITOR

John F. Collins II

JOHN F. COLLINS II, CPA
Deputy State Auditor

February 24, 2012

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, 2011. 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

During the 2010-11 fiscal year, California showed signs of fiscal recovery, but it continued to struggle financially as a result of the recent recession. The State's general revenues increased by $10.1 billion (10.7%) from last year; however, revenues were $5.1 billion lower than those received in the 2007-08 fiscal year. Expenses for the State's governmental activities increased slightly from the prior year, but exceeded revenue received resulting in a $3.5 billion decrease in governmental activities' net assets. Total expenses for the State's business-type activities exceeded revenues for fiscal year 2010-11. In fiscal year 2010-11, the California State University financial activities were reclassified from governmental activities to enterprise activities. Reduced general revenues, expenses that exceeded revenues, and increased long-term obligations resulted in a 50% decrease in the total net assets for governmental and business-type activities from the 2009-10 fiscal year.

Net Assets — The primary government's net assets as of June 30, 2011, were a negative $9.7 billion. After the total net assets are reduced by $86.8 billion for investment in capital assets (net of related debt) and by $31.5 billion for restricted net assets, the resulting unrestricted net assets totaled a negative $128.0 billion. Restricted net assets are dedicated for specified uses and are not available to fund current activities. Almost one-half of the negative $128.0 billion consists of $62.6 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 $3.2 billion (50.0%) during the year ended June 30, 2011. Net assets of governmental activities decreased by $3.5 billion (51.3%), while net assets of business-type activities increased by $330 million (69.3%).

Fund Highlights

Governmental Funds — GASB Statement No. 54 provides new fund balance classifications for governmental funds. The previous reserved and unreserved classifications have been replaced with nonspendable, restricted, and unrestricted balances. Additional information on the State's fund balances can be found in Note 1K in the notes to the basic financial statements. As of June 30, 2011, the primary government's governmental funds reported a combined ending fund balance of $10.8 billion, a decrease of $1.0 billion from the prior fiscal year's restated ending fund balance. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $17.3 billion. The nonspendable and restricted fund balances were $187 million and $27.9 billion, respectively.

Proprietary Funds — As of June 30, 2011, the primary government's proprietary funds reported combined ending net assets of $1.4 billion, an increase of $375 million from the prior fiscal year. After the total net assets are reduced by $1.5 billion for investment in capital assets (net of related debt), expendable restrictions of $3.6 billion, and nonexpendable restrictions of $22 million, the unrestricted net assets totaled a negative $3.8 billion.

Noncurrent Assets and Liabilities

As of June 30, 2011, the primary government's noncurrent assets totaled $134.8 billion, of which $109.0 billion is related to capital assets. State highway infrastructure assets of $61.4 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $158.1 billion, which consists of $78.3 billion in general obligation bonds, $29.4 billion in revenue bonds, and $50.3 billion in all other noncurrent liabilities. During the 2010-11 fiscal year, the primary government's noncurrent liabilities increased by $8.7 billion (5.8%) over the prior fiscal year. This increase was primarily the result of a $3.8 billion increase in the unemployment programs' loan payable to the U.S. Department of Labor, and a $2.6 billion increase in net other postemployment benefits obligations.

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, 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 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, California 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 reconciliation of the budgetary basis and the GAAP basis fund balances for the major governmental funds presented in the governmental fund financial statements.

Combining Financial Statements and Schedules

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

Government-wide Financial Analysis

Net Assets

The primary government's combined net assets (governmental and business-type activities) decreased by 50.0%, from a negative $6.4 billion as restated at June 30, 2010, to a negative $9.7 billion a year later.

The primary government's $86.8 billion investment in capital assets, such as land, buildings, 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 net of related debt, 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 $31.5 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. As of June 30, 2011, governmental activities showed an unrestricted net assets deficit of $124.0 billion and business-type activities showed an unrestricted net assets deficit of $4.2 billion.

A large portion of the negative unrestricted net assets of governmental activities consists of $62.6 billion in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. Because the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net assets reported as "investment in capital assets, net of related debt." Instead, the bonded debt is reported as a non-current liability that reduces the State's unrestricted net assets. Readers can expect to see a continued deficit in unrestricted net assets of governmental activities as long as the State has significant outstanding obligations for school districts and other local governmental entities.

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

Table 1

Net Assets – Primary Government
June 30, 2010 and 2011
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
ASSETS						
Current and other assets	$ 50,820	$ 56,355	$ 33,884	$ 30,324	$ 84,704	$ 86,679
Capital assets	100,464	98,798	8,551	6,794	109,015	105,592
Total assets	**151,284**	**155,153**	**42,435**	**37,118**	**193,719**	**192,271**
LIABILITIES						
Noncurrent liabilities	120,905	115,465	37,203	33,951	158,108	149,416
Other liabilities	40,835	43,887	4,426	3,923	45,261	47,810
Total liabilities	**161,740**	**159,352**	**41,629**	**37,874**	**203,369**	**197,226**
NET ASSETS						
Investment in capital assets net of related debt	85,461	84,085	1,383	90	86,844	84,175
Restricted	27,866	14,988	3,638	3,405	31,504	18,393
Unrestricted	(123,783)	(103,272)	(4,215)	(4,251)	(127,998)	(107,523)
Total net assets (deficit)	**$ (10,456)**	**$ (4,199)**	**$ 806**	**$ (756)**	**$ (9,650)**	**$ (4,955)**

Changes in Net Assets

The expenses of the primary government totaled $234.6 billion for the year ended June 30, 2011. Of this amount, $126.4 billion (53.9%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $108.2 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $105.0 billion were less than the unfunded expenses. As a result, the total net assets decreased by $3.2 billion, or 50%.

Of the total decrease, net assets for governmental activities decreased by $3.5 billion, while those for business-type activities increased by $330 million.

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, 2010 and 2011
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
REVENUES						
Program revenues:						
Charges for services	$ 21,122	$ 21,610	$ 34,819	$ 20,661	$ 55,941	$ 42,271
Operating grants and contributions	67,849	75,470	1,217	—	69,066	75,470
Capital grants and contributions	1,272	962	86	92	1,358	1,054
General revenues:						
Taxes	104,705	94,593	—	—	104,705	94,593
Investment and interest	63	115	—	—	63	115
Miscellaneous	229	150	—	—	229	150
Total revenues	**195,240**	**192,900**	**36,122**	**20,753**	**231,362**	**213,653**
EXPENSES						
Program expenses:						
General government	13,520	12,455	—	—	13,520	12,455
Education	56,487	61,764	—	—	56,487	61,764
Health and human services	92,475	80,800	—	—	92,475	80,800
Resources	5,853	6,019	—	—	5,853	6,019
State and consumer services	1,405	980	—	—	1,405	980
Business and transportation	11,120	14,156	—	—	11,120	14,156
Correctional programs	10,296	10,310	—	—	10,296	10,310
Interest on long-term debt	4,377	4,146	—	—	4,377	4,146
Electric Power	—	—	2,317	3,908	2,317	3,908
Water Resources	—	—	1,116	1,070	1,116	1,070
Public Building Construction	—	—	390	494	390	494
State Lottery	—	—	3,507	3,166	3,507	3,166
Unemployment Programs	—	—	25,619	29,615	25,619	29,615
Nonmajor enterprise	—	—	6,095	1,140	6,095	1,140
Total expenses	**195,533**	**190,630**	**39,044**	**39,393**	**234,577**	**230,023**
Excess (deficiency) before transfers	**(293)**	**2,270**	**(2,922)**	**(18,640)**	**(3,215)**	**(16,370)**
Transfers	(3,252)	(13,442)	3,252	13,442	—	—
Change in net assets	(3,545)	(11,172)	330	(5,198)	(3,215)	(16,370)
Net assets, beginning of year (restated)	**(6,911)**	**6,973**	**476**	**4,442 ***	**(6,435)**	**11,415**
Net assets (deficit), end of year	**$ (10,456)**	**$ (4,199)**	**$ 806**	**$ (756)**	**$ (9,650)**	**$ (4,955)**

* Not restated

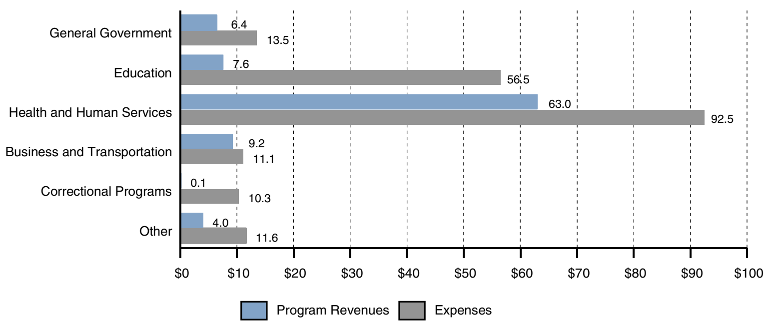
Governmental Activities

Governmental activities' expenses and transfers totaled $198.8 billion. Program revenues, including $69.1 billion received in federal grants, funded $90.2 billion (45.4%) of expenses and transfers, leaving $108.5 billion to be funded with general revenues (mainly taxes). However, general revenues for governmental activities totaled only $105.0 billion, so governmental activities' total net assets decreased by $3.5 billion, or 51.3%, during the year ended June 30, 2011.

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, 2011
(amounts in billions)



For the year ended June 30, 2011, total state tax revenues collected for governmental activities increased by $10.1 billion (10.7%) from the prior year. Personal income taxes increased by $7.9 billion (17.9%) as a result of higher personal income reported. The other taxes category increased by $2.5 billion. This $2.5 billion increase was primarily the result of Assembly Bill X8-6, also known as the Fuel Tax Swap, which redirected a portion of gasoline taxes from sales taxes to other taxes. Sales and use taxes would have reflected this increase if these taxes had not been redirected.

Overall expenses for governmental activities increased by $4.9 billion (2.6%) from the prior year. The largest increase in expenses was an $11.7 billion increase in health and human services spending primarily due to the creation of the Hospital Quality Assurance Revenue Fund, which was established by Assembly Bill 1383 effective October 2009. This increase in expenses was somewhat offset by a $5.3 billion decrease in education expenditures reported as a result of the reclassification of the California State University financial activities from a governmental fund to an enterprise fund.

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

Chart 2

Expenses by Program
Year ended June 30, 2011
(as a percent)

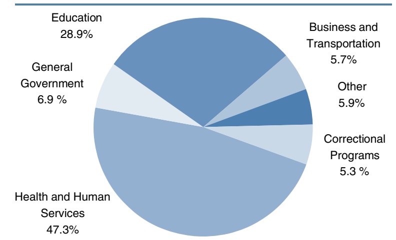
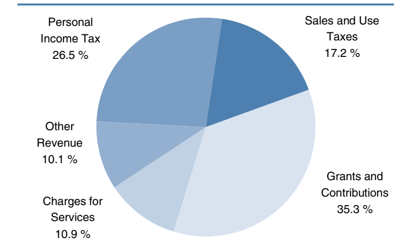


Chart 3

Revenues by Source
Year ended June 30, 2011
(as a percent)



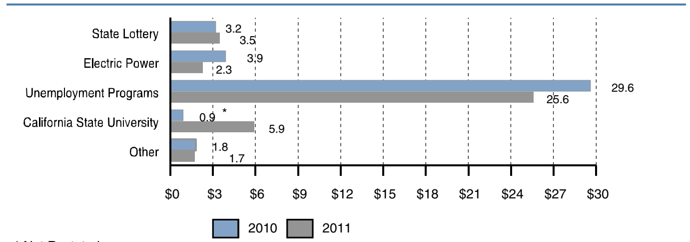
Business-type Activities

Business-type activities expenses totaled $39.0 billion. Program revenues of $36.1 billion, primarily generated from charges for services, and $3.3 billion in transfers were sufficient to cover these expenses. Consequently, business-type activities' total net assets increased by $330 million, or 69.3%, during the year ended June 30, 2011.

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

Chart 4

Expenses – Business-type Activities – Two-Year Comparison
Years Ended June 30, 2010 and 2011
(amounts in billions)



* Not Restated

Fund Financial Analysis

The national recession and the State's weakened economy had the greatest impact on governmental funds, which rely heavily on taxes to support the majority of their services and programs. The State's governmental funds had a $1.0 billion decrease in fund balance over the prior year's restated ending fund balance. Some proprietary funds incurred net asset reductions, as their expenses exceeded revenues for the fiscal year 2010-11. The Unemployment Programs Fund incurred the largest decline in net assets, $324 million, despite a $13.4 billion increase in operating revenues due to a draw of federal unemployment funds. More federal funds were drawn to compensate for the decreased in funding from the federal American Reinvestment and Recovery Act (ARRA).

Governmental Funds

The governmental funds' Balance Sheet reported $60.7 billion in assets, $49.9 billion in liabilities, and $10.8 billion in fund balance as of June 30, 2011. Total assets of governmental funds decreased by 12.0%, while total liabilities decreased by 9.6%, resulting in a total fund balance decrease of $1.0 billion (8.7%) over the prior fiscal year. As in the prior year, the General Fund had to rely heavily on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2011, long-term borrowing had decreased by $1.3 billion to $8.9 billion.

Within the governmental funds' total fund balance, $187 million is classified as nonspendable because this amount consists of long-term interfund receivables and loans receivable, or due to legal or contractual requirements. Additionally, $27.9 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, the total fund balance of $2.7 billion is classified as committed for specific purposes and $269 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $20.3 billion. These new fund balance classifications reflect the implementation of GASB Statement No. 54 and are defined in more detail in Note 1K.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows $195.3 billion in revenues, $198.0 billion in expenditures, and a net $1.6 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2011, was $10.8 billion, a $1.0 billion decrease over the prior year's restated ending fund balance of $11.8 billion. The reasons for the change in the fund balance were a net decrease in intergovernmental revenue in the Federal Fund, as a result of a reduction in economic stimulus funds received from the Federal ARRA, which exceeded the increase of tax revenue.

Personal income taxes, which account for 49.3% of tax revenues and 26.5% of total governmental fund revenues, increased by $7.8 billion from the prior fiscal year. Sales and use taxes, which account for 32.0% of tax revenues and 17.1% of total governmental fund revenues, decreased by $208 million over the prior fiscal year. Corporation taxes, which account for 9.0% of tax revenues and 4.8% of total governmental fund revenues, decreased by $34 million from the prior fiscal year. Governmental fund expenditures increased by $7.2 billion from the prior fiscal year, primarily in health and human services programs. General obligation bonds and commercial paper of $4.5 billion were issued during the 2010-11 fiscal year; however, this was $7.5 billion less than the amount issued in the prior fiscal year.

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 $19.9 billion. The Federal Fund and the

Transportation Fund ended the fiscal year with fund balances of $122 million and $7.8 billion, respectively. The nonmajor governmental funds ended the year with a total fund balance of $22.8 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 $12.0 billion, liabilities of $31.9 billion, nonspendable, restricted, and committed fund balances of $148 million, $156 million, and $30 million, respectively, leaving the General Fund with a negative unassigned fund balance of $20.3 billion. Total assets of the General Fund decreased by $849 million from the prior fiscal year, mainly because of a $627 million decrease in amounts due from other governments. During the 2010-11 fiscal year, the General Fund continued to experience cash shortages and relied on internal borrowing from the State's other funds to meet its payment obligations. However, by June 30, 2011, long-term borrowing from other funds had decreased by $1.3 billion to $8.9 billion. Even with this increase in short- and long-term interfund payables, the total liabilities of the General Fund decreased by $518 million (1.6%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the General Fund had $93.5 billion in revenues, $90.4 billion in expenditures, and a net $3.5 billion disbursement from other financing sources (uses) for the year ended June 30, 2011. Approximately 93.3% of General Fund revenue ($87.2 billion) is derived from the State's big three taxes—personal income taxes ($50.8 billion), sales and use taxes ($27.0 billion), and corporation taxes ($9.4 billion). A total of $194 million in revenue is included in the General Fund in compliance with GASB Statement No. 54. These revenues are not considered General Fund Revenues for any budgetary purposes or for the *Budgetary/Legal Basis Annual Report*. Most of these revenues ($190 million) are from unemployment programs.

During the 2010-11 fiscal year, total General Fund revenue increased by $8.4 billion, or 9.8%. Revenue from personal income taxes and sales and use taxes increased by $7.7 billion (17.9%) and $132 million (0.5%), respectively. These increases were primarily the result of California's slowly improving economy and decreasing unemployment rate. Revenue from corporation taxes decreased by $34 million (0.4%). Revenue from licenses and permits continued to surpass that of fiscal year 2008-09, the result of a temporary increase in the assessment rate for vehicle license fees effective May 2009 through June 2011; however, this year's revenues were $50 million less than in fiscal year 2009-10.

General Fund expenditures increased by $3.2 billion, to $90.4 billion. The programs with the largest increases were health and human services, which increased by $3.7 billion, to $27.8 billion, and general government, which increased by $829 million, to $3.4 billion. The General Fund's ending fund balance for the year ended June 30, 2011, was a negative $19.9 billion, a decrease of $448 million from the prior year's restated ending fund balance of negative $19.5 billion. The increased expenditures for health and human services were mainly the result of the reduction in Federal ARRA funds. The ARRA funding, which had reduced the General Fund's share of Medical Assistance program costs, was phased out during the last half of the fiscal year and ended June 30, 2011.

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 $47.9 billion (76.9%) of the total $62.3 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—$9.1 billion (14.6%), down $1.2 billion (11.8%) from the prior year—most of which were apportionments made to local educational agencies (school districts, county offices of education, and community colleges). The Federal Fund's revenues decreased by $8.6 billion (11.2%), approximately the same amount as its combined expenditures and transfers, which decreased ($8.6 billion), resulting in only a $30 million fund balance increase from the prior year's restated ending fund balance of $91 million. The decrease in Federal Fund revenues and transfers was primarily the result of the phase out of stimulus funding from the Federal ARRA, which provided additional funding for many health and human services and education expenditures in the prior year.

Transportation Fund: This fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues increased by 23.6% and expenditures decreased by 17.3%. Other financing sources provided net receipts of $527 million. The Transportation Fund ended the fiscal year with a $7.8 billion fund balance, an increase of $788 million over the prior year.

Proprietary Funds

Enterprise Funds: The Unemployment Programs and State Lottery Fund each saw decreases of $324 million and $23 million, respectively, in their net assets. Other State enterprise funds experienced increases in their net assets during the 2010-11 fiscal year. The most significant increase was in the California State University Fund, whose net assets increased by $575 million during the year.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the enterprise funds were $43.0 billion as of June 30, 2011. Of this amount, current assets totaled $12.7 billion and noncurrent assets totaled $30.3 billion. The largest changes in asset account balances were a $2.7 billion increase in amount on deposit with the U.S. Treasury in the Unemployment Programs Fund and a $484 million decrease in cash and pooled investments in the Public Building Construction Fund. The total liabilities of the enterprise funds were $42.2 billion. The largest liability of the enterprise funds is for bonds payable—$22.1 billion of revenue bonds payable and $1.1 billion of general obligation bonds payable. During the 2010-11 fiscal year, the State continued to obtain loans from the U.S Department of Labor to cover deficits in the Unemployment Programs Fund. The balance due on these loans as of June 30, 2011, was $11.0 billion, an increase of $3.8 billion over the prior year.

Total net assets of the enterprise funds were $806 million as of June 30, 2011. Total net assets consisted of four segments: nonexpendable restricted net assets of $22 million, restricted expendable net assets of $3.6 billion, investment in capital assets (net of related debt) of $1.4 billion, and unrestricted net assets of negative $4.2 billion. The Unemployment Programs Fund had a deficit of $6.9 billion, a $324 million (4.9%) decrease in net assets from the prior year. The net assets of all other enterprise funds experienced small changes during the year with the exception of the California State University Fund which had an increase to net assets of $575 million.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the enterprise funds ended the year with operating revenues of $33.7 billion, operating expenses of $36.6 billion, and net disbursements from other transactions of $108 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $24.7 billion in the Unemployment Programs Fund and lottery ticket sales of $3.4 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund increased by $13.4 billion from $11.3 billion in fiscal year 2009-10. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The State received more federal unemployment funds because less funding from Federal ARRA economic stimulus was available to cover unemployment and disability benefits. The largest operating expenses were distributions to beneficiaries of $25.4 billion by the Unemployment Programs Fund and personal services of $3.7 billion by the California State University Fund. The Unemployment Programs Fund expenses were partially subsidized by $617 million of Federal ARRA economic stimulus funding transferred from the Federal Fund. The ending net assets of the enterprise funds at

June 30, 2011, were $806 million—$330 million greater than the prior year's restated ending net assets of $476 million.

Internal Service Funds: Total net assets of the internal service funds were $574 million as of June 30, 2011. These net assets consist of two segments: investment in capital assets (net of related debt) of $141 million and unrestricted net assets of $433 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 $4.6 billion. The pension and other employee benefit trust funds ended the fiscal year with net assets of $409.6 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with net assets of $24.0 billion. Agency funds act as clearing accounts and thus do not have net assets.

For the year ended June 30, 2011, the fiduciary funds' combined net assets were $438.2 billion, a $69.7 billion increase from prior year net assets. The increase in net assets for these funds was mainly attributable to an increase in net investment income from the prior year of $34.6 billion (82.4%).

The Economy for the Year Ending June 30, 2011

Since the recession ended in June 2009, the U.S. has seen consecutive quarterly growth in real Gross Domestic Product. The first quarter of California's 2010-11 fiscal year saw an increase in the national growth rate over the same period the year before, 2.5% versus 1.7%. For the remainder of the fiscal year, U.S. economic output continued a slow growth driven primarily by consistent growth in personal consumption. These positive national signs also started to play out at the state level during the year ending June 30, 2011.

California's economic recovery continued throughout the last fiscal year, but at a slow pace. Although employment levels remain well below their pre-recession peak, total non-farm employment grew fairly consistently. By June 2011, total non-farm employment was 1.3% higher than at the beginning of the fiscal year. The state unemployment rate as of June 2011 was 11.8%, a decrease from the July 2010 rate of 12.4%. Unfortunately, the declining unemployment rate was due in part to discouraged job seekers dropping out of the job market. The state labor force fell by 111,000 unemployed, or 0.6%, from July 2010 to June 2011. Although labor market conditions were generally improving during the second half of the fiscal year, the labor force figures point to an uneven recovery, with many California residents not benefitting from the growth.

The state housing market has remained a weakness in the State's economy. Home sales rose sharply in the last months of 2010, increasing 12% from October 2010 through January 2011, but then fell 8.8% from March through June 2011. However, on a fiscal-year basis, home sales did increase 2.3% from July 2010 to June 2011. Home prices have yet to record any significant increases, but the pace of decline slowed substantially in the 2010-11 fiscal year. Both defaults and foreclosures in California were down in fiscal year 2010-11, with defaults declining 20.2% and foreclosures declining 11.4% from July 2010 through June 2011. Residential construction permits were up 13.3% for the fiscal year, with construction employment up 1.8% for the same time period. The housing market is still sluggish, but economic indicators support the view that the market is slowly improving.

Other economic indicators point to a continued recovery in the State. State personal income showed consistent increases in each quarter of fiscal year 2010-11, increasing 5.5% over the course of the year. Additionally, consumer spending was a consistent strong element for the year. Seasonally adjusted taxable sales increased

9.8% over the course of the fiscal year. International trade and tourism contributed to California's economic recovery during the year as well, with exports of goods and commodities from California increasing by nearly 15%.

General Fund Budget Highlights

The original General Fund budget of $95.3 billion was reduced by $266 million. This decrease is mainly comprised of a reduction in funding education programs per Section 12.42 of the 2010 Budget Act that was partially offset by correctional program augmentations authorized by Assembly Bill 122, Chapter 42, Statutes of 2011. During the 2010-11 fiscal year, General Fund actual budgetary basis expenditures were $91.9 billion, $3.2 billion less than the final budgeted amounts.

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

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2011
(amounts in millions)

	Original	Final	Increase/ (Decrease)
Budgeted amounts			
State and consumer services	$ 609	$ 590	$ (19)
Business and transportation	494	494	—
Resources	1,224	1,178	(46)
Health and human services	28,967	29,076	109
Correctional programs	8,665	9,567	902
Education	45,079	43,767	(1,312)
General government:			
Tax relief	446	535	89
Debt service	5,014	5,019	5
Other general government	4,833	4,839	6
Total	**$ 95,331**	**$ 95,065**	**$ (266)**

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, 2011, amounted to $109.0 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, such as roads and bridges, are items that are normally immovable and can be preserved for a greater number of years than can most capital assets.

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, 2011
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Land	$ 16,599	$ 215	$ 16,814
State highway infrastructure	61,439	—	61,439
Collections – nondepreciable	22	2	24
Buildings and other depreciable property	23,521	10,568	34,089
Intangible assets – amortizable	649	219	868
Less: accumulated depreciation/amortization	(10,114)	(4,113)	(14,227)
Construction in progress	7,814	1,521	9,335
Intangible assets – nonamortizable	534	139	673
Total	**$ 100,464**	**$ 8,551**	**$ 109,015**

The budget authorized $9.3 billion for the State's capital outlay program in the 2010-11 fiscal year, not including funding for state highway infrastructure and K–12 schools. State highway infrastructure assets are discussed in more detail in the Required Supplementary Information that follows the notes to the financial statements. Of the $9.3 billion authorized, $224 million was from the General Fund; $6.2 billion was from lease-revenue bonds; $1.1 billion was from proceeds of various general obligation bonds; and $1.8 billion was from reimbursements, federal funds, and special funds. These amounts include reappropriations and other funds carried over from previous budgets for continuing projects.

The major capital projects authorized include:

- $200 million in lease-revenue bonds for the Department of Correction and Rehabilitation, for local youthful offender rehabilitative facilities;

- $549 million for numerous construction projects within the University of California, the California State University, and the California Community Colleges;

- $919 million for projects to replace structurally deficient court facilities; and
- $155 million from the High-Speed Passenger Train bond fund and federal funds for primary engineering and environmental review along the San Francisco-to-Anaheim section of the high-speed rail system.

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 49,518 lane miles and 12,893 bridges.

During the 2010-11 fiscal year, the actual amount spent on preservation was 13.1% of the estimated budgeted amount needed to maintain the infrastructure assets at the established-condition levels. Although the amount spent fell short of the budgeted amount, the assessed conditions of the State's bridges and roadways are better than the established condition baselines.

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

Debt Administration

At June 30, 2011, the primary government had total bonded debt outstanding of $111.5 billion. Of this amount, $80.7 billion (72.4%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $80.7 billion of general obligation bonds is $7.2 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 $2.4 billion and the long-term portion is $78.3 billion. The remaining $30.8 billion (27.6%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.4 billion and the long-term portion is $29.4 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, 2011
(amounts in millions)

	Governmental Activities	Business-type Activities	Total
Government-wide noncurrent liabilities			
General obligation bonds	$ 77,217	$ 1,119	$ 78,336
Revenue bonds	7,359	22,091	29,450
Certificates of participation and commercial paper	1,328	140	1,468
Capital lease obligations	4,544	734	5,278
Net other postemployment benefits obligation	9,607	319	9,926
Proposition 98 funding guarantee	2,637	—	2,637
Mandated costs	5,741	—	5,741
Loans payable	2,122	10,958	13,080
Other noncurrent liabilities	10,351	1,842	12,193
Total noncurrent liabilities	**120,906**	**37,203**	**158,109**
Current portion of long-term obligations	3,807	2,006	5,813
Total long-term obligations	**$ 124,713**	**$ 39,209**	**$ 163,922**

During the year ended June 30, 2011, the primary government's total long-term obligations increased by $7.3 billion over the prior year's restated balance. Governmental activities net other postemployment benefits obligation had the largest increase ($2.6 billion), but other notable increases occurred in general obligation bonds payable, compensated absences, and mandated costs. During the fiscal year, the State issued $4.5 billion in new general obligation bonds for public education facilities, transportation projects, housing and emergency shelters, and various water and flood control projects. The net other postemployment benefits obligation increased because the State does not fully fund the annual cost of these benefits.

Note 10, Long-term Obligations, and Notes 11 through 17 include additional information on the State's long-term obligations.

The State's general obligation bond credit ratings remained unchanged during the fiscal year 2010-11. The current ratings from the three credit rating agencies are as follows: Standard and Poor's – "A-", Moody's Investors Service – "A1", and Fitch – "A-".

Recent Economic Condition and Future Budgets

Recent Economic Condition

From July 1 through December 31, 2011, economic data indicated that the California economy continued to improve during the first half of fiscal year 2011-12. Since the first quarter of fiscal year 2010-11, the state has gained 351,100 non-farm jobs. Other aspects of California's labor markets are showing signs of improvement as well. By December 2011, the state's unemployment rate had dropped from a seasonally adjusted 12.5% in December 2010 to 11.1%. Nearly 213,000 California residents re-entered the labor market during the last five months of 2011, while the number of unemployed residents simultaneously fell by 154,000.

Consumer spending has shown steady increases over the past two years, rising by more than 17.5% since its low point in the second quarter of 2009. Personal income in California has already surpassed its pre-recession peak, totaling $1.67 trillion in the third quarter of 2011 following almost two years of consecutive growth on a quarterly basis.

In addition to growing consumer demand from domestic sources, international trade has also been instrumental in assisting in California's recovery. The U.S. dollar remained at its lowest level since the mid-1990s, benefitting California's export market. Industrial machinery (including computers) has posted solid gains of almost 12% through November 2011, after growing by more than 30% in 2010. Additionally, other high-technology exports, including vehicles and parts, aircrafts, pharmaceuticals, and plastics, have continued to do well in 2011. Commodity exports have also done well in recent years. Over the past two years, the State's agricultural and natural resources industries have seen double-digit growth in the production of fruit, nuts, dairy products, and fuel and oil.

Home prices have yet to rebound across the state, but the housing market has stabilized. Defaults and foreclosures have been trending downward for almost two years, despite a small uptick in defaults in the first quarter of fiscal year 2011-12. As this "shadow inventory" dwindles, demand for new home construction is expected to increase. While the number of new single-family building permits was still declining through the first six months of fiscal 2011-12, multi-family building permits have been trending upward since mid-2010. In addition, new residential permit values steadily increased throughout 2011.

Overall, California still has a long way to go before it can claim recovery from the recession. Still, most indicators point to an economy that is not only in recovery mode, but is beginning to outpace that of the rest of the United States. The labor markets are showing real signs of improvement and both incomes and consumer spending are up from their respective lows. A weak dollar, coupled with California's proximity to Asia and the State's international trade infrastructure at its ports and airports, have helped to boost exports. Housing remains soft, but even there the market is beginning to show some improvement. Recent economic conditions show that the worst is behind the state and that its recovery will continue.

California's 2011-12 Budget

California's 2011-12 Budget Act was enacted on June 30, 2011. The Budget Act appropriated $129.5 billion: $85.9 billion from the General Fund, $34.2 billion from special funds, and $9.4 billion from bond funds. The 2011 Budget Act continues to hold General Fund spending essentially flat for a third year – $85.9 billion in 2011-12, $86.6 billion in 2010-11, and $86.3 billion in 2009-10. The General Fund's available resources were projected to be $88.5 billion, resulting in a projected reserve for economic uncertainties of $543 million. General Fund revenues come predominantly from taxes, with personal income taxes expected to provide 42% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) were projected to supply approximately 89% of the General Fund's resources in the 2011-12 fiscal year.

The Budget enacted $27.2 billion in actions to solve a General Fund gap between resources and expenditures. The Budget solutions can be categorized into three major areas: expenditure-related solutions, revenue actions, and one-time loans and transfers. The $11.1 billion in expenditure-related solutions include ongoing and temporary cost or service reductions primarily in health and social services, higher education, and employee compensation, and a shift away from the General Fund for transportation debt payments toward using weight fees. The majority of proposed new revenues assume $11.8 billion in growth due to an increase in the baseline forecast of personal income and corporation tax revenues. These revenue actions would result in a total increase in revenue of $13.2 billion. The Budget also included $2.9 billion in one-time loans, transfers, and funding shifts, which include pausing for one year, building construction funded by the Trial Court Trust

Fund for a savings of $743 million; a one-year decrease in the Stage 1 Child Care program, for a savings of $369 million; and a one-time transfer of $155 million from the Gas Consumption Surcharge Fund.

The Budget introduced a major realignment of public safety programs, shifting certain state program responsibilities and revenues to local governments, primarily counties. This realignment affected both revenues and expenditures, as these programs will receive revenues and incur expenditures that previously were the stewardship of the State. In total, the realignment plan provides $5.6 billion in 2011-12 to local governments to fund various criminal justice, mental health, and social service programs. The savings to the General Fund is estimated to be $2.6 billion.

The 2011-12 Budget, recognizing the potential risk to the State's fiscal condition if revenues fell short of June 2011 estimates, included a mechanism for further reducing the current year expenditures. As of December 2011, total General Fund revenues were determined to be below forecasted amounts, and on December 13, the Director of Finance, as required, implemented the mechanism and reduced by $1 billion remaining-year funding to various appropriations.

The proposed 2012-13 Governor's Budget provides revised revenue and expenditure estimates for the 2011-12 fiscal year. If no corrective action is taken by the Governor and the Legislature, the revised gap between General Fund revenues and expenditures is expected to be $4.1 billion by the end of the 2011-12 fiscal year. State cash flow data as of January 31, 2012 indicates that this gap is a combination of actual expenditures exceeding estimates by $1.4 billion and revenues falling short of estimates by $3.8 billion. The revenue shortfall can in part be attributed to lower-than-estimated personal income and corporate taxes. Expenditures are greater than estimated because many of the cost-cutting measures included in the 2011-12 Budget have been disputed in court and have not been implemented. Court orders and delayed federal approval related to several budget-balancing cuts in the health and human services area have increased budgeted costs by nearly $2 billion. The Governor's proposed solutions are discussed further in the next section.

California's 2012-13 Budget

The Governor released his proposed 2012-13 Budget on January 5, 2012. The proposed Budget projects a $9.2 billion gap between estimated revenues and state expenditures over the next 18 months. The $9.2 billion figure is comprised of a $4.1 billion deficit carried over from the 2011-12 fiscal year and a $5.1 billion shortfall in the 2012-13 fiscal year. The Governor's Budget proposes $4.2 billion in expenditure-related solutions, $4.7 billion in net new revenues, and $1.4 billion borrowed from special funds and other sources. If enacted, the Governor's proposed Budget would eliminate the 2011-12 and 2012-13 deficit and leave the State with a surplus of $1 billion. The 2012-13 Budget continues to incorporate those solutions implemented in the prior year Budget. It also assumes passage of the Governor's proposed initiative in the November 2012 election. If approved by the voters, this initiative will temporarily increase the personal income tax on the state's wealthiest taxpayers and temporarily increase the sales tax by one-quarter percent, generating an estimated $6.8 billion to $9 billion for 2012-13.

The 2012-13 Governor's Budget projects (with all budget solutions enacted) that 2012-13 fiscal year General Fund revenues and transfers will be $95.4 billion and expenditures will be approximately $92.6 billion, with a $1.1 billion reserve. Proposed 2012-13 General Fund revenues and transfers are 7.7% more than the revised 2011-12 estimate of $88.6 billion, while 2012-13 expenditures are 7% greater than the revised 2011-12 estimate of $86.5 billion. Almost all of the Governor's proposed new revenue is derived from plans to temporarily increase the sales tax and temporarily increase personal income tax on wealthy taxpayers, both of which the Governor will submit to voters in November 2012. A portion of the new revenue, $2.5 billion, will increase the Proposition 98 minimum guarantee to schools; the remaining $4.4 billion will prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the budget. It is estimated that the temporary tax increases will allow the State to pay off $33 billion in outstanding budgetary borrowing and deferrals by fiscal year 2015-16. While additional tax revenues will mitigate the need for deeper cuts in expenditures, they will not be sufficient to close the entire budget gap. Other expenditure-related solutions include reductions of $1.4 billion for CalWorks and $1 billion in combined reductions to Medi-Cal and In-Home Supportive Services.

According to the Legislative Analyst's Office (LAO), California's nonpartisan fiscal and policy advisor, the administration's estimate of the budget shortfall is questionable. LAO's revenue estimate is lower than the Governor's, specifically those revenues attributable to the Governor's initiative to be included in the November 2012 general election. The LAO estimates that personal income taxes from upper-income taxpayers will be lower than the Governor's estimate, which could result in the Legislature having to pursue billions of dollars more in budget-balancing solutions. The LAO credited the Governor's proposed restructuring of the school finance system, community college categorical funding, and education mandates, but also noted that the Governor's $1.4 billion in proposed savings related to Social Services and subsidized child care has merit but may be too severe, and commented that potential savings could be less under other alternatives.

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 94250-5872. This report is also available on the Controller's Office website at www.sco.ca.gov.

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Assets

June 30, 2011
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 22,502,134	$ 2,720,440	$ 25,222,574	$ 4,818,120
Amount on deposit with U.S. Treasury	—	2,855,711	2,855,711	—
Investments	659,676	2,138,779	2,798,455	8,021,674
Restricted assets:				
Cash and pooled investments	—	2,773,418	2,773,418	91,958
Investments	—	—	—	21,328
Due from other governments	—	65,598	65,598	—
Net investment in direct financing leases	—	399,863	399,863	—
Receivables (net)	11,310,619	798,980	12,109,599	3,730,586
Internal balances	(868,285)	868,285	—	—
Due from primary government	—	—	—	204,299
Due from other governments	11,601,567	321,819	11,923,386	734,001
Prepaid items	107,513	51,252	158,765	2,621
Inventories	92,328	42,887	135,215	170,700
Recoverable power costs (net)	—	220,000	220,000	—
Other current assets	92,036	116,138	208,174	284,364
Total current assets	45,497,588	13,373,170	58,870,758	18,079,651
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	1,241,359	1,241,359	100,113
Investments	—	410,858	410,858	16,052
Loans receivable	—	238,597	238,597	—
Investments	—	1,479,984	1,479,984	43,816,511
Net investment in direct financing leases	—	7,018,573	7,018,573	—
Receivables (net)	1,757,892	236,649	1,994,541	1,421,223
Loans receivable	3,383,521	4,102,167	7,485,688	6,494,592
Recoverable power costs (net)	—	4,809,000	4,809,000	—
Deferred charges	180,725	944,282	1,125,007	30,033
Capital assets:				
Land	16,599,386	214,817	16,814,203	928,714
State highway infrastructure	61,438,984	—	61,438,984	—
Collections – nondepreciable	22,422	2,697	25,119	332,128
Buildings and other depreciable property	23,520,649	10,567,993	34,088,642	37,398,584
Intangible assets – amortizable	648,678	218,547	867,225	508,489
Less: accumulated depreciation/amortization	(10,114,089)	(4,112,936)	(14,227,025)	(16,751,617)
Construction in progress	7,814,016	1,521,118	9,335,134	2,959,465
Intangible assets – nonamortizable	534,092	138,633	672,725	5,090
Other noncurrent assets	—	29,224	29,224	800,255
Total noncurrent assets	105,786,276	29,061,562	134,847,838	78,059,632
Total assets	**$ 151,283,864**	**$ 42,434,732**	$ 193,718,596	**$ 96,139,283**

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 18,924,834	$ 533,687	$ 19,458,521	$ 2,488,315
Due to component units	204,299	—	204,299	—
Due to other governments	7,718,550	180,500	7,899,050	23,688
Deferred revenue	—	242,254	242,254	1,008,219
Tax overpayments	5,683,628	—	5,683,628	—
Deposits	476,466	82	476,548	686,586
Contracts and notes payable	413	—	413	23,345
Unclaimed property liability	945,360	—	945,360	—
Advance collections	1,382,542	10,087	1,392,629	96,602
Interest payable	1,206,982	190,855	1,397,837	102,879
Securities lending obligations	—	—	—	2,168,485
Benefits payable	—	793,247	793,247	1,445,032
Current portion of long-term obligations	3,807,382	2,005,726	5,813,108	1,917,706
Other current liabilities	484,351	469,302	953,653	2,826,145
Total current liabilities	40,834,807	4,425,740	45,260,547	12,787,002
Noncurrent liabilities:				
Benefits payable	—	—	—	15,061,113
Loans payable	2,122,507	10,957,982	13,080,489	20,000
Lottery prizes and annuities	—	886,009	886,009	—
Compensated absences payable	3,720,725	165,470	3,886,195	251,495
Certificates of participation, commercial paper, and other borrowings	1,327,876	139,974	1,467,850	77,483
Capital lease obligations	4,544,008	734,158	5,278,166	2,636,929
General obligation bonds payable	77,216,976	1,118,559	78,335,535	—
Revenue bonds payable	7,358,748	22,091,010	29,449,758	18,932,217
Net other postemployment benefits obligation	9,606,931	318,793	9,925,724	5,738,777
Pollution remediation obligation	761,823	5,080	766,903	—
Other noncurrent liabilities	14,245,999	785,737	15,031,736	3,768,045
Total noncurrent liabilities	120,905,593	37,202,772	158,108,365	46,486,059
Total liabilities	**161,740,400**	**41,628,512**	203,368,912	**59,273,061**
NET ASSETS				
Investment in capital assets, net of related debt	85,460,957	1,382,957	86,843,914	12,128,546
Restricted:				
Nonexpendable – endowments	—	—	—	4,304,461
Nonexpendable	—	21,812	21,812	—
Expendable:				
Endowments and gifts	—	—	—	7,640,520
Business and transportation	10,875,076	6,558	10,881,634	1,478,961
Resources	7,257,940	1,012,430	8,270,370	—
Health and human services	4,214,342	126,738	4,341,080	—
Education	1,490,659	92,604	1,583,263	1,772,420
General government	3,274,196	511,656	3,785,852	372,088
Unemployment programs	—	1,810,426	1,810,426	—
State and consumer services	749,806	37,530	787,336	1,046,164
Correctional programs	3,802	18,003	21,805	—
Workers' compensation liability	—	—	—	5,868,816
Total expendable	27,865,821	3,615,945	31,481,766	18,178,969
Unrestricted	(123,783,314)	(4,214,494)	(127,997,808)	2,254,246
Total net assets (deficit)	**(10,456,536)**	**806,220**	(9,650,316)	**36,866,222**
Total liabilities and net assets	**$ 151,283,864**	**$ 42,434,732**	$ 193,718,596	**$ 96,139,283**

Statement of Activities

Year Ended June 30, 2011
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government								
Governmental activities:								
General government	$ 13,520,557	$ 5,057,082	$ 1,344,164	$ —	$ (7,119,311)		$ (7,119,311)	
Education	56,486,944	110,423	7,449,007	—	(48,927,514)		(48,927,514)	
Health and human services	92,475,364	8,471,261	54,549,680	—	(29,454,423)		(29,454,423)	
Resources	5,853,278	2,797,264	457,924	—	(2,598,090)		(2,598,090)	
State and consumer services	1,405,019	660,196	37,509	—	(707,314)		(707,314)	
Business and transportation	11,119,644	4,010,433	3,914,046	1,272,326	(1,922,839)		(1,922,839)	
Correctional programs	10,295,564	14,981	96,885	—	(10,183,698)		(10,183,698)	
Interest on long-term debt	4,377,064	—	—	—	(4,377,064)		(4,377,064)	
Total governmental activities	195,533,434	21,121,640	67,849,215	1,272,326	(105,290,253)		(105,290,253)	
Business-type activities:								
Electric Power	2,317,000	2,317,000	—	—		$ —	—	
Water Resources	1,115,793	1,115,793	—	—		—	—	
Public Building Construction	390,173	456,467	—	—		66,294	66,294	
State Lottery	3,507,524	3,484,689	—	—		(22,835)	(22,835)	
Unemployment Programs	25,619,138	24,678,783	—	—		(940,355)	(940,355)	
California State University	5,851,355	2,505,545	1,216,808	—		(2,129,002)	(2,129,002)	
High Technology Education	9,590	10,498	—	—		908	908	
State Water Pollution Control Revolving	10,953	55,957	—	86,272		131,276	131,276	
Housing Loan	104,667	89,224	—	—		(15,443)	(15,443)	
Other enterprise programs	118,006	105,676	—	—		(12,330)	(12,330)	
Total business-type activities	39,044,199	34,819,632	1,216,808	86,272		(2,921,487)	(2,921,487)	
Total primary government	**$ 234,577,633**	**$ 55,941,272**	**$ 69,066,023**	**$ 1,358,598**	**(105,290,253)**	**(2,921,487)**	**(108,211,740)**	
Component units:								
University of California	$ 24,886,919	$ 13,194,408	$ 8,480,327	$ 247,259				$ (2,964,925)
State Compensation Insurance Fund	1,853,853	1,071,714	—	—				(782,139)
California Housing Finance Agency	621,055	409,297	42,948	—				(168,810)
Public Employees' Benefits Funds	1,905,816	2,047,922	—	—				142,106
Nonmajor component units	2,151,621	1,033,981	624,973	7,060				(485,607)
Total component units	**$ 31,419,264**	**$ 17,757,322**	**$ 9,148,248**	**$ 254,319**				**(4,259,375)**
General revenues:								
Personal income taxes					51,719,107	—	51,719,107	—
Sales and use taxes					33,521,221	—	33,521,221	—
Corporation taxes					9,384,416	—	9,384,416	—
Insurance taxes					2,311,880	—	2,311,880	—
Other taxes					7,768,010	—	7,768,010	—
Investment and interest					62,946	—	62,946	4,109,189
Escheat					229,146	—	229,146	—
Other					—	—	—	3,040,213
Transfers					(3,251,598)	3,251,598	—	—
Total general revenues and transfers					**101,745,128**	**3,251,598**	**104,996,726**	**7,149,402**
Change in net assets					(3,545,125)	330,111	(3,215,014)	2,890,027
Net assets, July 1, 2010					**(6,911,411) ***	**476,109 ***	**(6,435,302)**	**33,976,195 ***
Net assets (deficit), June 30, 2011					**$ (10,456,536)**	**$ 806,220**	**$ (9,650,316)**	**$ 36,866,222**

* Restated

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

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

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Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
ASSETS					
Cash and pooled investments	$ 913,703	$ 342,634	$ 4,034,580	$ 16,504,113	$ 21,795,030
Investments	—	—	—	659,676	659,676
Receivables (net)	9,302,494	1,034	793,013	1,094,852	11,191,393
Due from other funds	1,193,258	46,245	1,442,199	1,726,953	4,408,655
Due from other governments	382,406	11,009,726	83,257	115,887	11,591,276
Interfund receivables	47,304	—	2,608,626	4,881,517	7,537,447
Loans receivable	159,845	124,879	—	3,098,797	3,383,521
Other assets	4,643	—	57,876	29,517	92,036
Total assets	**$ 12,003,653**	**$ 11,524,518**	**$ 9,019,551**	**$ 28,111,312**	$ 60,659,034
LIABILITIES					
Accounts payable	$ 1,332,391	$ 1,376,456	$ 447,976	$ 1,667,620	$ 4,824,443
Due to other funds	10,448,561	7,330,106	92,856	131,573	18,003,096
Due to component units	198,389	—	15	5,156	203,560
Due to other governments	3,171,500	2,663,952	425,675	2,049,456	8,310,583
Interfund payables	8,918,885	—	2,421	16,526	8,937,832
Tax overpayments	5,683,628	—	—	—	5,683,628
Deposits	2,112	—	4,492	469,026	475,630
Advance collections	820,538	8,869	13,683	236,054	1,079,144
Interest payable	—	6,900	—	190,794	197,694
Unclaimed property liability	945,360	—	—	—	945,360
General obligation bonds payable	—	—	—	383,830	383,830
Other liabilities	421,530	16,681	265,201	152,547	855,959
Total liabilities	**31,942,894**	**11,402,964**	**1,252,319**	**5,302,582**	49,900,759
FUND BALANCES					
Nonspendable	148,019	—	—	39,448	187,467
Restricted	156,496	121,554	7,723,471	19,864,300	27,865,821
Committed	29,850	—	48,525	2,653,177	2,731,552
Assigned	—	—	—	268,888	268,888
Unassigned	(20,273,606)	—	(4,764)	(17,083)	(20,295,453)
Total fund balances (deficit)	**(19,939,241)**	**121,554**	**7,767,232**	**22,808,730**	10,758,275
Total liabilities and fund balances	**$ 12,003,653**	**$ 11,524,518**	**$ 9,019,551**	**$ 28,111,312**	$ 60,659,034

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

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

(amounts in thousands)

Total fund balances – governmental funds		$ 10,758,275
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.		
Land	16,597,328	
State highway infrastructure	61,438,984	
Collections – nondepreciable	22,422	
Buildings and other depreciable property	22,959,145	
Intangible assets – amortizable	600,644	
Less: accumulated depreciation/amortization	(9,650,127)	
Construction in progress	7,794,602	
Intangible assets – nonamortizable	534,092	
		100,297,090
• Other assets are not available to pay for current-period expenditures and, therefore, are not reported.		1,757,892
• 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.		574,355
• 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.		(350,448)
• General obligation bonds and related accrued interest totaling $79,080,213, revenue bonds totaling $7,994,249, and certificates of participation and commercial paper totaling $1,335,340 are not due and payable in the current period and, therefore, are not reported in the funds.		(88,409,802)
• Certain liabilities are not due and payable in the current period; therefore, adjustments to these liabilities are not reported in the funds:		
Compensated absences	(3,601,307)	
Capital leases	(4,881,488)	
Net other postemployment benefits obligation	(9,385,621)	
Mandated costs	(5,741,063)	
Workers' compensation	(2,660,893)	
Loans payable	(2,032,275)	
Proposition 98 funding guarantee	(2,636,851)	
Net pension obligation	(3,002,637)	
Pollution remediation obligations	(804,231)	
Other noncurrent liabilities	(337,532)	
		(35,083,898)
Net assets of governmental activities		**$ (10,456,536)**

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental	Total
REVENUES					
Personal income taxes	$ 50,785,782	$ —	$ —	$ 905,371	$ 51,691,153
Sales and use taxes	27,013,675	—	327,602	6,147,528	33,488,805
Corporation taxes	9,433,416	—	—	—	9,433,416
Insurance taxes	2,076,804	—	—	235,077	2,311,881
Other taxes	566,241	—	5,467,683	1,795,738	7,829,662
Intergovernmental	—	67,849,164	—	1,311,752	69,160,916
Licenses and permits	1,335,511	—	3,352,528	2,079,398	6,767,437
Charges for services	244,448	—	423,099	341,100	1,008,647
Fees	822,308	—	19,161	8,400,018	9,241,487
Penalties	165,567	52	45,966	809,315	1,020,900
Investment and interest	38,928	1	22,198	150,989	212,116
Escheat	229,133	—	13	—	229,146
Other	768,002	—	63,204	2,110,278	2,941,484
Total revenues	**93,479,815**	**67,849,217**	**9,721,454**	**24,286,564**	**195,337,050**
EXPENDITURES					
Current:					
General government	3,423,934	894,403	193,545	8,485,769	12,997,651
Education	43,532,898	9,138,900	2,396	2,872,945	55,547,139
Health and human services	27,783,447	47,880,101	2,740	16,275,021	91,941,309
Resources	879,201	402,608	269,660	3,703,288	5,254,757
State and consumer services	550,020	37,529	93,994	501,993	1,183,536
Business and transportation	8,953	3,805,211	8,895,152	472,074	13,181,390
Correctional programs	9,108,430	8,769	—	136,592	9,253,791
Capital outlay	204,631	—	—	923,380	1,128,011
Debt service:					
Bond and commercial paper retirement	1,793,294	64,785	1,334	1,259,493	3,118,906
Interest and fiscal charges	3,146,866	19,509	1,186	1,187,549	4,355,110
Total expenditures	**90,431,674**	**62,251,815**	**9,460,007**	**35,818,104**	**197,961,600**
Excess (deficiency) of revenues over (under) expenditures	3,048,141	5,597,402	261,447	(11,531,540)	(2,624,550)
OTHER FINANCING SOURCES (USES)					
General obligation bonds and commercial paper issued	—	—	1,468,300	3,056,700	4,525,000
Premium on bonds issued	31,478	—	102	1,027	32,607
Proceeds from loans	35,538	—	—	—	35,538
Capital leases	204,631	—	—	—	204,631
Transfers in	1,176,616	—	235	7,528,378	8,705,229
Transfers out	(4,944,732)	(5,567,127)	(942,133)	(448,808)	(11,902,800)
Total other financing sources (uses)	**(3,496,469)**	**(5,567,127)**	**526,504**	**10,137,297**	**1,600,205**
Net change in fund balances	(448,328)	30,275	787,951	(1,394,243)	(1,024,345)
Fund balances (deficit), July 1, 2010	**(19,490,913)** *	**91,279** *	**6,979,281**	**24,202,973** *	**11,782,620**
Fund balances (deficit), June 30, 2011	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**	**$ 22,808,730**	**$ 10,758,275**

* Restated

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

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ (1,024,345)**
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 net capital outlays exceed depreciation in the current period.		2,666,750
• Revenues in the Statement of Activities that do not provide current financial resources are deferred and not reported as revenues in the funds.		(97,143)
• 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.		45,155
• 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	(1,564,891)	
Revenue bond	100,846	
Certificates of participation and commercial paper	6,779	
		(1,457,266)
• 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	(352,442)	
Capital leases	80,164	
Net other postemployment benefits obligation	(2,497,450)	
Mandated costs	(642,979)	
Workers' compensation	(252,012)	
Loans payable	(35,538)	
Proposition 98 funding guarantee	368,842	
Net pension obligation	(343,393)	
Pollution remediation obligations	(48,619)	
Other noncurrent liabilities	45,151	
		(3,678,276)
Change in net assets of governmental activities		**$ (3,545,125)**

Statement of Net Assets

Proprietary Funds

June 30, 2011
(amounts in thousands)

	Business-type Activities – Enterprise Funds								Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
ASSETS									
Current assets:									
Cash and pooled investments	$ —	$ 464,978	$ —	$ 279,173	$ 1,114,375	$ 405,227	$ 456,687	$ 2,720,440	$ 707,104
Amount on deposit with U.S. Treasury	—	—	—	—	2,855,711	—	—	2,855,711	—
Investments	—	—	—	180,585	—	1,958,194	—	2,138,779	—
Restricted assets:									
Cash and pooled investments	1,751,000	—	955,038	—	—	—	67,380	2,773,418	—
Due from other governments	—	—	—	—	—	—	65,598	65,598	—
Net investment in direct financing leases	—	—	377,575	—	—	5,342	16,946	399,863	—
Receivables (net)	—	80,301	170,480	262,511	242,655	159,389	56,615	971,951	119,226
Due from other funds	6,000	2,206	27,199	517	2,361	2,170	6,329	46,782	399,837
Due from other governments	—	19,625	—	—	135,868	—	166,326	321,819	10,291
Prepaid items	—	—	—	2,212	5,223	43,801	16	51,252	107,513
Inventories	—	32,984	—	6,715	—	—	3,188	42,887	92,328
Recoverable power costs (net)	220,000	—	—	—	—	—	—	220,000	—
Other current assets	116,000	—	—	—	—	—	138	116,138	—
Total current assets	2,093,000	600,094	1,530,292	731,713	4,356,193	2,574,123	839,223	12,724,638	1,436,299
Noncurrent assets:									
Restricted assets:									
Cash and pooled investments	907,000	65,689	252,374	—	—	910	15,386	1,241,359	—
Investments	300,000	75,312	23,849	—	—	—	11,697	410,858	—
Loans receivable	—	—	—	—	—	—	238,597	238,597	—
Investments	—	—	—	997,205	—	450,532	32,247	1,479,984	—
Net investment in direct financing leases	—	—	6,585,671	—	—	394,254	38,648	7,018,573	—
Receivables	—	—	—	—	22,503	214,146	—	236,649	—
Interfund receivables	—	91,517	—	—	849,775	161,727	143,978	1,246,997	202,245
Loans receivable	—	21,040	—	—	—	95,919	3,985,208	4,102,167	—
Recoverable power costs (net)	4,809,000	—	—	—	—	—	—	4,809,000	—
Deferred charges	—	871,017	62,166	2,429	—	—	8,670	944,282	—
Capital assets:									
Land	—	136,129	—	6,469	—	70,947	1,272	214,817	2,058
Collections – nondepreciable	—	—	—	—	—	2,697	—	2,697	—
Buildings and other depreciable property	—	4,776,156	—	147,848	10,748	5,562,915	70,326	10,567,993	561,505
Intangible assets – amortizable	—	105,605	—	—	3,592	108,201	1,149	218,547	48,034
Less: accumulated depreciation/amortization	—	(2,194,406)	—	(67,812)	(4,620)	(1,781,417)	(64,681)	(4,112,936)	(463,963)
Construction in progress	—	366,975	794,192	—	—	359,951	—	1,521,118	19,414
Intangible assets – nonamortizable	—	11,005	—	—	126,378	1,250	—	138,633	—
Other noncurrent assets	—	—	—	—	—	5,074	24,150	29,224	—
Total noncurrent assets	6,016,000	4,326,039	7,718,252	1,086,139	1,008,376	5,647,106	4,506,647	30,308,559	369,293
Total assets	**$ 8,109,000**	**$ 4,926,133**	**$ 9,248,544**	**$ 1,817,852**	**$ 5,364,569**	**$ 8,221,229**	**$ 5,345,870**	**$ 43,033,197**	**$ 1,805,592**

(continued)

Statement of Net Assets (continued)

Proprietary Funds

June 30, 2011
(amounts in thousands)

				Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
LIABILITIES									
Current liabilities:									
Accounts payable	$ 174,962	$ 59,852	$ 19,450	$ 53,377	$ 4	$ 173,257	$ 52,146	$ 533,048	$ 207,271
Due to other funds	—	36,547	62,515	277,176	222,227	—	639	599,104	146,833
Due to component units	—	—	—	—	—	—	—	—	739
Due to other governments	—	111,004	11,716	—	57,758	—	22	180,500	547
Deferred revenue	—	—	—	—	—	242,180	74	242,254	—
Deposits	—	—	—	—	—	—	82	82	836
Contracts and notes payable	—	—	—	—	—	—	—	—	15,437
Advance collections	—	—	6,757	3,137	—	—	193	10,087	303,398
Interest payable	56,000	17,845	99,760	—	—	—	17,250	190,855	—
Benefits payable	—	—	—	—	793,247	—	—	793,247	—
Current portion of long-term obligations	561,000	181,947	408,191	465,693	—	292,926	95,969	2,005,726	17,229
Other current liabilities	36,000	—	—	—	105,054	328,095	153	469,302	15,366
Total current liabilities	827,962	407,195	608,389	799,383	1,178,290	1,036,458	166,528	5,024,205	707,656
Noncurrent liabilities:									
Interfund payables	—	—	—	—	—	—	—	—	139,089
Benefits payable	—	—	—	—	—	—	—	—	—
Loans payable	—	—	—	—	10,957,982	—	—	10,957,982	—
Lottery prizes and annuities	—	—	—	886,009	—	—	—	886,009	—
Compensated absences payable	—	29,052	—	6,966	43,165	83,641	2,646	165,470	123,188
Certificates of participation, commercial paper, and other borrowings	—	54,578	—	—	—	85,396	—	139,974	—
Capital lease obligations	—	—	—	—	—	734,158	—	734,158	—
General obligation bonds payable	—	362,375	—	—	—	—	756,184	1,118,559	—
Revenue bonds payable	7,275,000	2,346,444	8,425,490	—	—	3,348,117	695,959	22,091,010	—
Net other postemployment benefits obligation	3,038	97,898	—	20,408	64,312	128,545	4,592	318,793	221,310
Pollution remediation obligations	—	5,080	—	—	—	—	—	5,080	—
Other noncurrent liabilities	3,000	418,080	—	2,070	—	255,590	106,997	785,737	39,994
Total noncurrent liabilities	7,281,038	3,313,507	8,425,490	915,453	11,065,459	4,635,447	1,566,378	37,202,772	523,581
Total liabilities	**8,109,000**	**3,720,702**	**9,033,879**	**1,714,836**	**12,243,749**	**5,671,905**	**1,732,906**	**42,226,977**	**1,231,237**
NET ASSETS									
Investment in capital assets, net of related debt	—	554,854	—	86,506	136,082	599,826	5,689	1,382,957	141,295
Restricted:									
Nonexpendable	—	—	—	—	—	21,812	—	21,812	—
Expendable:									
Construction	—	650,577	192,140	—	—	34,268	—	876,985	—
Debt service	—	—	22,525	—	—	18,955	82,757	124,237	—
Security for revenue bonds	—	—	—	—	—	—	304,195	304,195	—
Lottery	—	—	—	103,016	—	—	—	103,016	—
Unemployment programs	—	—	—	—	1,810,426	—	—	1,810,426	—
Other purposes	—	—	—	—	—	39,381	357,705	397,086	—
Total expendable	—	650,577	214,665	103,016	1,810,426	92,604	744,657	3,615,945	—
Unrestricted	—	—	—	(86,506)	(8,825,688)	1,835,082	2,862,618	(4,214,494)	433,060
Total net assets (deficit)	**—**	**1,205,431**	**214,665**	**103,016**	**(6,879,180)**	**2,549,324**	**3,612,964**	**806,220**	**574,355**
Total liabilities and net assets	**$ 8,109,000**	**$ 4,926,133**	**$ 9,248,544**	**$ 1,817,852**	**$ 5,364,569**	**$ 8,221,229**	**$ 5,345,870**	**$ 43,033,197**	**$ 1,805,592**

(concluded)

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

Proprietary Funds

Year Ended June 30, 2011
(amounts in thousands)

				Business-type Activities – Enterprise Funds					Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
OPERATING REVENUES									
Unemployment and disability insurance	$ —	$ —	$ —	$ —	$ 24,655,625	$ —	$ —	$ 24,655,625	$ —
Lottery ticket sales	—	—	—	3,438,578	—	—	—	3,438,578	—
Power sales	1,443,000	193,154	—	—	—	—	—	1,636,154	—
Student tuition and fees	—	—	—	—	—	1,748,535	—	1,748,535	—
Services and sales	—	903,042	—	—	—	383,870	111,171	1,398,083	2,398,513
Investment and interest	—	—	3,864	—	—	—	123,777	127,641	—
Rent	—	—	405,832	—	—	—	16,266	422,098	—
Grants and contracts	—	—	—	—	—	96,889	—	96,889	—
Other	—	—	46,771	—	—	174,318	4,063	225,152	—
Total operating revenues	**1,443,000**	**1,096,196**	**456,467**	**3,438,578**	**24,655,625**	**2,403,612**	**255,277**	**33,748,755**	**2,398,513**
OPERATING EXPENSES									
Lottery prizes	—	—	—	1,904,788	—	—	—	1,904,788	—
Power purchases (net of recoverable power costs)	1,401,000	342,446	—	—	—	—	—	1,743,446	—
Personal services	—	232,016	—	52,084	161,401	3,724,891	16,674	4,187,066	805,991
Supplies	—	—	—	15,013	—	927,759	—	942,772	7,746
Services and charges	26,000	306,078	507	360,000	84,640	—	117,711	894,936	1,438,641
Depreciation	—	100,257	—	5,875	378	214,757	2,650	323,917	44,181
Scholarships & fellowships	—	—	—	—	—	802,409	—	802,409	—
Distributions to beneficiaries	—	—	—	—	25,372,719	—	—	25,372,719	—
Interest expense	—	—	383,185	—	—	—	81,156	464,341	62
Amortization of deferred charges	—	—	6,481	—	—	—	2,794	9,275	—
Other	—	—	—	—	—	—	2,400	2,400	—
Total operating expenses	**1,427,000**	**980,797**	**390,173**	**2,337,760**	**25,619,138**	**5,669,816**	**223,385**	**36,648,069**	**2,296,621**
Operating income (loss)	16,000	115,399	66,294	1,100,818	(963,513)	(3,266,204)	31,892	(2,899,314)	101,892
NONOPERATING REVENUES (EXPENSES)									
Donations and Grants	—	—	—	—	—	1,216,808	—	1,216,808	—
Private gifts	—	—	—	—	—	30,991	—	30,991	—
Investment and interest income	874,000	—	—	46,046	23,158	46,558	4,373	994,135	863
Interest expense and fiscal charges	(890,000)	(134,996)	—	(66,903)	—	(181,539)	(5,996)	(1,279,434)	(905)
Lottery payments for education	—	—	—	(1,102,861)	—	—	—	(1,102,861)	—
Other	—	19,597	—	66	—	24,384	(12,131)	31,916	(2,668)
Total nonoperating revenues (expenses)	**(16,000)**	**(115,399)**	**—**	**(1,123,652)**	**23,158**	**1,137,202**	**(13,754)**	**(108,445)**	**(2,710)**
Income (loss) before contributions and transfers	—	—	66,294	(22,834)	(940,355)	(2,129,002)	18,138	(3,007,759)	99,182
Capital contributions	—	—	—	—	—	—	86,272	86,272	—
Transfers in	—	—	—	—	616,657	2,703,982	—	3,320,639	397
Transfers out	—	—	(32,692)	—	—	—	(36,349)	(69,041)	(54,424)
Change in net assets	—	—	33,602	(22,834)	(323,698)	574,980	68,061	330,111	45,155
Total net assets (deficit), July 1, 2010	**—**	**1,205,431**	**181,063**	**125,850**	**(6,555,482)**	**1,974,344 ***	**3,544,903 ***	**476,109**	**529,200**
Total net assets (deficit), June 30, 2011	**$ —**	**$ 1,205,431**	**$ 214,665**	**$ 103,016**	**$ (6,879,180)**	**$ 2,549,324**	**$ 3,612,964**	**$ 806,220**	**$ 574,355**

* Restated

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

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

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2011
(amounts in thousands)

	Business-type Activities – Enterprise Funds								Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES									
Receipts from customers/employers	$ 1,546,000	$ 1,068,964	$ 752,272	$ 3,437,077	$ 24,664,839	$ 2,145,168	$ 160,421	$ 33,774,741	$ 2,274,493
Receipts from interfund services provided	—	—	—	—	—	—	1,250	1,250	104,956
Payments to suppliers	(2,182,000)	(526,170)	(1,679)	(148,893)	(84,640)	(1,006,616)	(146,186)	(4,096,184)	(1,437,493)
Payments to employees	—	(232,016)	—	(39,468)	(139,133)	(3,676,731)	(16,074)	(4,103,422)	(716,285)
Payments for interfund services used	—	—	—	(11,228)	—	—	(3,371)	(14,599)	(72,343)
Payments for Lottery prizes	—	—	—	(2,200,195)	—	—	—	(2,200,195)	—
Claims paid to other than employees	—	—	—	(233,596)	(25,586,345)	—	(2)	(25,819,943)	—
Other receipts (payments)	250,000	(3,040)	(330,466)	138,567	380,600	(678,790)	89,574	(153,555)	(39,223)
Net cash provided by (used in) operating activities	**(386,000)**	**307,738**	**420,127**	**942,264**	**(764,679)**	**(3,216,969)**	**85,612**	**(2,611,907)**	**114,105**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	3,754,686	(1,047)	32,746	3,786,385	(132)
Proceeds from bonds	1,923,000	—	—	—	—	—	—	1,923,000	—
Receipts of bond charges	862,000	—	—	—	—	—	—	862,000	—
Retirement of general obligation bonds	—	—	—	—	—	—	(202,750)	(202,750)	—
Retirement of revenue bonds	(2,500,000)	—	—	—	—	—	(175,155)	(2,675,155)	—
Interest paid on operating debt	(344,000)	—	—	—	—	—	(7,081)	(351,081)	(14)
Transfers in	—	—	—	—	616,656	2,671,979	49	3,288,684	6,395
Transfers out	—	—	(32,692)	—	—	—	(38,521)	(71,213)	(101,079)
Grants received	—	—	—	—	—	1,208,723	—	1,208,723	—
Lottery payments for education	—	—	—	(1,118,081)	—	—	—	(1,118,081)	—
Net cash provided by (used in) noncapital financing activities	**(59,000)**	**—**	**(32,692)**	**(1,118,081)**	**4,371,342**	**3,879,655**	**(390,712)**	**6,650,512**	**(94,830)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Changes in interfund payables and loans payable	—	—	—	—	—	—	80	80	—
Acquisition of capital assets	—	(86,537)	(433,845)	(49,869)	(93,104)	(596,894)	(258)	(1,260,507)	(23,835)
Proceeds from sale of capital assets	—	—	—	—	—	472	3,152	3,624	35,638
Proceeds from notes payable and commercial paper	—	79,643	—	—	—	62,200	—	141,843	—
Principal paid on notes payable and commercial paper	—	(71,538)	—	—	—	—	—	(71,538)	(16,222)
Proceeds from capital leases	—	—	—	—	—	20,032	—	20,032	—
Payment on capital debt and leases	—	—	—	—	—	(398,759)	—	(398,759)	—
Retirement of general obligation bonds	—	(56,375)	—	—	—	—	—	(56,375)	—
Proceeds from revenue bonds	—	111,053	—	—	—	—	—	111,053	—
Retirement of revenue bonds	—	(138,655)	(394,490)	—	—	—	—	(533,145)	—
Interest paid	—	(144,406)	—	—	—	—	—	(144,406)	(952)
Grants received	—	—	—	—	—	366,788	91,120	457,908	—
Net cash provided by (used in) capital and related financing activities	**—**	**(306,815)**	**(828,335)**	**(49,869)**	**(93,104)**	**(546,161)**	**94,094**	**(1,730,190)**	**(5,371)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Purchase of investments	—	(252,174)	—	(260,723)	(2,744,881)	(6,745,147)	—	(10,002,925)	—
Proceeds from maturity and sale of investments	—	252,174	—	445,223	—	6,498,710	35,666	7,231,773	—
Change in interfund receivables and loans receivable	—	1,571	—	—	179,495	—	24,429	205,495	(109,169)
Earnings on investments	26,000	8,944	—	25,292	23,158	30,903	4,424	118,721	870
Net cash provided by (used in) investing activities	**26,000**	**10,515**	**—**	**209,792**	**(2,542,228)**	**(215,534)**	**64,519**	**(2,446,936)**	**(108,299)**
Net increase (decrease) in cash and pooled investments	(419,000)	11,438	(440,900)	(15,894)	971,331	(99,009)	(146,487)	(138,521)	(94,395)
Cash and pooled investments at July 1, 2010	**3,077,000**	**519,229 ***	**1,648,312**	**295,067**	**143,044**	**505,146 ***	**685,940 ***	**6,873,738**	**801,499**
Cash and pooled investments at June 30, 2011	**$ 2,658,000**	**$ 530,667**	**$ 1,207,412**	**$ 279,173**	**$ 1,114,375**	**$ 406,137**	**$ 539,453**	**$ 6,735,217**	**$ 707,104**

*Restated

(continued)

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

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

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2011
(amounts in thousands)

			Business-type Activities – Enterprise Funds						Governmental Activities
	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 16,000	$ 115,399	$ 66,294	$ 1,100,818	$ (963,513)	$ (3,266,204)	$ 31,892	$ (2,899,314)	$ 101,892
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Interest expense on operating debt	—	—	—	—	—	—	—	—	(42)
Depreciation	—	100,257	—	5,875	378	214,757	2,650	323,917	44,181
Provisions and allowances	—	—	—	13,673	—	—	9,592	23,265	—
Accrual of deferred charges	—	—	194	—	—	—	—	194	—
Amortization of discounts	—	—	—	—	—	—	87	87	—
Amortization of deferred charges	—	83,383	6,481	(243)	—	—	6,898	96,519	—
Other	—	(3,040)	(5,038)	5,654	—	—	(4,393)	(6,817)	—
Change in assets and liabilities:									
Receivables	—	4,266	733	(35,915)	(4,154)	(55,319)	1,749	(88,640)	(12,322)
Due from other funds	—	—	(12,200)	286	146,376	—	(769)	133,693	80,003
Due from other governments	—	4,689	—	—	(45,766)	—	(42)	(41,119)	402
Prepaid items	—	—	—	—	—	117	231	348	(9,053)
Inventories	—	(9,902)	—	(1,900)	—	—	173	(11,629)	9,158
Net investment in direct financing leases	—	—	361,375	—	—	—	14,844	376,219	—
Recoverable power costs (net)	(366,000)	—	—	—	—	—	—	(366,000)	—
Other current assets	13,000	—	—	(596)	—	—	1,698	14,102	—
Loans receivable	—	—	—	—	—	—	64,060	64,060	—
Interfund receivable	—	—	—	—	13,367	(161,727)	(9,062)	(157,422)	—
Accounts payable	(49,000)	14,456	(111)	9,527	—	(12,990)	(17,147)	(55,265)	(15,710)
Due to other funds	—	8,264	1,092	37	232,857	—	(3,550)	238,700	(85,899)
Due to component units	—	—	—	—	—	—	—	—	12
Due to other governments	—	(10,034)	(1,169)	—	21,492	—	15	10,304	325
Deposits	—	—	—	—	—	212	(2)	210	(5,694)
Contracts and notes payable	—	—	—	—	—	—	—	—	(1,061)
Advance collections	—	—	(2,668)	413	—	—	(85)	(2,340)	(72,814)
Interest payable	—	—	5,144	—	—	—	(90)	5,054	—
Other current liabilities	—	—	—	—	32,050	15,323	(4,225)	43,148	9,854
Interfund payables	—	—	—	—	—	—	—	—	476
Deferred revenue	—	—	—	—	—	19,696	(83)	19,613	—
Benefits payable	—	—	—	—	(219,945)	—	(2,586)	(222,531)	(6,044)
Lottery prizes and annuities	—	—	—	(156,968)	—	—	—	(156,968)	—
Compensated absences payable	—	—	—	1,054	6,332	(9,322)	(345)	(2,281)	18,523
Capital lease obligations	—	—	—	—	—	—	—	—	(4,893)
Other noncurrent liabilities	—	—	—	549	15,847	38,488	(5,898)	48,986	62,811
Total adjustments	(402,000)	192,339	353,833	(158,554)	198,834	49,235	53,720	287,407	12,213
Net cash provided by (used in) operating activities	**$ (386,000)**	**$ 307,738**	**$ 420,127**	**$ 942,264**	**$ (764,679)**	**$ (3,216,969)**	**$ 85,612**	**$ (2,611,907)**	**$ 114,105**

(concluded)

	Electric Power	Water Resources	Public Building Construction	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
Noncash investing, capital, and financing activities									
Interest accreted on annuitized prizes	$ —	$ —	$ —	$ 66,903	$ —	$ —	$ —	$ 66,903	$ —
Interest accreted on bonds	—	—	—	23,652	—	—	—	23,652	—
Unclaimed Lottery prizes directly transferred to Education Fund	—	—	—	25,690	—	—	—	25,690	—
Unrealized loss on investment	—	—	—	3,315	—	—	—	3,315	—
Capital acquisitions financed through notes payable	—	—	—	—	—	—	—	—	6,412
Contributed capital assets	—	—	—	—	—	14,089	—	14,089	—
Acquisition of capital asset through capital lease	—	—	—	—	—	16,850	—	16,850	—
Direct deposit of debt to auxiliaries	—	—	—	—	—	27,775	—	27,775	—
Change in accrued capital assets purchases	—	—	—	—	—	27,590	—	27,590	—
Gifts in-kind	—	—	—	—	—	3,756	—	3,756	—
Miscellaneous related to auxiliary organizations and capital assets	—	—	—	—	—	1,075	—	1,075	—
Amortization of bond premium and discount	—	—	—	—	—	3,430	—	3,430	—
Amortization of loss on refundings	—	—	—	—	—	1,145	—	1,145	—

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

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

Statement of Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

June 30, 2011
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 105,099	$ 2,832,498	$ 24,012,079	$ 4,251,563
Investments, at fair value:				
Short-term	—	9,435,064	—	—
Equity securities	67,810	199,712,591	—	—
Debt securities	—	82,141,888	—	—
Real estate	—	38,232,098	—	—
Other	4,453,712	76,824,884	—	—
Securities lending collateral	—	45,620,619	—	—
Total investments	4,521,522	451,967,144	—	—
Receivables (net)	13,218	3,787,609	—	479,549
Due from other funds	2	423,144	—	13,470,613
Due from other governments	62	8	—	118,459
Prepaid Items	—	—	—	27,142
Interfund receivables	—	—	—	90,232
Loans receivable	—	—	—	6,875
Other assets	157,260	934,920	—	130
Total assets	**4,797,163**	**459,945,323**	**24,012,079**	**$ 18,444,563**
LIABILITIES				
Accounts payable	14,204	1,966,332	—	$ 5,448,842
Due to other governments	—	2,356	30,207	11,083,541
Tax overpayments	—	—	—	2,995
Benefits payable	—	2,189,941	—	169,165
Deposits	157,259	—	—	800,521
Advance collections	—	—	—	86,251
Securities lending obligations	—	45,537,244	—	—
Loans payables	—	25,985	—	—
Other liabilities	519	599,699	—	853,248
Total liabilities	**171,982**	**50,321,557**	**30,207**	**$ 18,444,563**
NET ASSETS				
Held in trust for pension benefits, pool participants, and other purposes	**$ 4,625,181**	**$ 409,623,766**	**$ 23,981,872**	

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

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2011
(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 12,023,723	$ —
Plan member	—	6,699,601	—
Total contributions	—	18,723,324	—
Investment income:			
Net appreciation in fair value of investments	485,844	68,271,940	—
Interest, dividends, and other investment income	132,765	10,229,583	112,656
Less: investment expense	(8,022)	(2,723,168)	—
Net investment income	610,587	75,778,355	112,656
Receipts from depositors	1,532,447	—	28,342,052
Other	—	25,790	—
Total additions	**2,143,034**	**94,527,469**	**28,454,708**
DEDUCTIONS			
Distributions paid and payable to participants	—	25,119,671	111,096
Refunds of contributions	—	349,567	—
Administrative expense	22	491,202	1,560
Payments to and for depositors	1,123,733	592,436	27,623,778
Total deductions	**1,123,755**	**26,552,876**	**27,736,434**
Change in net assets	1,019,279	67,974,593	718,274
Net assets, July 1, 2010	**3,605,902**	**341,649,173 ***	**23,263,598**
Net assets, June 30, 2011	**$ 4,625,181**	**$ 409,623,766**	**$ 23,981,872**

* Restated

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

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Discretely Presented Component Units Financial Statements

Statement of Net Assets

Discretely Presented Component Units – Enterprise Activity

June 30, 2011
(amounts in thousands)

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
ASSETS						
Current assets:						
Cash and pooled investments	$ 285,350	$ 1,016,798	$ 2,620,139	$ 220,808	$ 675,025	$ 4,818,120
Investments	5,854,981	1,616,110	314,851	6,119	229,613	8,021,674
Restricted assets:						
Cash and pooled investments	—	—	—	—	91,958	91,958
Investments	—	—	—	—	21,328	21,328
Receivables (net)	2,656,059	374,146	246,277	67,014	387,090	3,730,586
Due from primary government	203,541	—	—	571	187	204,299
Due from other governments	687,488	—	—	46,513	—	734,001
Prepaid items	—	—	463	—	2,158	2,621
Inventories	170,358	—	—	—	342	170,700
Other current assets	183,839	8,690	51,972	—	39,863	284,364
Total current assets	10,041,616	3,015,744	3,233,702	341,025	1,447,564	18,079,651
Noncurrent assets:						
Restricted assets:						
Cash and pooled investments	—	—	—	—	100,113	100,113
Investments	—	—	—	—	16,052	16,052
Investments	20,746,897	17,669,997	378,608	3,730,540	1,290,469	43,816,511
Receivables (net)	952,590	151,080	—	—	317,553	1,421,223
Loans receivable	—	—	6,149,078	—	345,514	6,494,592
Deferred charges	—	—	28,689	—	1,344	30,033
Capital assets:						
Land	742,021	64,873	—	—	121,820	928,714
Collections – nondepreciable	326,508	—	—	—	5,620	332,128
Buildings and other depreciable property	34,917,390	557,565	2,008	—	1,921,621	37,398,584
Intangible assets – amortizable	334,516	155,982	—	—	17,991	508,489
Less: accumulated depreciation/amortization	(15,551,800)	(356,318)	(894)	—	(842,605)	(16,751,617)
Construction in progress	2,941,642	—	—	—	17,823	2,959,465
Intangible assets – nonamortizable	—	—	—	—	5,090	5,090
Other noncurrent assets	341,752	—	405,032	—	53,471	800,255
Total noncurrent assets	45,751,516	18,243,179	6,962,521	3,730,540	3,371,876	78,059,632
Total assets	**$ 55,793,132**	**$ 21,258,923**	**$ 10,196,223**	**$ 4,071,565**	**$ 4,819,440**	$ 96,139,283

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

	University of California	State Compensation Insurance	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
LIABILITIES						
Current liabilities:						
Accounts payable	$ 1,862,653	$ 48,440	$ 13,810	$ 420,306	$ 143,106	$ 2,488,315
Due to other governments	—	—	23,222	—	466	23,688
Deferred revenue	934,801	—	—	—	73,418	1,008,219
Deposits	463,547	—	220,244	—	2,795	686,586
Contracts and notes payable	—	—	—	—	23,345	23,345
Advance collections	—	69,148	26,931	—	523	96,602
Interest payable	—	—	100,679	—	2,200	102,879
Securities lending obligations	2,168,485	—	—	—	—	2,168,485
Benefits payable	—	1,445,032	—	—	—	1,445,032
Current portion of long-term obligations	1,457,064	72,258	178,326	55,041	155,017	1,917,706
Other current liabilities	2,277,909	85,433	113,110	144,961	204,732	2,826,145
Total current liabilities	9,164,459	1,720,311	676,322	620,308	605,602	12,787,002
Noncurrent liabilities:						
Benefits payable	—	12,666,163	—	2,394,950	—	15,061,113
Loans payable	—	—	—	—	20,000	20,000
Compensated absences payable	239,462	—	—	—	12,033	251,495
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	77,483	77,483
Capital lease obligations	2,273,338	—	—	—	363,591	2,636,929
Revenue bonds payable	10,653,749	—	7,768,042	—	510,426	18,932,217
Net other postemployment benefits obligation	5,257,422	312,864	9,939	10,143	148,409	5,738,777
Other noncurrent liabilities	3,029,995	268,667	261,845	—	207,538	3,768,045
Total noncurrent liabilities	21,453,966	13,247,694	8,039,826	2,405,093	1,339,480	46,486,059
Total liabilities	**30,618,425**	**14,968,005**	**8,716,148**	**3,025,401**	**1,945,082**	59,273,061
NET ASSETS						
Investment in capital assets, net of related debt	11,161,810	422,102	1,114	—	543,520	12,128,546
Restricted:						
Nonexpendable	3,475,226	—	—	—	829,235	4,304,461
Expendable:						
Endowments and gifts	7,631,367	—	—	—	9,153	7,640,520
Education	1,106,797	—	—	—	647,319	1,754,116
Indenture	—	—	339,441	—	—	339,441
Employee benefits	—	—	—	1,046,164	—	1,046,164
Workers' compensation liability	—	5,868,816	—	—	—	5,868,816
Statute	—	—	1,139,520	—	270,736	1,410,256
Other purposes	—	—	—	—	119,656	119,656
Total expendable	8,738,164	5,868,816	1,478,961	1,046,164	1,046,864	18,178,969
Unrestricted	1,799,507	—	—	—	454,739	2,254,246
Total net assets	**25,174,707**	**6,290,918**	**1,480,075**	**1,046,164**	**2,874,358**	36,866,222
Total liabilities and net assets	**$ 55,793,132**	**$ 21,258,923**	**$ 10,196,223**	**$ 4,071,565**	**$ 4,819,440**	$ 96,139,283

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

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2011
(amounts in thousands)

	University of California	State Compensation Insurance Fund	California Housing Finance Agency	Public Employees' Benefits	Nonmajor Component Units	Total
OPERATING EXPENSES						
Personal services	$ 15,763,785	$ 693,446	$ 30,447	$ —	$ 530,158	$ 17,017,836
Scholarships and fellowships	597,350	—	—	—	46,284	643,634
Supplies	2,107,881	—	—	—	8,039	2,115,920
Services and charges	280,995	86,891	25,906	1,905,816	1,311,067	3,610,675
Department of Energy laboratories	970,054	—	—	—	—	970,054
Depreciation	1,404,837	33,026	248	—	72,116	1,510,227
Distributions to beneficiaries	—	850,439	—	—	—	850,439
Interest expense and fiscal charges	572,412	—	249,253	—	46,876	868,541
Amortization of deferred charges	—	97,061	62,858	—	152	160,071
Grants provided	144,235	—	—	—	—	144,235
Other	3,045,370	92,990	252,343	—	136,929	3,527,632
Total operating expenses	**24,886,919**	**1,853,853**	**621,055**	**1,905,816**	**2,151,621**	31,419,264
PROGRAM REVENUES						
Charges for services	13,194,408	1,071,714	409,297	2,047,922	1,033,981	17,757,322
Operating grants and contributions	8,480,327	—	42,948	—	624,973	9,148,248
Capital grants and contributions	247,259	—	—	—	7,060	254,319
Total program revenues	**21,921,994**	**1,071,714**	**452,245**	**2,047,922**	**1,666,014**	27,159,889
Net revenues (expenses)	(2,964,925)	(782,139)	(168,810)	142,106	(485,607)	(4,259,375)
GENERAL REVENUES						
Investment and interest income (loss)	2,161,329	1,166,327	(4,851)	560,596	225,788	4,109,189
Other	2,443,574	121,390	99,753	42,691	332,805	3,040,213
Total general revenues	**4,604,903**	**1,287,717**	**94,902**	**603,287**	**558,593**	7,149,402
Change in net assets	1,639,978	505,578	(73,908)	745,393	72,986	2,890,027
Net assets, July 1, 2010	**23,534,729**	**5,785,340**	**1,553,983**	**300,771**	**2,801,372 ***	33,976,195
Net assets, June 30, 2011	**$ 25,174,707**	**$ 6,290,918**	**$ 1,480,075**	**$ 1,046,164**	**$ 2,874,358**	$ 36,866,222

* Restated

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

Notes to the Financial Statements – Index

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, 2011:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions; and*

GASB Statement No. 59, *Financial Instruments Omnibus.*

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 $501 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, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 94814.

2. Fiduciary Component Units

The State has two fiduciary component units that administer pension and other employee benefit trust funds. These entities are legally separate from the State and meet the definition of a component unit because they are fiscally dependent on the State; however, due to their fiduciary nature, they are presented in the Fiduciary Fund Statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plans. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the public agency Deferred Compensation Program, 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 four pension and other employee benefit trust funds: the State Teachers' Retirement Fund; the Teachers' Health Benefits Fund; the Pension2 Program; and the Teachers' Deferred Compensation Fund. 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 Regents). 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), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. Copies of the University of California's financial statements may be obtained from the University of California, Financial Accounting, 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 corporations. It is a component unit of the State because the State appoints all 11 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, 2010, 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 financing the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and 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, 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 financial 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, 2010);

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, 2010);

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 *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

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

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, 2011, CADA had total assets of $37.3 million, total liabilities of $21.2 million, and total net assets of $16.1 million. Total revenues for the fiscal year were $10.6 million and expenses were $9.2 million, resulting in a change in net assets of $1.4 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. The Independent System Operator is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. Because the primary government is not financially accountable for the 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, California 94250-5872.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers 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, California 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 *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

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. The following are the State's largest private purpose trust funds.

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

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

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net 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. The following are the State's largest agency funds.

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

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

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the 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.

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

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 governmental 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, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, personal property, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net 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 cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets are recorded at the fair market value on the date the gift was received. Major capital asset outlays are capitalized as projects are constructed.

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

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system consists of 49,518 lane-miles and 12,893 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 or amortized 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 benefits obligation, the liability for employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, the outstanding Proposition 98 funding guarantee owed to schools, the liability for Lottery prizes and annuities, loans from other governments and fiduciary funds, and the primary government's share of the University of California pension liability that is due in more than one year. In the government-wide financial statements, current and noncurrent obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Assets.

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

Bond premiums, 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 refundings.

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, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the 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 include 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, 2011, the government-wide financial statements show restricted net assets for the primary government of $31.5 billion, of which $6.3 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 include categories of net assets similar to those in the government-wide statements. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Amounts previously reported as reserved and unreserved are now reported as *nonspendable*, *restricted*, *committed*, *assigned*, or *unassigned*.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact, such as a principal balance in a permanent fund.

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

Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the State's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the State removes or changes the specified use by taking the same type of action. The formal action that commits a fund balance to a specific purpose should occur prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds other than the General Fund, this is the residual amount of the fund that is not classified as nonspendable and is neither restricted nor committed.

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

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 $2.0 billion as a result of a prior year overstatement of $613 million in the Unemployment Programs Administration Fund, and a reclassification of $1.4 billion in the California State University Programs Fund to the **enterprise funds**. In addition, the following changes occurred as a result of the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*: a $118 million increase in the General Fund, a **major governmental fund**, a $1 million increase in the Federal Trust Fund, a **major governmental fund**, a $50 million increase in the Business and Professions Regulatory and Licensing Fund, a **nonmajor governmental fund**, a $39 million increase in the Environmental and Natural Resources Fund, a **nonmajor governmental fund**, a $96 million decrease in the Unemployment Programs Administration Fund, a **nonmajor governmental fund**, a $1.5 billion decrease in the Financing for Local Governments and the Public Fund, a **nonmajor governmental fund**, a $720 million increase in the Health Care Related Programs Fund, a **nonmajor governmental fund**, a $585 million increase in the Hospital Construction Fund, a **nonmajor governmental fund**, a $1.6 billion increase in the Local Government Construction Fund, a **nonmajor governmental fund**, and a $1.5 billion decrease in the Other Special Revenue Programs, a **nonmajor governmental fund**.

The beginning net assets of the **enterprise funds** increased by $1.2 billion as a result of reclassifications from governmental activities to the new California State University Fund. In addition, **nonmajor enterprise funds'** beginning net assets decreased by $742 million as a result of the reclassification to the new California State University Fund, a **major enterprise fund**. This had no effect on the overall beginning net assets balance for **enterprise funds**.

The beginning net assets of the **pension and other employee benefit trust funds** increased by $723 thousand as a result of the reclassification of the State Employees' Pretax Parking Fund from governmental activities.

The beginning net assets of the **discretely presented component units—enterprise activity** increased by $1 million. The net increase is comprised of a $3 million net decrease in the California State University auxiliary organizations as a result of error corrections and a change in capitalization threshold for capital assets and a $4 million increase due to the inclusion of the State Assistance Fund for Enterprise, Business, and Industrial Development Corporation.

2. Government-wide Financial Statements

The beginning net assets of the **governmental activities** decreased by $2.7 billion. In addition to the amounts described in the previous section for governmental funds, the restatement is comprised of a $192 million increase to adjust compensated absences payable; a $63 million increase to adjust the net pension obligation; a $50 million increase to adjust the net other postemployment benefits obligation; a $54 million decrease to

adjust pollution remediation obligations; a $19 million decrease to prepaid items; and a $964 million decrease to capital assets related to reclassifications to the new California State University Fund.

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

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, 2011, were legally made, and they had the effect of decreased spending authority for the Budgetary/Legal Basis reported General Fund and the Transportation Funds.

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

B. Legal Compliance

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

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

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, 2011, the discretely presented component units accounted for approximately 3.5% 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, 2011, totaling approximately $5.9 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, 2011, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $28.6 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

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, 2011, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 245 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 and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The 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, 2011, 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 $37.1 million in interest revenue received by the General Fund from the pooled investment program in the 2010-11 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, 2011, structured notes and medium-term asset-backed securities comprised approximately 3.19% of the pooled investments. A significant portion of the structured notes consisted of corporate floating-rate certificates of deposit. For the 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 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. A portion of the asset-backed portfolio holdings was short-term, asset-backed commercial paper (ABCP), which represented 1.82% 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 and Supranational Securities	5 years	N/A	N/A	N/A
Certificates of Deposit	5 years	N/A	N/A	N/A
Bankers Acceptances	180 days	N/A	N/A	N/A
Commercial Paper	180 days	30%	10% of issuer's outstanding Commercial Paper	A-2/P-2/F-2[2]
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.

[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 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, 2011
(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	0.15 - 1.63	28 days - 2.96 years	$ 35,621,950	0.91
U.S. agency bonds and discount notes	0.20 - 1.18	5 days - 337 days	4,825,246	0.44
Supranational debentures and discount notes (IBRD)	1.32	299 days	300,552	0.82
Small Business Administration loans	0.53 - 1.38	0.25 year	544,255	0.25 [2]
Mortgage-backed securities [3]	3.92 - 14.25	154 days - 3.51 years	506,294	2.73
Certificates of deposit	0.11 - 0.55	1 day - 1.15 years	7,380,020	0.15
Commercial paper	0.10 - 0.37	1 day - 124 days	7,480,975	0.12
Corporate bonds and notes	0.13 - 0.30	27 days - 33 days	550,048	0.08
Total pooled investments			**57,209,340** [4]	
Other primary government investments				
U.S. Treasuries and agencies			2,203,843	2.17
Commercial paper			339,831	0.04
Guaranteed investment contracts			225,597	11.14
Corporate debt securities			780,812	1.91
Repurchase agreements			5,439	0.00 [5]
Other			1,142,914	4.19
Total other primary government investments [6]			**4,698,436**	
Funds outside primary government included in pooled investments				
Less: investment trust funds			24,012,079	
Less: other trust and agency funds			3,286,091	
Less: discretely presented component units			2,295,603	
Total primary government investments			**$ 32,314,003**	

[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 that stated maturity is the quarterly reset date.

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

[4] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include $4.0 billion of time deposits and $4.8 billion of internal loans to state funds, primarily the General Fund.

[5] These repurchase agreements of the California State University mature in one day.

[6] Total other primary government investments include approximately $9 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, 2011
(amounts in thousands)

	Fair Value at Year End	Percent of Total Pooled Investments
Pooled investments		
Mortgage-backed		
Federal National Mortgage Association Collateralized Mortgage Obligations	$ 506,247	0.885 %
Government National Mortgage Association Pools	47	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, 2011
(amounts in thousands)

Credit Rating as of Year End: Short-term	Credit Rating as of Year End: Long-term	Fair Value
Pooled investments[1]		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 12,194,405
A-1/P-1/F-1	AA/Aa/AA	8,342,436
A-2/P-2/F-2	A/A/A	—
Not rated		506,247
Not applicable		36,166,252
Total pooled investments		**$ 57,209,340** [2]
Other primary government investments		
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 1,872,515
A-1/P-1/F-1	AA/Aa/AA	1,001,183
A-2/P-2/F-2	A/A/A	1,146,134
A-3/P-3/F-3	BBB/Baa/BBB	4,661
Not rated		638,397
Not applicable		35,546
Total other primary government investments		**$ 4,698,436**

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

[2] Total pooled investments does not include certain assets of the State's pooled investment program. The other assets include time deposits of $4.0 billion, for which credit risk is mitigated by collateral that the State holds for them—as discussed earlier in this note—and $4.8 billion in loans to state funds, primarily to the General Fund, 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, 2011
(amounts in thousands)

Issuer	Investment Type	Reported Amount	Percent of Total Agency Investments
California State University			
Federal Home Loan Bank	U.S. agency securities	$ 274,299	11.39 %
Federal Home Loan Mortgage Corporation	U.S. agency securities	277,850	11.54
Federal National Mortgage Association	U.S. agency securities	158,806	6.59
California State Lottery			
State of California	Municipal securities	$ 226,926	19.27 %
Commonwealth of Massachusetts	Municipal securities	62,772	5.33
Golden State Tobacco Securitization Corporation			
Abbey National North America LLC	Commercial paper	$ 165,100	33.04 %
Federal Home Loan Mortgage Corporation	U.S. agency securities	203,934	40.81
Federal National Mortgage Association	U.S. agency securities	130,662	26.15
Department of Water Resources			
Federal National Mortgage Association	U.S. agency securities	$ 75,313	89.10 %

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, 2011, $3 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 97% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

CalPERS reports investments in securities at fair value, generally based on published market prices and quotations from pricing vendors. Many factors are considered in arriving at fair value. Real estate investments are held either directly, in separate accounts, or as a limited partnership or in a joint venture or commingled fund. Properties owned directly or in a joint venture are subject to independent third-party 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.

CalSTRS also reports investments at fair value, generally based on published market prices and quotations from pricing vendors for securities. 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 fair value or at cost or amortized cost, which approximates fair value. For short-term investments which are reported at fair value, the investments are valued using similar methodologies as used for debt securities. 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. Private Equity partnerships are valued using their respective Net Asset Value (NAV), and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis, in conjunction with management and investment advisors. For private equity 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.

At June 30, 2011, the cash collateral had weighted average maturities of 31, 312, 367, 587, and 479 days for two externally managed portfolios, and durations of 71, 0, 32, 0, and 36 days for three internally managed portfolios.

For CalSTRS, collateral received on each security loan was placed in investments that, at June 30, 2011, had a 45-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. 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, including derivative instruments, of the fiduciary funds by investment type.

Table 6

Schedule of Investments - Fiduciary Funds
June 30, 2011
(amounts in thousands)

	Fair Value
Investment Type	
Equity securities	$ 199,780,401
Debt securities*	91,576,952
Mutual funds	10,200,315
Real estate	38,232,098
Inflation linked	8,126,757
Insurance contracts	1,591,300
Private equity	57,537,268
Securities lending collateral	45,620,619
Other	3,822,956
Total investments	**$ 456,488,666**

* 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 10% of the option-adjusted duration of its benchmark. 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 core long-term investment grade portfolios the discretion to deviate within plus or minus 20% (0.80 to 1.20) of the weighted average effective duration of the relevant performance benchmark. The permissible range of deviation for the weighted average effective duration within the opportunistic strategy portfolios is negotiated with each manager and detailed within their respective investment guidelines. The CalSTRS investment guidelines state that the average maturity of the short-term fixed-income 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.

Table 7

Schedule of Investments in Fixed-Income Securities - Fiduciary Funds - Interest Rate Risk
June 30, 2011
(amounts in thousands)

	Fair Value at Year End	Effective Duration (in years)[1]
California Public Employees' Retirement Fund [2]		
U.S. Treasuries and agencies	$ 25,235,748	7.57
Mortgages	11,258,573	4.45
Corporate	11,030,330	8.86
Asset-backed	3,861,730	2.18
Municipal	33,793	8.98
International	5,339,734	8.65
Structured investment vehicle	314,197	41.08
Floating rate collateralized mortgage-backed security	651,914	0.66
No effective duration	10,988,713	N/A
Total	**$ 68,714,732**	
Deferred Compensation Plan Fund		
Investment contracts	$ 1,379,742	2.34
Scholarshare Program Trust Fund		
Insurance contracts	$ 211,558	1.87
California State Teachers' Retirement System		
Long-term fixed-income investments		
U.S. Government and agency obligations	$ 8,004,079	4.82
Corporate	5,633,392	6.02
High yield	1,843,672	4.07
Debt core plus	2,863,252	4.45
Special situations	189,252	0.19
Debt transitions	2,836	4.46
Commercial mortgage-backed securities	761,719	3.77
Mortgage-backed securities	7,821,042	3.21
Total	**$ 27,119,244**	

	0-30 days	31-90 days	91-120 days	121-180 days	181-365 days	366+ days	Fair Value at Year End
Short-term fixed-income investments							
Money market securities	$ 562,757	$ 362,804	$ 30,000	$ —	$ —	$ —	$ 955,561
Corporate credit obligations	89,954	153,350	8,958	—	—	—	252,262
U.S. Government and agency obligations							
Noncallables	65,019	—	30,007	48,520	55,077	—	198,623
Discount notes	40,000	159,592	—	177,155	77,430	—	454,177
Callable	—	—	15,004	9,166	15,002	130,594	169,766
U.S. Treasury	—	—	—	44,990	171,014	25,097	241,101
Asset-backed securities	32,134	11,673	—	7,628	—	3,386	54,821
Total	**$ 789,864**	**$ 687,419**	**$ 83,969**	**$ 287,459**	**$ 318,523**	**$ 159,077**	**$ 2,326,311**

[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.

2. Credit Risk

The CalPERS investment policies require that 80% 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 core 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. 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 opportunistic strategies, a portion of 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, 2011
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+/P-1/F-1+	AAA/Aaa/AAA	$ 55,143,535
A-1/P-1/F-1	AA/Aa/AA	7,267,664
A-2/P-2/F-2	A/A/A	13,898,855
A-3/P-3/F-3	BBB/Baa/BBB	8,973,790
B/NP/B	BB/Ba/BB	1,753,014
B/NP/B	B/B/B	1,817,266
C/NP/C	CCC/Caa/CCC	870,114
C/NP/C	CC/Ca/CC	89,609
C/NP/C	C/C/C	17,990
D/NP/D	D/D/D	10,057
Withdrawn		893
Not rated		14,655,296
Not applicable		24,065,540
Total fixed-income securities		**$ 128,563,623**

3. Concentration of Credit Risk

The Deferred Compensation Plan Fund held $1.4 billion in investment contracts of Dwight Asset-Management Company; this amount represented 17.1% of the fund's total investments as of June 30, 2011. The Scholarshare Program Trust Fund held $211 million in investment contracts of TIAA-CREF Life Insurance Company; this amount represented 4.7% of the fund's total investments as of June 30, 2011.

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' investments at June 30, 2011 were not exposed to custodial risk. As of June 30, 2011, all of CalSTRS investments, other than those of two tax-deferred defined contribution plans amounting to $312 million held in the name of TIAA-CREF, are held in CalSTRS' name and/or are not exposed to custodial credit risk. CalPERS and CalSTRS have no general policies relating to custodial credit risk.

5. Foreign Currency Risk

At June 30, 2011, CalPERS and CalSTRS held $76.2 billion and $32.6 billion, respectively, in investments, including derivative instruments, subject to foreign currency risk. CalPERS' asset allocation and investment policies allow for active and passive investments in international securities. CalPERS' policy for total global equity specifies investment in international equities be based on market capitalization. For total fixed income, 10% is targeted for investment 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 15% of the plan's total exposure to international currencies. 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. The hedging range has been designed to allow for some degree of symmetry around the underlying exposure to the foreign denominated assets within CalSTRS in order 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 notional value of the non-U.S. public and non-U.S. private equity portfolios.

Table 9 identifies the investments, including derivative instruments, of the fiduciary funds that are subject to foreign currency risk. Derivative instruments are included in the amounts reported under equity, fixed income, and forward contracts.

Table 9

Schedule of Investments - Fiduciary Funds - Foreign Currency Risk

June 30, 2011

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

Currency	Cash	Equity	Alternative	Fixed Income	Real Estate	Spot Contracts	Forward Contracts	Total
Argentine Peso	$ —	$ —	$ —	$ —	$ —	$ 31	$ 10	$ 41
Australian Dollar	32,027	5,089,106	77,897	230,765	372,034	(37)	(2,544)	5,799,248
Bermuda Dollar	—	886	—	—	—	—	—	886
Brazilian Real	23,059	2,258,268	—	78,547	470,889	(2)	(1,354)	2,829,407
British Pound Sterling	86,544	12,503,870	3,534	1,474,695	147,362	1	18,057	14,234,063
Canadian Dollar	49,765	6,778,385	220,908	372,619	350,086	—	(6,317)	7,765,446
Cayman Islands Dollar	—	3,058	—	—	—	—	—	3,058
Chilean Peso	561	186,933	—	1,067	—	155	(108)	188,608
Chinese Yuan	—	5,124	—	—	—	—	226	5,350
Columbian Peso	936	66,965	—	—	—	—	—	67,901
Czech Koruna	486	88,605	—	—	—	—	(1,781)	87,310
Danish Krone	5,812	815,775	—	14,468	—	(1)	(975)	835,079
Egyptian Pound	221	112,130	—	—	—	—	(20)	112,331
Euro	601,046	26,752,853	3,702,132	3,050,326	965,862	128	(73,879)	34,998,468
Guatemalan Quetzal	—	—	—	—	44,988	—	—	44,988
Guernsey Pound	—	1,849	—	—	—	—	—	1,849
Hong Kong Dollar	10,666	4,736,982	—	—	1,055,508	—	614	5,803,770
Hungarian Forint	88	119,970	—	—	—	—	(321)	119,737
Indian Rupee	9,371	1,359,527	—	11	393,237	—	294	1,762,440
Indonesian Rupiah	2,349	595,576	—	3,469	—	—	(5)	601,389
Israeli Shekel	2,909	396,928	—	—	1,912	—	(499)	401,250
Japanese Yen	160,047	12,982,437	110,069	1,093,783	459,185	4	(43,682)	14,761,843
Kazakhstan Tenge	—	—	—	—	—	—	17	17
Korean Won	—	16,688	—	—	—	—	—	16,688
Malaysian Ringgit	816	474,259	—	—	—	—	28	475,103
Mexican Peso	5,071	600,551	—	127,334	220,928	4	317	954,205
Moroccan Dirham	202	10,268	—	—	—	—	(31)	10,439
New Romanian Leu	—	—	—	—	—	—	(394)	(394)
New Russian Ruble	—	—	—	—	—	—	10	10
New Taiwan Dollar	17,311	1,719,433	—	—	—	—	(247)	1,736,497
New Turkish Lira	162	313,172	—	—	—	—	—	313,334
New Zealand Dollar	1,902	97,322	—	74,993	1,714	—	(1,325)	174,606
Norwegian Krone	5,112	785,166	—	11,368	2,159	(1)	(953)	802,851
Pakistan Rupee	81	43,281	—	—	—	—	—	43,362
Peruvian Nouveau Sol	41	14,734	—	—	—	63	373	15,211
Philippine Peso	78	75,741	—	—	—	—	(77)	75,742
Polish Zloty	513	237,856	—	86,516	—	—	(1,800)	323,085
Singapore Dollar	5,196	1,157,405	—	8,610	76,764	—	(188)	1,247,787
South African Rand	12,438	1,621,253	—	21,131	—	14	964	1,655,800
South Korean Won	4,753	3,170,600	—	—	—	—	580	3,175,933
Sri Lanka Rupee	3	—	—	—	—	—	—	3
Swedish Krona	11,447	1,893,891	—	67,535	226,486	4	(1,424)	2,197,939
Swiss Franc	23,649	4,733,863	—	180	20,894	10	(13,453)	4,765,143
Thailand Baht	1,705	423,410	—	—	—	—	(344)	424,771
Tunisian Dinar	—	—	—	—	—	—	(12)	(12)
Turkish Lira	156	237,619	—	—	—	—	347	238,122
UAE Dirham	180	16,263	—	—	—	—	—	16,443
U.S. Dollar	—	3,058	—	—	—	—	—	3,058
Total investments subject to foreign currency risk	**$ 1,076,703**	**$ 92,501,060**	**$ 4,114,540**	**$ 6,717,417**	**$ 4,810,008**	**$ 373**	**$ (129,896)**	**$ 109,090,205**

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California (University) 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 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 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 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. Securities collateral 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, 2011, the university had insignificant exposure to borrower default because the amounts that it owed the borrowers were substantially the same as the amounts the borrowers owed the university. The university is 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, 2011, the securities in these pools had a weighted average maturity of 17 days.

Table 10 presents the investments, including derivative instruments, of the discretely presented component units by investment type.

Table 10

Schedule of Investments – Discretely Presented Component Units
June 30, 2011
(amounts in thousands)

Investment Type	Fair Value
Equity securities	$ 5,457,292
Debt securities*	34,395,060
Investment contracts	238,662
Mutual funds	6,199,694
Real estate	702,876
Money market securities	730,843
Private equity	942,256
Mortgage loans	705,970
Externally held irrevocable trusts	265,681
Securities lending collateral	2,168,495
Invested for others	(1,780,375)
Other	1,849,111
Total investments	**$ 51,875,565**

* Debt securities include short-term investments not included in cash and pooled investments.

1. Interest Rate Risk

Interest rate risk for the university'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 Citigroup Large Pension Fund Index and Lehman Aggregate Index, plus or minus 20%.

SCIF guidelines provide that 15% or more of its total portfolio shall be maintained 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, 2011

(amounts in thousands)

	University of California		University of California Foundations	
Investment Type	Fair Value at Year End	Effective Duration [1]	Fair Value at Year End	Effective Duration [1]
U.S. Treasury bills, notes, and bonds	$ 1,351,366	1.10	$ 222,691	3.10
U.S. Treasury strips	102,041	8.00	115	—
U.S. Treasury inflation-protected securities	225,994	4.50	—	—
U.S. government-backed securities	—	—	3,071	3.70
U.S. government-backed asset-backed securities	—	—	145	2.30
Corporate bonds	5,012,475	3.40	80,190	3.60
Commercial paper	2,517,403	0.10	—	—
U.S. agencies	981,541	2.10	10,594	3.00
U.S. agencies asset-backed securities	238,328	4.50	74,020	1.70
Corporate asset-backed securities	100,994	4.50	6,510	0.20
Supranational/foreign	1,263,165	4.60	745	4.20
Corporate (foreign currency denominated)	18,060	2.10	—	—
U.S. bond funds	81,410	5.00	318,165	4.50
Non-U.S. bond funds	—	—	50,741	5.80
Money market funds	257,403	—	436,960	1.40
Mortgage loans	705,548	—	422	—
Forward contracts on a to-be-announced basis	(1,740)	—	(1,081)	—
Other	221,836	0.30	11,960	5.20
Total	**$ 13,075,824**		**$ 1,215,248**	

	State Compensation Insurance Fund		California Housing Finance Agency	
Investment Type	Fair Value at Year End	Weighted Average Maturity (in years)	Fair Value at Year End	Effective Duration [1]
U.S. Treasury and agency securities	$ 4,488,519	3.43	$ 378,607	16.91
Municipal securities	613,986	16.23	—	—
Other government	275,994	4.56	—	—
Corporate bonds	3,836,001	3.78	—	—
Special revenue	1,658,568	15.18	—	—
Mortgage-backed securities	8,402,552	23.19	—	—
Mutual funds	10,488	0.04	—	—
Other	—	—	77,599	—
Total	**$ 19,286,108**		**$ 456,206**	

[1] Effective duration is the approximate change in price of the security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time.

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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, 2011
(amounts in thousands)

	University of California		University of California Foundations	
	Fair Value at Year End	Effective Duration	Fair Value at Year End	Effective Duration
Mortgage-Backed Securities 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.	$ 203,249	4.90	$ 63,422	1.60
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.	15,133	3.80	2,833	2.80
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.	16,369	0.50	6,510	0.20
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 rate may change. These constraints may affect the market value of the security.	140,479	3.50	—	—
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.	1,150,143	3.30	458	4.20
Convertible Bonds Convertible bonds are fixed-income securities with coupon rates that tend to be lower than those in conventional debt issues. Consequently, an increase in the market's rate of interest causes a greater decline in the price of issues of convertible bonds than that of non-convertible bonds.	1,198	9.10	—	—

2. Credit Risk

The investment guidelines for the university'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 Barclays Capital Aggregate Index, comprising approximately 25% high grade corporate bonds and 36% mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 39% 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 Aa3/AA- or better by two nationally recognized rating services. No single Canadian political subdivision may exceed 0.75% of the book value of the portfolio. Canadian political subdivisions in aggregate shall not exceed 5% of the portfolio. Securities issued and/or guaranteed by a state or its political subdivision must be rated A3/A- or better by a nationally recognized rating service. Securities issued by a qualifying corporation and purchased prior to May 9, 2008, must be rated A3/A- or better by a nationally recognized rating service.

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, 2011
(amounts in thousands)

Credit Rating as of Year End		
Short-term	**Long-term**	**Fair Value**
A-1+	AAA	$ 14,870,491
A-1/P-1	AA2/AA	5,837,000
A-2	A2/A	6,944,642
A-3	BAA2/BBB	1,803,510
B	BA2/BB	277,382
B	B2/B	280,123
C	CC or below	59,730
Not rated		1,916,551
Total fixed-income securities		**$ 31,989,429**

3. Concentration of Credit Risk

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of the university'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. The university did not have investments in a single issuer that represented 5% or more of total fair value of all investments as of June 30, 2011. Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

4. Custodial Credit Risk

The university's securities are registered in its 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.

5. Foreign Currency Risk

The university'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 14 identifies the investments of the University of California – including its campus foundations – that are subject to foreign currency risk.

Table 14

Schedule of Investments – University of California – Foreign Currency Risk

June 30, 2011

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

Currency	Equity	Real Estate	Investment Derivatives	Fixed-Income	Total
Australian Dollar	$ 119,606	$ 3,345	$ (892)	$ —	$ 122,059
Brazilian Real	—	—	—	2,855	2,855
British Pound Sterling	309,987	1,799	(320)	—	311,466
Canadian Dollar	143,905	—	(778)	—	143,127
Danish Krone	15,635	—	—	—	15,635
Euro	481,601	2,571	(2,919)	2,177	483,430
Hong Kong Dollar	53,939	4,399	—	—	58,338
Indonesian Rupiah	—	—	—	2,023	2,023
Israeli Shekel	7,772	—	—	—	7,772
Japanese Yen	301,507	2,820	435	—	304,762
Malaysian Ringgit	—	—	—	2,207	2,207
Mexican Peso	—	—	—	2,256	2,256
Norwegian Krone	15,039	—	—	—	15,039
Polish Zloty	—	—	—	1,515	1,515
Singapore Dollar	26,617	1,702	—	—	28,319
South African Rand	—	—	—	2,153	2,153
Swedish Krona	46,593	—	(514)	—	46,079
Swiss Franc	130,943	—	—	—	130,943
Turkish Lira	—	—	—	1,191	1,191
Other	17,166	2,599	123	1,683	21,571
Commingled currencies	1,236,531	—	—	41,200	1,277,731
Total investments subject to foreign currency risk	**$ 2,906,841**	**$ 19,235**	**$ (4,865)**	**$ 59,260**	**$ 2,980,471**

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NOTE 4: ACCOUNTS RECEIVABLE

Table 15 presents the disaggregation of accounts receivable attributable to taxes, interest expense reimbursements, Lottery retailer collections, California State University, and unemployment program receipts. Other receivables are for interest, gifts, grants, various fees, penalties, and other charges.

Table 15

Schedule of Accounts Receivable
June 30, 2011
(amounts in thousands)

	Taxes	Reimbursement of Accrued Interest Expense	Lottery Retailers	Unemployment Programs	California State University	Other	Total
Current governmental activities							
General Fund	$ 8,448,123	$ —	$ —	$ —	$ —	$ 854,371	$ 9,302,494
Federal Fund	—	—	—	—	—	1,034	1,034
Transportation Fund	502,001	—	—	—	—	291,012	793,013
Nonmajor governmental funds	71,063	—	—	—	—	1,023,789	1,094,852
Internal service funds	—	—	—	—	—	119,226	119,226
Total current governmental activities	**$ 9,021,187**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 2,289,432**	**$ 11,310,619**
Amounts not scheduled for collection during the subsequent year	**$ 1,494,719**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 263,173**	**$ 1,757,892**
Current business-type activities							
Water Resources Fund	$ —	$ —	$ —	$ —	$ —	$ 80,301	$ 80,301
Public Building Construction Fund	—	170,480	—	—	—	—	170,480
State Lottery Fund	—	—	262,511	—	—	—	262,511
Unemployment Programs Fund	—	—	—	242,655	—	—	242,655
California State University	—	—	—	—	159,389	—	159,389
Nonmajor enterprise funds	—	—	—	—	—	56,615	56,615
Adjustment:							
Account reclassification	—	(170,480)	—	—	—	(2,491)	(172,971)
Total current business-type activities	**$ —**	**$ —**	**$ 262,511**	**$ 242,655**	**$ 159,389**	**$ 134,425**	**$ 798,980**
Amounts not scheduled for collection during the subsequent year	**$ —**	**$ —**	**$ —**	**$ 22,503**	**$ 214,146**	**$ —**	**$ 236,649**

NOTE 5: RESTRICTED ASSETS

Table 16 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 16

Schedule of Restricted Assets
June 30, 2011
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,626,432	$ 391,132	$ 65,598	$ 238,597	$ 2,321,759
Construction	941,545	17,815	—	—	959,360
Operations	1,444,429	463	—	—	1,444,892
Other	2,371	1,448	—	—	3,819
Total primary government	**4,014,777**	**410,858**	**65,598**	**238,597**	**4,729,830**
Discretely presented component units					
Debt service	192,071	37,380	—	—	229,451
Total discretely presented component units	**192,071**	**37,380**	**—**	**—**	**229,451**
Total restricted assets	**$ 4,206,848**	**$ 448,238**	**$ 65,598**	**$ 238,597**	**$ 4,959,281**

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.

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

Table 17 summarizes the minimum lease payments to be received by the primary government.

Table 17

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	California State University	Local Agencies	Total
2012	$ 533,166	$ 199,983	$ 26,595	$ 64,641	$ 824,385
2013	523,965	199,864	28,494	63,671	815,994
2014	525,519	199,665	29,804	63,776	818,764
2015	523,975	191,290	29,741	62,177	807,183
2016	520,255	157,741	27,121	53,892	759,009
2017-2021	2,216,888	801,448	145,369	124,990	3,288,695
2022-2026	1,493,173	561,638	150,786	63,523	2,269,120
2027-2031	1,042,217	424,790	141,118	56,823	1,664,948
2032-2036	374,519	85,747	75,694	7,513	543,473
2037-2041	—	—	25,775	—	25,775
2042-2046	—	—	17,972	—	17,972
Total minimum lease payments	**7,753,677**	**2,822,166**	**698,469**	**561,006**	**11,835,318**
Less: unearned income	3,042,494	933,071	298,873	142,444	4,416,882
Net investment in direct financing leases	**$ 4,711,183**	**$ 1,889,095**	**$ 399,596**	**$ 418,562**	**$ 7,418,436**

NOTE 7: CAPITAL ASSETS

Table 18 summarizes the capital activity for the primary government, which includes $6.7 billion in capital assets related to capital leases.

Table 18

Schedule of Changes in Capital Assets – Primary Government
June 30, 2011
(amounts in thousands)

	Beginning Balance (Restated)	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 16,310,911	$ 308,217	$ 19,742	$ 16,599,386
State highway infrastructure	60,090,779	1,407,056	58,851	61,438,984
Collections	22,488	—	66	22,422
Construction in progress	6,950,846	2,855,891	1,992,721	7,814,016
Intangible assets	480,910	75,779	22,597	534,092
Total capital assets not being depreciated/amortized	**83,855,934**	**4,646,943**	**2,093,977**	**86,408,900**
Capital assets being depreciated/amortized				
Buildings and improvements	17,937,945	629,183	130,938	18,436,190
Infrastructure	660,679	51,374	29	712,024
Equipment and other assets	4,396,272	308,401	332,238	4,372,435
Intangible assets	511,825	144,472	7,619	648,678
Total capital assets being depreciated/amortized	**23,506,721**	**1,133,430**	**470,824**	**24,169,327**
Less accumulated depreciation/amortization for:				
Buildings and improvements	5,608,501	465,898	76,531	5,997,868
Infrastructure	246,693	23,498	2	270,189
Equipment and other assets	3,349,946	394,345	255,808	3,488,483
Intangible assets	322,960	40,693	6,104	357,549
Total accumulated depreciation/amortization	**9,528,100**	**924,434**	**338,445**	**10,114,089**
Total capital assets being depreciated/amortized, net	**13,978,621**	**208,996**	**132,379**	**14,055,238**
Governmental activities, capital assets, net	**$ 97,834,555**	**$ 4,855,939**	**$ 2,226,356**	**$ 100,464,138**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 217,014	$ —	$ 2,197	$ 214,817
Collections	1,885	812	—	2,697
Construction in progress	1,595,797	567,058	641,737	1,521,118
Intangible assets	48,477	99,291	9,135	138,633
Total capital assets not being depreciated/amortized	**1,863,173**	**667,161**	**653,069**	**1,877,265**
Capital assets being depreciated/amortized				
Buildings and improvements	9,146,313	724,339	1,107	9,869,545
Infrastructure	174,427	14,083	—	188,510
Equipment and other assets	435,015	88,586	13,663	509,938
Intangible assets	209,224	10,272	949	218,547
Total capital assets being depreciated/amortized	**9,964,979**	**837,280**	**15,719**	**10,786,540**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,450,848	252,447	135	3,703,160
Infrastructure	29,507	7,133	—	36,640
Equipment and other assets	256,005	42,329	9,779	288,555
Intangible assets	63,211	22,008	638	84,581
Total accumulated depreciation/amortization	**3,799,571**	**323,917**	**10,552**	**4,112,936**
Total capital assets being depreciated/amortized, net	**6,165,408**	**513,363**	**5,167**	**6,673,604**
Business-type activities, capital assets, net	**$ 8,028,581**	**$ 1,180,524**	**$ 658,236**	**$ 8,550,869**

Table 19 summarizes the depreciation expense charged to the activities of the primary government.

Table 19

Schedule of Depreciation Expense – Primary Government
June 30, 2011
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 108,852
Education	189,271
Health and human services	68,436
Resources	54,456
State and consumer services	57,913
Business and transportation	221,300
Correctional programs	180,025
Internal service funds (charged to the activities that utilize the fund)	44,181
Total governmental activities	**924,434**
Business-type activities	**323,917**
Total primary government	**$ 1,248,351**

Table 20 summarizes the capital activity for discretely presented component units.

Table 20

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2011
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 903,938	$ 26,324	$ 1,548	$ 928,714
Collections	324,654	12,364	4,890	332,128
Construction in progress	2,864,451	113,922	18,908	2,959,465
Intangible assets	5,083	8	1	5,090
Total capital assets not being depreciated/amortized	**4,098,126**	**152,618**	**25,347**	**4,225,397**
Capital assets being depreciated/amortized				
Buildings and improvements	25,715,676	1,904,355	50,606	27,569,425
Infrastructure	593,008	39,295	295	632,008
Equipment and other depreciable assets	8,851,474 *	620,763	275,086	9,197,151
Intangible assets	426,290 *	87,264	5,065	508,489
Total capital assets being depreciated/amortized	**35,586,448**	**2,651,677**	**331,052**	**37,907,073**
Less accumulated depreciation/amortization for:				
Buildings and improvements	8,947,259	889,695	28,701	9,808,253
Infrastructure	240,576	21,700	115	262,161
Equipment and other depreciable assets	5,990,162 *	548,241	224,596	6,313,807
Intangible assets	321,948	50,327	4,879	367,396
Total accumulated depreciation/amortization	**15,499,945**	**1,509,963**	**258,291**	**16,751,617**
Total capital assets being depreciated/amortized, net	**20,086,503**	**1,141,714**	**72,761**	**21,155,456**
Capital assets, net	**$ 24,184,629**	**$ 1,294,332**	**$ 98,108**	**$ 25,380,853**

* Restated

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts due taxpayers, vendors, customers, beneficiaries, and employees related to different programs. Table 21 presents details related to accounts payable.

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

Table 21

Schedule of Accounts Payable
June 30, 2011
(amounts in thousands)

	Education	Health and Human Services	Resources	Business and Transportation	General Government and Others	Total
Governmental activities						
General Fund	$ 1,962	$ 697,902	$ 106,277	$ 405	$ 525,845	$ 1,332,391
Federal Fund	125,730	424,212	138,853	222,131	465,530	1,376,456
Transportation Fund	—	55	2,331	412,827	32,763	447,976
Nonmajor governmental funds	61,085	509,224	393,861	22,608	680,842	1,667,620
Internal service funds	126	—	17,229	—	189,916	207,271
Adjustment:						
Fiduciary funds	9,339,285	3,874,587	—	24,545	654,703	13,893,120
Total governmental activities	**$ 9,528,188**	**$ 5,505,980**	**$ 658,551**	**$ 682,516**	**$ 2,549,599**	**$ 18,924,834**
Business-type activities						
Electric Power Fund	$ —	$ —	$ 174,962	$ —	$ —	$ 174,962
Water Resources Fund	—	—	59,852	—	—	59,852
Public Building Construction Fund	—	—	—	—	19,450	19,450
State Lottery Fund	—	—	—	—	53,377	53,377
Unemployment Program Fund	—	4	—	—	—	4
California State University Fund	173,257	—	—	—	—	173,257
Nonmajor enterprise funds	5,453	580	56	43,071	2,986	52,146
Adjustment:						
Fiduciary funds	—	—	—	—	639	639
Total business-type activities	**$ 178,710**	**$ 584**	**$ 234,870**	**$ 43,071**	**$ 76,452**	**$ 533,687**

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).

To fund cash flow needs for the 2010-11 fiscal year, the State issued $6.7 billion of interim RANs through private placement on October 28, 2010. The interim RANs were repaid on November 23, 2010. In addition, the State issued $10 billion of RANs on November 23, 2010. The RANs were repaid during May and June 2011.

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. The line of credit ended on February 28, 2011, as such there was no outstanding balance at June 30, 2011.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2011, the primary government had long-term obligations totaling $163.9 billion. Of that amount, $5.8 billion is due within one year. The largest change in governmental activities long-term obligations is an increase of $2.6 billion in net other postemployment benefits obligations. Another notable increase occurred in general obligation bonds payable.

As of June 30, 2011, the pollution remediation obligations increased by $103 million, to $804 million. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2011, the State estimates that remediation costs at Stringfellow will total $378 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that will probably result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. Currently, litigation is in process to determine the responsible party for Leviathan Mine, a superfund site. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup.

Not included in Note 10 are certain state mandated programs that are still in the adjudication process. Until the Commission on State Mandates (CSM) rules on a test claim and parameters and guidelines for the claim has been established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

The other long-term obligations for governmental activities consist of $3.0 billion for net pension obligations, $171 million owed for lawsuits, the University of California unfunded pension liability of $44 million, and the California Technology Agency notes payable of $25 million. The compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate net pension obligations, the Proposition 98 funding guarantee, lawsuits, reimbursement of costs incurred by local agencies and school districts for costs mandated by the State, and the University of California pension liability.

The largest change in business-type long-term obligations is an increase of $3.8 billion for loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund. The $845 million in other long-term obligations for business-type activities is mainly for advance collections.

Table 22 summarizes the changes in the long-term obligations during the year ended June 30, 2011.

Table 22

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

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year	Noncurrent Liabilities
Governmental activities						
Loans payable	$ 2,109,324	$ 35,538	$ 22,355	$ 2,122,507	$ —	$ 2,122,507
Compensated absences payable	3,367,464 *	1,425,240	1,054,108	3,738,596	17,871	3,720,725
Certificates of participation and commercial paper	1,334,319	—	4,471	1,329,848	4,760	1,325,088
Accreted interest	7,800	658	2,966	5,492	2,704	2,788
Certificates of participation and commercial paper payable	1,342,119	658	7,437	1,335,340	7,464	1,327,876
Capital lease obligations	4,967,290	204,631	289,688	4,882,233	338,225	4,544,008
General obligation bonds	76,705,309	4,525,000	2,775,554	78,454,755	2,196,360	76,258,395
Accreted interest	3,792	268	4,060	—	—	—
Premiums/discounts/other	1,036,688	32,607	54,965	1,014,330	55,749	958,581
General obligation bonds payable	77,745,789	4,557,875	2,834,579	79,469,085	2,252,109	77,216,976
Revenue bonds	7,893,297	—	170,769	7,722,528	163,558	7,558,970
Accreted interest	212,568	59,153	—	271,721	—	271,721
Premiums/discounts/other	(493,926)	—	(10,769)	(483,157)	(11,214)	(471,943)
Revenue bonds payable	7,611,939	59,153	160,000	7,511,092	152,344	7,358,748
Net other postemployment benefits obligation	7,049,820 *	4,038,482	1,481,371	9,606,931	—	9,606,931
Pollution remediation obligations	755,612 *	127,802	79,139	804,275	42,452	761,823
Proposition 98 funding guarantee	3,755,693	2,958	671,800	3,086,851	450,000	2,636,851
Mandated costs	5,189,809	785,559	91,725	5,883,643	142,580	5,741,063
Workers' compensation	2,706,739 *	699,770	376,653	3,029,856	338,906	2,690,950
Other long-term obligations	2,958,816 *	570,970	287,220	3,242,566	65,431	3,177,135
Total governmental activities	**$ 119,560,414**	**$ 12,508,636**	**$ 7,356,075**	**$ 124,712,975**	**$ 3,807,382**	**$ 120,905,593**
Business-type activities						
Benefits payable	$ 2,586	$ —	$ 2,586	$ —	$ —	$ —
Loans payable	7,203,296	3,754,686	—	10,957,982	—	10,957,982
Lottery prizes and annuities	1,464,849	2,112,738	2,225,885	1,351,702	465,693	886,009
Compensated absences payable	296,147 *	125,341	127,025	294,463	128,993	165,470
Certificates of participation and commercial paper	64,518	148,510	73,054	139,974	—	139,974
Capital lease obligation	786,216 *	5,273	—	791,489	57,331	734,158
General obligation bonds	1,479,140	—	259,125	1,220,015	100,080	1,119,935
Premiums/discounts/other	(1,477)	101	—	(1,376)	—	(1,376)
General obligation bonds payable	1,477,663	101	259,125	1,218,639	100,080	1,118,559
Revenue bonds	24,454,403	1,860,675	3,090,850	23,224,228	1,193,425	22,030,803
Premiums/discounts/other	83,691	19,578	37,182	66,087	5,880	60,207
Revenue bonds payable	24,538,094	1,880,253	3,128,032	23,290,315	1,199,305	22,091,010
Net other postemployment benefits obligation	230,346 *	142,885	54,438	318,793	—	318,793
Other long-term obligations	963,597 *	44,494	162,950	845,141	54,324	790,817
Total business-type activities	**$ 37,027,312**	**$ 8,214,281**	**$ 6,033,095**	**$ 39,208,498**	**$ 2,005,726**	**$ 37,202,772**

* Restated

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 23 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 23

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 7,576	$ 2,065	$ 9,641
2013	7,503	2,140	9,643
2014	8,140	1,503	9,643
2015	8,565	1,075	9,640
2016	11,915	625	12,540
Total	**$ 43,699**	**$ 7,408**	**$ 51,107**

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

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

To provide liquidity for the programs, the State has entered into revolving credit agreements with commercial banks. The current "Letter of Credit" agreement for the general obligation commercial paper program, effective March 11, 2010, authorizes the issuance of notes in an aggregate principal amount not to exceed $2.0 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, 2011, the enterprise fund commercial paper program had $55 million in outstanding notes.

As of June 30, 2011, the general obligation commercial paper program had $1.3 billion in outstanding commercial paper notes 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, 2011, $85.4 million in outstanding BANs existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has established a $2.0 billion commercial paper program with tax-exempt and taxable components. The program is supported by available investments in the university's investment pools. 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 derived from the University's ownership or operation of the projects financed—not by any encumbrance, mortgage, or other pledge of property—and does not constitute a general obligation of the University. At June 30, 2011, outstanding tax-exempt and taxable commercial paper totaled $246 million and $554 million, respectively. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Included in other borrowings, which total $197 million as of June 30, 2011, are various unsecured financing agreements with commercial banks totaling $56 million.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2011, was approximately $9.0 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 is comprised of $745,000 from internal service funds and $4.9 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, 2011, amounted to approximately $951 million.

Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $4.7 billion, that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency. This amount represents 96.5% of the total present value of minimum capital 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 $501 million in 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 24 summarizes future minimum lease commitments of the primary government.

Table 24

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

Year Ending June 30	Operating Leases	Capital Leases: Internal Service Funds	Capital Leases: Other Governmental Activities	Total
2012	$ 324,128	$ 765	$ 596,597	$ 921,490
2013	254,790	—	572,487	827,277
2014	180,136	—	565,052	745,188
2015	96,600	—	548,044	644,644
2016	70,969	—	528,995	599,964
2017-2021	116,173	—	2,218,303	2,334,476
2022-2026	7,551	—	1,493,173	1,500,724
2027-2031	3,871	—	1,042,217	1,046,088
2032-2036	3,236	—	374,519	377,755
2037-2041	2,725	—	—	2,725
2042-2046	663	—	—	663
2047-2051	463	—	—	463
2052-2056	126	—	—	126
2057-2061	77	—	—	77
2062-2066	33	—	—	33
2067-2071	33	—	—	33
2072-2076	33	—	—	33
2077-2081	33	—	—	33
2082-2086	33	—	—	33
2087-2091	33	—	—	33
2092-2096	33	—	—	33
2097-2101	12	—	—	12
Total minimum lease payments	**$ 1,061,751**	**765**	**7,939,387**	**$ 9,001,903**
Less: amount representing interest		20	3,057,899	
Present value of net minimum lease payments		**$ 745**	**$ 4,881,488**	

The aggregate amount of the major discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2011, was approximately $4 billion. Table 25 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, 2011, amounted to approximately $233 million for major discretely presented component units.

Table 25

Schedule of Future Minimum Lease Commitments – Major Discretely Presented Component Units
(amounts in thousands)

Year Ending June 30	University of California Capital	University of California Operating	State Compensation Insurance Fund Operating	Total
2012	$ 289,624	$ 91,946	$ 35,633	$ 417,203
2013	272,568	74,137	29,490	376,195
2014	304,238	57,634	19,256	381,128
2015	237,140	43,240	11,469	291,849
2016	199,782	30,875	3,343	234,000
2017-2021	943,709	71,707	—	1,015,416
2022-2026	714,393	9,609	—	724,002
2027-2031	551,957	4,067	—	556,024
2032-2036	183,251	4,641	—	187,892
2037-2041	—	3,692	—	3,692
Total minimum lease payments	**3,696,662**	**$ 391,548**	**$ 99,191**	**$ 4,187,401**
Less: amount representing interest	1,253,406			
Present value of net minimum lease payments	**$ 2,443,256**			

NOTE 14: COMMITMENTS

As of June 30, 2011, the primary government had commitments of $7.4 billion for certain highway construction projects. The primary government also had commitments of $682 million for terrorism prevention and disaster preparedness response projects, $451 million for various education programs, $425 million for services under the workforce development program, $358 million for services provided under various public health programs, $349 million for community service programs, $89 million for services provided under the welfare program, $64 million for services provided under the rehabilitation program, and $21 million for services provided under the child support program.

The primary government had other commitments, totaling $8.8 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Assets. The $8.8 billion in commitments includes grant agreements totaling approximately $5.7 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing and other improvements, and to reimburse counties and cities for costs associated with various programs. Any constructed assets will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $8.8 billion in commitments includes $581 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to needy persons. In addition, the $8.8 billion in commitments includes $779 million in long-term contracts to purchase power. Most of these contracts qualify

for the Normal Purchase Normal Sale (NPNS) exception under GASB 53 and, therefore, are not included on the Statement of Net Assets of the Electric Power Fund nor disclosed in Note 17.

The $8.8 billion in commitments also includes contracts of $607 million for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Assets of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. These contracts had a fair value of $183 million as of June 30, 2011. The primary government had commitments of $409 million for California State University construction projects. The University participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2011, the University's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $32 million of electricity through March 2014 and $59 million of natural gas through June 2017. The primary government also had commitments of $2 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $681 million, of which $673 million is for gaming and telecommunication systems and services and $8 million is for a construction contract. 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, 2011, the primary government encumbered expenditures of $803 million for the General Fund, $3.8 billion for the Transportation Fund, and $1.2 billion for the nonmajor governmental funds. See Note 2A for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2011, 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 $3.0 billion. The university also made commitments to make investments in certain investment partnerships pursuant to provisions in the partnership agreements. These commitments totaled $368 million as of June 30, 2011. The California Housing Finance Agency had no outstanding commitments to provide loans under its housing programs. The California Public Employees' Retirement System had capital commitments to private equity funds of $16.2 billion and commitments to purchase real estate equity of $6.9 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, 2011, the State had $78.5 billion in outstanding general obligation bonds related to governmental activities and $1.2 billion related to business-type activities. In addition, $38.3 billion of general obligation bonds had been authorized but not issued, of which $37.0 billion is related to governmental activities and $1.3 billion is related to business-type activities. The total amount authorized but not issued includes $11.3 billion authorized by the applicable finance committes for issuance in the form of commercial paper notes. Of this amount, $1.3 billion in general obligation indebtedness in the form of commercial paper notes 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, 2011, the State had $2.7 billion of variable-rate general obligation bonds outstanding, consisting of $912 million in daily rate bonds and $1.8 billion in weekly rate bonds. 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.

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. The letters of credit for the variable-rate bonds issued during the 2002-03 fiscal year have expiration dates of November 23, 2011, December 1, 2011, and December 1, 2012. The letters of credit for the variable-rate bonds issued during the 2004-05 fiscal year have an expiration date of October 15, 2012. The letters of credit for the variable-rate bonds issued during the 2005-06 fiscal year have expiration dates of November 10, 2011, January 12, 2012, and November 12, 2013.

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

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

As of June 30, 2011, the State had $7.2 billion of Economic Recovery Bonds outstanding. Of the $7.2 billion outstanding, bonds totaling $625 million are variable rate bonds, consisting of $500 million in daily rate bonds and $125 million in weekly rate bonds. 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. 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 date for these letters of credit is June 15, 2012.

C. Mandatory Tender Bonds

Of the $7.2 billion in outstanding Economic Recovery Bonds, $500 million have interest-reset dates of July 1, 2014. 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 26 because the statement presumes a successful remarketing at an interest rate of 4.0% per year. The debt service calculation in Table 26 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.

As of June 30, 2011, the State had $1.0 billion in outstanding various-purpose general obligation bonds with interest reset dates beginning April 2, 2012. On each reset date, these 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 these bonds on the first mandatory tender date and does not expect to do so. The debt service calculation in Table 26 uses the interest rates in effect at year-end, which are the same interest rates in effect until the applicable reset dates, and assumes full redemption of the bonds beginning on April 1, 2029. In the event of a failed remarketing, funding for the payment of principal and interest will be provided by the General Fund.

D. Build America Bonds

In November 2010, the State issued taxable various-purpose general obligation bonds as “Build America Bonds” in the amount of $3.0 billion. As of June 30, 2011, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 signed into law on February 17, 2009 (ARRA). While the bonds mature between 2020 and 2040, two series are part of the mandatory tender bonds previously described that have reset dates of April 2, 2012, and April 1, 2013. Pursuant to the ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. The cash payment does not constitute a full faith and credit guarantee of the United States Government, but is required to be paid by the United States Treasury under the ARRA. The cash subsidy payments received are available for use by the General Fund.

E. Debt Service Requirements

Table 26 shows the debt service requirements for all general obligation bonds as of June 30, 2011. The estimated debt service requirements for the $2.7 billion variable-rate general obligation bonds and the $625 million variable-rate Economic Recovery Bonds are calculated using the actual interest rates in effect on June 30, 2011. The amounts do not reflect any interest subsidy under the Build America Bond program or any other offsets to general fund costs of debt service.

Table 26

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

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	$ 2,196,360	$ 4,095,748	$ 6,292,108	$ 100,080	$ 51,421	$ 151,501
2013	2,075,785	3,987,359	6,063,144	82,195	47,815	130,010
2014	2,757,880	3,883,443	6,641,323	104,110	44,406	148,516
2015	2,894,975	3,748,477	6,643,452	77,565	41,129	118,694
2016	2,878,125	3,603,947	6,482,072	75,620	38,115	113,735
2017-2021	14,391,665	16,046,531	30,438,196	234,665	152,216	386,881
2022-2026	12,361,100	12,850,414	25,211,514	86,555	120,048	206,603
2027-2031	12,026,305	10,139,984	22,166,289	191,620	89,636	281,256
2032-2036	14,024,350	6,765,468	20,789,818	176,040	37,540	213,580
2037-2041	12,848,210	2,341,240	15,189,450	90,840	10,163	101,003
2042-2046	—	—	—	725	38	763
Total	**$ 78,454,755**	**$ 67,462,611**	**$ 145,917,366**	**$ 1,220,015**	**$ 632,527**	**$ 1,852,542**

F. General Obligation Bond Defeasances

1. Current Year

The primary government did not issue any refunding bonds in the 2010-11 fiscal year.

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, 2011, the outstanding balance of general obligation bonds defeased in prior years was approximately $2.8 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 $394 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation related solar energy facilities located throughout the state. Both of these bonds fund activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Assets.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, is authorized by state law to issue asset-backed bonds to purchase the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue 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 $20.0 billion, payable through 2047. The annual principal and interest payments on these bonds are expected to require all of the Tobacco Settlement Revenue and interest. Principal and interest paid in the current year and total Tobacco Settlement Revenue and interest were $375 million and $362 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 various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property, except pledged revenues, and do not constitute general obligations of the university.

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 related 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. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets.

Table 27 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 27

Schedule of Revenue Bonds Outstanding
June 30, 2011
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 380,113
Nonmajor governmental funds	
Golden State Tobacco Securitization Corporation Fund	6,771,714
Building authorities	359,265
Total governmental activities	**7,511,092**
Business-type activities	
Electric Power Fund	7,836,000
Water Resources Fund	2,462,594
Public Building Construction Fund	8,833,681
California State University Fund	3,415,092
Nonmajor enterprise funds	742,948
Total business-type activities	**23,290,315**
Total primary government	**30,801,407**
Discretely presented component units	
University of California	10,937,240
California Housing Finance Agency	7,942,003
Nonmajor component units	527,962
Total discretely presented component units	**19,407,205**
Total	**$ 50,208,612**

Table 28 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 27.

Table 28

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

	Primary Government				Discretely Presented Component Units	
Year Ending	Governmental Activities		Business-type Activities			
June 30	Principal	Interest	Principal	Interest*	Principal	Interest*
2012	$ 163,558	$ 347,921	$ 1,193,425	$ 1,109,741	$ 434,241	$ 827,681
2013	149,048	353,955	1,265,555	1,051,679	504,374	801,666
2014	158,403	360,647	1,316,655	991,239	470,184	786,763
2015	132,858	352,917	1,361,490	928,516	492,300	762,411
2016	70,984	346,388	1,387,120	864,724	509,738	736,484
2017-2021	724,262	1,662,575	7,510,113	3,302,673	2,621,468	3,311,795
2022-2026	679,060	1,667,543	4,180,730	1,870,518	2,957,488	2,673,745
2027-2031	770,913	1,500,231	2,953,545	1,001,125	3,266,218	2,011,945
2032-2036	745,010	1,244,322	1,622,745	336,585	3,210,415	1,330,168
2037-2041	1,891,609	948,766	392,810	56,231	2,192,245	685,760
2042-2046	1,812,000	783,185	40,040	2,495	1,837,525	304,724
2047-2051	696,544	3,322,012	—	—	472,290	89,257
2052-2056	—	—	—	—	222,470	957
Total	**$ 7,994,249**	**$ 12,890,462**	**$ 23,224,228**	**$ 11,515,526**	**$ 19,190,956**	**$ 14,323,356**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2011.

D. Revenue Bond Defeasances

1. Current Year—Governmental Activities

The primary government did not issue any refunding bonds in the 2010-11 fiscal year.

2. Current Year—Business-type Activities

In November 2010, the primary government issued $98 million in water system revenue bonds. The bond proceeds were used to current-refund $30 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 decrease debt service payments by $3 million over the life of the bonds and will result in an economic gain of $2 million for the refunded bonds. These water system revenue bonds are reported in the Water Resources Fund.

In October 2010, the primary goverment issued $1.8 billion in fixed-rate power supply revenue bonds to current-refund $1.1 billion of outstanding variable-rate bonds and advance-refund $813 million of outstanding fixed-rate bonds. The refunding reduced the amount of outstanding variable-rate debt and reduced the risk

and dependency from credit support providers and interest-rate swap counterparties. 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 these bonds has been removed from the financial statements. The refunding decreased overall debt service payments by $76 million and resulted in an economic gain of $25 million. The power supply revenue bonds are reported in the Electric Power Fund.

3. Current Year—Discretely Presented Component Units

In July 2010, the University of California issued $144 million in general revenue bonds. A portion of the proceeds were used to refund $146 million in outstanding revenue bonds. The bonds mature at various dates through 2024 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expenses over the term of the bonds.

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, 2011, the outstanding balance of revenue bonds defeased in prior years was $4.2 billion for governmental activities and $3.7 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, 2011, the outstanding balance of University of California revenue bonds defeased in prior years was $754 million.

NOTE 17: DERIVATIVE FINANCIAL INSTRUMENTS

Certain primary government business-type activities and discretely presented component units use derivatives—including futures, forward contracts, options and interest rate swap contracts—as a substitute for investment in equity and fixed-income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable-rate bonds to changes in market interest rates.

A futures contract is an agreement between two parties to buy and sell a security, financial index, interest rate, foreign currency, or other financial instrument at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered into to offset one's obligation. The resources or obligations acquired through these contracts are usually terminated by entering into offsetting contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. One example of a forward contract is a foreign currency exchange contract used to hedge against foreign currency exchange rate risks on non-U.S. dollar-denominated investment securities and to increase or decrease exposure to various foreign currencies. Another example is when forward contracts are used to purchase certain mortgage-backed securities on a to-be-announced (TBA) basis when the price cannot be determined until the coupon rate is known. A forward contract on a TBA basis is a commitment to purchase a mortgage-backed pass-through pooled security when issued by the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), and Government National Mortgage Association (Ginnie Mae).

An option contract gives the State the right, but not the obligation, to buy or sell a financial instrument or commodity at a fixed price during a specified period.

The State considers its futures, forward contracts, and options to be investment derivatives. A swap is a contractual agreement to exhange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. The State holds interest rate swaps as both investment derivatives and hedging derivatives.

Table 29 shows debt service requirements as of June 30, 2011, for variable-rate debt included in Table 28, 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 29

Schedule of Debt Service and Swap Requirements for Variable-rate Revenue Bonds
(amounts in thousands)

	Discretely Presented Component Units			
Year Ending June 30	Principal	Interest*	Interest-Rate* Swap Net	Total
2012	$ 36,253	$ 8,181	$ 114,719	$ 159,153
2013	40,006	6,647	106,622	153,275
2014	49,430	6,488	98,913	154,831
2015	56,251	6,326	91,851	154,428
2016	65,274	6,156	85,319	156,749
2017-2021	374,190	28,004	346,550	748,744
2022-2026	454,045	22,918	247,228	724,191
2027-2031	689,524	17,368	167,578	874,470
2032-2036	604,131	10,208	83,441	697,780
2037-2041	242,069	5,315	26,822	274,206
2042-2046	92,497	2,059	8,053	102,609
2047-2051	485	5	18	508
Total	**$ 2,704,155**	**$ 119,675**	**$ 1,377,114**	**$ 4,200,944**

* Based on rates in effect on June 30, 2011.

A. Primary Government

The Department of Water Resources (DWR) is party to interest-rate swap agreements and natural gas hedging positions that are considered to be derivatives. Table 30 summarizes the fair values, classification, and notional amounts outstanding for the DWR's natural gas hedges accounted for as derivative financial instruments.

Table 30

Schedule of Fair Values and Notional Amounts - Electric Power Fund
June 30, 2011
(dollars in thousands)

	Classification	Fair Value	Notional Amount (in MMBtu)[1]
Effective hedges			
Natural gas swaps	Other current assets	$ 3,000	7,485,000
	Other current liabilities	(30,000)	16,925,000
Total effective hedges		**$ (27,000)**	
Investment hedges			
Natural gas swaps	Other current assets	$ 2,000	10,982,500
	Other current liabilities	(3,000)	3,250,000
	Other noncurrent liabilities	(3,000)	990,000
Natural gas options	Other current assets	2,000	33,937,500
Total investment hedges		**$ (2,000)**	

[1] Millions of British thermal units.

1. Natural Gas Swaps and Options

Objective: The DWR enters into forward gas futures and options contracts to hedge the cost of natural gas. Most of the DWR's forward gas futures are being treated as normal purchase normal sale (NPNS) contracts and are therefore not required to be recorded prior to settlement. Forward gas futures not qualifying as NPNS are recorded on the statement of net assets at fair value. All natural gas options are treated as derivatives and are classified as investment derivatives. For the DWR's gas hedging contracts that are effective hedges, unrealized gains and losses are deferred on the statement of net assets as other current assets or liabilities for contracts with fewer than 12 months remaining until expiration, or as other noncurrent assets or liabilities for contracts with more than 12 months remaining until expiration. The deferred amount recorded on the statement of net assets reflects the deferred inflow or outflow associated with the derivative financial instruments. Changes in fair value of derivatives that are classified as investment derivatives are included as investment and interest income on the statement of revenues, expenses, and changes in fund net assets.

Fair Value: The reported fair values from Table 30 above were determined based on quoted market prices for similar financial instruments.

Credit Risk: The DWR's open natural gas hedge positions at June 30, 2011 are with nine different counterparties, all of which have credit ratings of at least A-/Baa1. At June 30, 2011, the DWR has credit risk exposure to three counterparties totaling $2 million, representing transactions with market values that are in the DWR's favor. There is no substantial credit exposure to the remaining six counterparties, as the decrease in natural gas prices has resulted in valuations in the counterparties' favor. The remaining gas hedge positions have been entered into through the DWR's brokerage accounts and the associated clearing accounts have collateral requirements that limit the DWR's counterparty credit risk.

Termination Risk: With regards to gas hedge agreements, the DWR or the counterparty may terminate an agreement if the other party fails to perform under the terms of the contract. In addition, the agreements allow either party to terminate in the event of a significant loss of creditworthiness by the other party. If a termination were to occur, the DWR or the counterparty would owe the other a payment equal to the fair value of the open positions.

2. Interest-Rate Swaps

Termination of Interest Rate Swaps: As part of the Series 2010 M refunding transaction in October 2010, the DWR terminated all remaining interest rate swaps for $102 million to settle the negative fair market value of the swap agreements. The interest rate swap derivative values were removed from the statements of net assets and the loss incurred on termination is being deferred and amortized as part of the refunding transaction.

B. Fiduciary Funds

Under the State Constitution and statutory provisions governing the investment authority of the California Public Employees' Retirement System (CalPERS), CalPERS holds investments in swaps, options, futures, rights, and warrants and enters into forward foreign currency exchange. The fair value of options, futures, rights, and warrants is determined based upon quoted market prices. The fair value of derivative investments that are not exchange traded, such as swaps, is determined by an external pricing service using various proprietary methods. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

CalPERS uses forward foreign currency exchange contracts primarily to hedge against changes in exchange rates related to foreign securities. Derivatives with positive fair values are recorded as either investments or receivables (net) in the statement of fiduciary net assets. Derivatives with negative fair values are recorded as other liabilities in the statement of fiduciary net assets. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the statement of changes in fiduciary net assets.

The California State Teachers' Retirement System (CalSTRS) also holds investments in derivative instruments. CalSTRS' investments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using methods employed for debt securities. Futures contracts are marked-to-market at the end of each trading day and the settlement of gains or losses occur on the following business day. As a result, the derivative instruments themselves have no fair value at June 30, 2011, or at the end of any trading day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and are recognized as net appreciation or depreciation in fair value of investments as they are incurred.

CalSTRS holds foreign currency forwards, which are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at June 30, 2011. Derivatives with positive fair values are recorded as investments in the statement of fiduciary net assets. Derivatives with negative fair values are recorded as accounts payable in the statement of fiduciary net assets. Changes in fair value are recorded as net appreciation or depreciation in fair value of investments in the statement of changes in fiduciary net assets.

All fiduciary fund derivative instruments are included in the investments disclosed in Note 3, Deposits and Investments. Table 31 presents the net appreciation (depreciation) in fair value, the fair values, and notional amounts of derivative instruments outstanding of these fiduciary funds.

Table 31

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - Fiduciary Funds
June 30, 2011
(dollars in thousands)

Investment Type	Net Appreciation (Depreciation) in Fair Value	Classification	Fair Value	Notional Amount
Credit default swaps	$ 605	Debt securities	$ 75	$ 29,936
Credit default swaps bought	(3,304)	Debt securities	6,218	44,150
Credit default swaps written	2,307	Debt securities	1,184	77,150
Equity options bought	(8,427)	Equity securities	1,960	1,462,500 shares
Equity options written	7,286	Equity securities	(2,354)	(120,000) shares
Fixed-income futures long	910	Investment sales/purchases	—	195,643
Fixed-income futures short	(8,336)	Investment sales/purchases	—	(785,991)
Fixed-income options written	11,029	Equity securities	(4,568)	(496,183)
Foreign currency options bought	(3,238)	Equity securities	1,488	275,954
Foreign currency options written	1,210	Equity securities	(51)	(5,219)
Foreign currency forwards	(115,428)	Foreign currency contracts	(1,224)	7,105,386
Futures options bought	(5,475)	Debt securities	12,120 [1]	786,625
Futures options written	2,409	Debt securities	(70)	(46,540)
Futures options written	1,195	Equity securities	—	—
Futures (domestic and foreign)	84,232	Futures	—	(751,635)
Foreign exchange forwards	(1,186,921)	Investment sales/purchases	(128,672)	28,140,569
Index futures long	1,453,941	Investment sales/purchases	—	31,587
Index futures short	30	Investment sales/purchases	—	—
Interest-rate swaps	(5,803)	Debt securities	(9,613)	429,153
Pay-fixed interest-rate swaps	(5,683)	Debt securities	(1,745)	118,228
Receive-fixed interest-rate swaps	2,739	Debt securities	769	149,011
Rights	(1,042)	Equity securities	5,088	27,885,963 shares
Total return bond swaps	(126,841)	Debt securities	(131,061)	2,642,443
Warrants	(2,751)	Equity securities	4,002	991,950 shares
Total	**$ 94,644**		**$ (246,454)**	

[1] The total Futures options bought of $12,120 is comprised of debt and equity securities option bought of $11,611 and $509, respectively.

Interest Rate Risk: Table 32 describes the maturity periods of the derivative instruments during which these fiduciary funds were exposed to interest rate risk.

Table 32

Schedule of Derivative Instruments Subject to Interest Rate Risk - Fiduciary Funds
June 30, 2011
(amounts in thousands)

Investment Type	Fair Value	Investment Maturities (in years) Under 1	1-10	10+
Credit default swaps	$ 75	$ —	$ (93)	$ 168
Credit default swaps bought	6,218	(194)	179	6,233
Credit default swaps written	1,184	18	1,166	—
Fixed income options	11,611	—	11,611	—
Fixed income options written	(4,568)	(4,055)	(513)	—
Interest-rate swaps	(9,613)	—	(7,510)	(2,103)
Pay fixed interest-rate swaps	(1,745)	—	(614)	(1,131)
Receive fixed interest-rate swaps	769	—	(851)	1,620
Total return bond swaps	(131,061)	(97,249)	(33,884)	72
Total	**$ (127,130)**	**$ (101,480)**	**$ (30,509)**	**$ 4,859**

Table 33 details the reference rate, fair value and notional amount of the derivative instruments held by these fiduciary funds that were highly sensitive to changes in interest rate risk.

Table 33

Schedule of Derivative Instruments Highly Sensitive to Interest Rate Changes - Fiduciary Funds
June 30, 2011
(amounts in thousands)

Investment Type	Reference Rate	Fair Value	Notional Amount
Interest-rate swaps	Receive variable 3-month LIBOR, pay fixed 4.25%	$ (1,131)	$ 34,600
	Receive variable 3-month LIBOR, pay fixed 3.928%	(1,860)	75,000
	Receive variable 3-month LIBOR, pay fixed 3.905%	(4,711)	175,000
	Receive variable 3-month LIBOR, pay fixed 3.829%	(743)	12,000
	Receive variable 3-month LIBOR, pay fixed 3.575%	(938)	150,000
	Receive variable 3-month LIBOR, pay fixed 3.50%	(686)	31,200
	Receive variable 3-month LIBOR, pay fixed 3.36%	815	40,428
	Receive variable 3-month LIBOR, pay fixed 0%	(2,104)	29,153
	Receive fixed 5.8%, pay variable 6-month CDOR[1]	219	8,807
	Receive fixed 2.0%, pay variable 6-month LIBOR[2]	(58)	19,812
	Receive fixed 1.5%, pay variable 6-month LIBOR	1,459	61,912
	Receive fixed 4.385%, pay variable 3-month LIBOR	(215)	17,336
	Receive fixed 6.96%, pay variable 1-month TIIE[3]	(667)	38,484
	Receive fixed 6.75%, pay variable 1-month TIIE	23	1,885
	Receive fixed 6.59%, pay variable 1-month TIIE	8	776
Subtotal Interest-rate swaps		**$ (10,589)**	**$ 696,393**
Fixed-income options	Swaption 5YR RTP FEB13 5.11 PUT	$ 1,554	$ 250,000
	Swaption 5YR RTR MAR13 3.405 CALL	5,038	175,000
	Swaption 5YR RTR APR13 3.428 CALL	2,123	75,000
	Swaption 5YR RTR MAY13 3.075 CALL	1,450	75,000
	Swaption 5YR RTR MAY13 3.075 CALL	1,446	75,000
Subtotal Fixed-income options		**$ 11,611**	**$ 650,000**
Total return bond swaps	Receive fixed 1.00%, pay fixed 1.00%	**$ (131,120)**	**$ 2,623,499**
Total		**$ (130,098)**	**$ 3,969,892**

[1] Canadian Dealer Offered Rate (CDOR)
[2] London Interbank Offered Rate (LIBOR)
[3] Tasa de Interes Interbancaria de Equilibrio (TIIE)

Credit Risk: Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS seeks to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral and exposure monitoring procedures.

Table 34 details the counterparty, percent of net exposure, and credit ratings for the derivative instruments held by CalPERS that were subject to credit risk.

Table 34

Schedule of Derivative Instruments Subject To Credit Risk - California Public Employees' Retirement System
June 30, 2011

Counterparty	Percent of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Societe Generale	21.53 %	A+	A+	Aa2
JP Morgan Chase Bank NA	21.45	AA-	AA-	Aa1
Credit Suisse Securities (USA), LLC	14.72	A+	AA-	Aa1
UBS AG	12.47	A+	A+	Aa3
Barclays Capital	11.32	AA-	AA-	Aa3
Goldman Sachs International	11.27	A	A+	A1
Royal Bank of Scotland PLC	3.64	A+	AA-	Aa3
Morgan Stanley and Co. International PLC	1.82	A	A	A2
BNP Paribas	1.27	AA	AA-	Aa2
Deutsche Bank AG London	0.51	A+	AA-	Aa3

In cases where a wholly owned broker-dealer does not engage the rating companies for a standalone rating, the subsidiary is assigned the parent company rating as the broker-dealer is an integral part of their business model(s). With the exception of foreign currency forwards, it is CalSTRS' practice to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments where it is consistent with market practice. As of June 30, 2011, the aggregate amount of cash collateral held at CalSTRS on behalf of the non-exchange traded derivatives was $3 million. The aggregate fair value of investment derivative instruments in an asset position subject to counterparty credit risk at June 30, 2011, was $8.1 million. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. At June 30, 2011, CalSTRS did not have any significant exposure to counterparty credit risk with any single party.

While CalSTRS did not have any master netting agreements with its counterparties at June 30, 2011, Table 35 presents exposure for similar instruments with the same counterparty on a net basis and describes the counterparty credit ratings for the non-exchange-traded derivative instruments held by CalSTRS that were outstanding and subject to loss.

Table 35

Schedule of Counterparty Credit Rating - California State Teachers' Retirement System
June 30, 2011
(amounts in thousands)

Ratings	Credit Defalt Swaps	Interest-Rate Swaps	Total Return Swaps	Foreign Currency Forwards	Total
AA	$ —	$ —	$ 34	$ 1,995	$ 2,029
A	688	—	27	5,367	6,082
Subtotal investments in asset position	**688**	**—**	**61**	**7,362**	**8,111**
Investments in liability position	(613)	(9,613)	(2)	(8,586)	(18,814)
Total investments in asset/ (liability) position	**$ 75**	**$ (9,613)**	**$ 59**	**$ (1,224)**	**$ (10,703)**

C. Discretely Presented Component Unit—University of California

The University of California, a discretely presented component unit, holds investment derivatives in futures and forward contracts, and interest-rate swap contracts. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy. The university enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. The university also holds interest-rate swaps that are derivative instruments that meet the criteria for an effective hedge. Certain of the interest-rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the university received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instrument was $30 million at June 30, 2011. Derivatives are recorded at fair value as either assets or liabilities in the statement of net assets. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash-flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other noncurrent liabilities and deferred outflows with other noncurrent assets in the statement of net assets. Changes in the fair value of derivatives that are not hedging derivatives are reported as net appreciation or depreciation in fair value of investments in the statement of activities. Table 36 summarizes the fair value balances and notional amounts of derivative instruments outstanding, categorized by type, and the changes in fair value of such derivatives.

Table 36

Schedule of Changes in Fair Values, Fair Values, and Notional Amounts - University of California
June 30, 2011
(amounts in thousands)

	Changes in Fair Value	Classification	Fair Value	Notional Amount
Investment derivatives				
Domestic equity futures contracts long	$ 45,109	Investments	$ 1,725	$ 238,874
Domestic equity futures contracts short	(303)	Investments	—	—
Foreign equity futures contracts long	3,267	Investments	397	33,368
Foreign equity futures contracts short	(883)	Investments	(130)	(9,524)
Foreign currency exchange contracts long	40,678	Investments	(127)	37,705
Foreign currency exchange contracts short	(78,301)	Investments	(5,005)	(486,844)
Stock rights/warrants	498	Investments	1,400	—
Total investment derivatives	**$ 10,065**		**$ (1,740)**	**$ (186,421)**
Cash flow hedges				
Interest-rate swaps		Other noncurrent		
Pay fixed, receive variable	$ 16,990	assets (liabilities)	$ (47,092)	$ 260,690

Table 29 includes the university's debt service requirements and net swap payments as of June 30, 2011. Total principal, variable interest, and interest rate net swap payments are $261 million, $42 million, and $209 million, respectively.

Objective and Terms: The university entered into interest-rate swap agreements in connection with certain variable-rate Medical Center Pooled Revenue Bonds as a means to lower borrowing costs, rather than using fixed-rate bonds at the time of issuance. Under each swap agreement, the university pays the swap counterparties a fixed-interest-rate payment and receives a variable-interest-rate payment that effectively changes the variable-interest-rate bonds to synthetic fixed-rate bonds.

Fair Value: There is a risk that the fair value of a swap will become negative as a result of market conditions. The swaps have an estimated negative fair value of $47 million as of June 30, 2011. 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, 2011. The fair value was estimated by financial institutions or independent advisors using available quoted market prices or discounted expected future net cash flows.

Table 37 summarizes the terms and fair value of the swap agreements.

Table 37

Schedule of Terms and Fair Values of Swap Agreements
(amounts in thousands)

Swap Termination Date	Effective Date	Outstanding Notional Amount at June 30, 2011	Fair Value at June 30, 2011	Fixed Rate Paid by University of California	Variable Rate Received by University of California	Counterparty Credit Ratings (Moody's, S&P's)
2032	2001	$ 85,915	$ (9,133)	3.5897 %	58% of 1-Month LIBOR + 0.48%*	A2, A
2047	2008	174,775	(37,959)	4.6873	67% of 3-Month LIBOR + 0.73%*	Aa3, A+
Total		**$ 260,690**	**$ (47,092)**			

* Weighted average spread

Interest Rate Risk: There is a risk the value of the interest-rate swaps will decline because of changing interest rates. The values of the interest-rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

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. However, there is no basis or tax risk related to the swap with the $175 million notional amount since the variable rate the university pays to the bond holders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk: The university is exposed to risk in the event of nonperformance by counterparties resulting in cancellation of the synthetic interest rate and returning the interest-rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain swaps may be terminated if the counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. At termination, the university may also owe a termination payment if there is a realized loss based on the fair value of the swap.

Credit Risk: The university could be exposed to credit risk if the interest-rate swap counterparties to the contracts are unable to meet the terms of the contracts. 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, less any collateral held by the university provided by the counterparty. Contracts with negative fair values are not exposed to credit risk. There are no collateral requirements related to the interest-rate swap with the $86 million notional amount. Depending on the fair value related to the swap with the $175 million notional amount, the university may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $75 million or the cash and investments held by the medical centers fall below $250 million. As of June 30, 2011, no collateral was required.

D. Discretely Presented Component Unit—California Housing Finance Agency

The California Housing Finance Agency (CalHFA), a discretely presented component unit, holds interest-rate swaps that are derivative instruments. As of June 30, 2011, the fair value of the swaps is reported as other noncurrent assets or as other noncurrent liabilities in the statement of net assets. The cumulative gain or loss on the fair value of the effective swaps is reported as other noncurrent assets or as other noncurrent liabilities in the statement of net assets. Alternatively, the gain or loss on the fair value of the ineffective swaps is reported as other general revenues in the statement of activities. CalHFA did not pay or receive any cash when the swap transactions were initiated except for in-substance assignments. Except as discussed under rollover risk, CalHFA's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable. Table 38 summarizes the swap fair value activity in the statement of net assets and the statement of activities.

Table 38

Schedule of Swap Agreement Fair Value - California Housing Finance Agency
June 30, 2011
(amounts in thousands)

	Amount
Statement of net assets:	
Other noncurrent assets	$ 212,487
Other noncurrent liabilities	252,486
Statement of activities:	
Other general revenues (expenses)	(3,360)

Table 29 includes debt service requirements and net swap payments as of June 30, 2011, for CalHFA. Total principal, variable interest, and interest rate net swap payments are $2.4 billion, $77 million, and $1.2 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 has used multiple swap formulas. As of June 30, 2011, the formulas for the swap portfolio used the SIFMA, the one-month LIBOR, the three-month LIBOR, and the six-month LIBOR rates. The swap formula will continue to be monitored for its effectiveness in case CalHFA chooses to enter into any future interest-rate swaps. In addition, CalHFA entered into eight basis swaps as a means to change the variable-rate formula received from counterparties for $240 million outstanding notional amount from 65% of LIBOR to varying floating rates.

Terms, Fair Value, and Credit Risk: CalHFA uses 13 counterparties for its interest-rate swap transactions. All of CalHFA's interest-rate swap agreements require CalHFA to post collateral if its general obligation credit ratings, as issued by Moody's and Standard & Poor's, fall below a certain level or if the fair value of the swaps breach a certain threshold. The collateral can be posted in several forms in the amount of the fair value of the interest-rate swaps. If CalHFA does not post collateral, the interest-rate swap can be terminated by the counterparty. As of June 30, 2011, CalHFA's swap portfolio has an aggregate negative fair value of $252 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 has no net exposure to credit risk. CalHFA has 106 swap transactions, with outstanding notional amounts of $2.8 billion, effective dates from December 9, 1999, to November 1, 2009, and scheduled termination dates from August 1, 2012, to August 1, 2042. Standard & Poor's credit ratings for these counterparties range from A- to AAA; Moody's credit ratings range from A3 to Aaa.

Interest Rate Risk: CalHFA is exposed to interest rate risk on its fixed-payer swaps. As the LIBOR or the SIFMA swap index decreases, CalHFA's net payments on the swaps increase.

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. For swaps associated with tax-exempt bonds for which CalHFA receives a variable-rate payment based on a percentage of LIBOR, CalHFA is exposed to basis risk if the relationship between SIFMA and LIBOR converges. As of June 30, 2011, the SIFMA rate was 0.09%, the one-month LIBOR was 0.19%, the three-month LIBOR was 0.25%, and the six-month LIBOR was 0.40%.

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

Rollover Risk: CalHFA is exposed to rollover risk on interest-rate swaps that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these swaps terminate, CalHFA will be re-exposed to the risks being hedged by the swaps.

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NOTE 18: 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. In addition, interfund borrowing, mainly from nonmajor governmental funds and fiduciary funds, is used to meet temporary imbalances of receipts and disbursements in the General Fund. Table 39 presents the amounts due from and due to other funds.

Table 39

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2011
(amounts in thousands)

	Due To													
Due From	**General Fund**	**Federal Fund**	**Transportation Fund**	**Nonmajor Governmental Fund**	**Electric Power Fund**	**Water Resources Fund**	**Public Building Construction Fund**	**State Lottery Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total**
Governmental funds														
General Fund	$ —	$ —	$ 215,916	$ 1,130,821	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,302	$ 192,585	$ 8,907,937	$ 10,448,561
Federal Fund	970,235	—	1,171,808	199,785	—	—	—	—	—	—	4,165	41,319	4,942,794	7,330,106
Transportation Fund	1	—	—	33,426	—	—	275	—	—	—	—	24,097	35,057	92,856
Nonmajor governmental funds	29,670	—	28,755	32,600	—	—	—	—	—	2,170	46	33,113	5,219	131,573
Total governmental funds	**999,906**	**—**	**1,416,479**	**1,396,632**	**—**	**—**	**275**	**—**	**—**	**2,170**	**5,513**	**291,114**	**13,891,007**	**18,003,096**
Enterprise funds														
Water Resources Fund	—	—	—	—	—	—	—	—	—	—	—	36,547	—	36,547
Public Building Construction Fund	1,388	—	—	—	—	—	—	—	—	—	—	60,499	628	62,515
State Lottery Fund	177	—	—	276,999	—	—	—	—	—	—	—	—	—	277,176
Unemployment Programs Fund	175,982	46,245	—	—	—	—	—	—	—	—	—	—	—	222,227
Nonmajor enterprise funds	30	—	—	550	—	—	—	—	—	—	—	48	11	639
Total enterprise funds	**177,577**	**46,245**	**—**	**277,549**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**97,094**	**639**	**599,104**
Internal service funds	**15,775**	**—**	**25,720**	**52,772**	**6,000**	**2,206**	**26,924**	**517**	**2,361**	**—**	**816**	**11,629**	**2,113**	**146,833**
Total primary government	**$ 1,193,258**	**$ 46,245**	**$ 1,442,199**	**$ 1,726,953**	**$ 6,000**	**$ 2,206**	**$ 27,199**	**$ 517**	**$ 2,361**	**$ 2,170**	**$ 6,329**	**$ 399,837**	**$ 13,893,759**	**$ 18,749,033**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 39, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund and nonmajor governmental funds—to the General Fund. The $2.6 billion in Transportation Fund loans payable from the General Fund also includes $1.3 billion of deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program. Table 40 presents the interfund receivables and payables.

Table 40

Schedule of Interfund Receivables and Payables
June 30, 2011
(amounts in thousands)

	Interfund Payables									
Interfund Receivables	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Water Resources Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Agency Funds**	**Total**
Governmental funds										
General Fund	$ —	$ 2,598,754	$ 4,880,735	$ —	$ 849,775	$ 161,727	$ 143,978	$ 193,684	$ 90,232	$ 8,918,885
Transportation Fund	—	—	—	—	—	—	—	2,421	—	2,421
Nonmajor governmental funds	6,654	9,872	—	—	—	—	—	—	—	16,526
Total governmental funds	**6,654**	**2,608,626**	**4,880,735**	**—**	**849,775**	**161,727**	**143,978**	**196,105**	**90,232**	**8,937,832**
Internal service funds	**40,650**	**—**	**782**	**91,517**	**—**	**—**	**—**	**6,140**	**—**	**139,089**
Total primary government	**$ 47,304**	**$ 2,608,626**	**$ 4,881,517**	**$ 91,517**	**$ 849,775**	**$ 161,727**	**$ 143,978**	**$ 202,245**	**$ 90,232**	**$ 9,076,921**

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

Table 41

Schedule of Due From Primary Government and Due to Component Units
June 30, 2011
(amounts in thousands)

	Due To			
	Component Units			
Due From	University of California	Public Employees' Benefits Fund	Nonmajor Component Units	Total
Governmental funds				
General Fund	$ 198,389	$ —	$ —	$ 198,389
Nonmajor governmental funds	5,152	—	19	5,171
Total governmental funds	**203,541**	**—**	**19**	**203,560**
Internal service funds	**—**	**571**	**168**	**739**
Total primary government	**$ 203,541**	**$ 571**	**$ 187**	**$ 204,299**

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B. Interfund Transfers

As required by law, transfers move money collected by one fund to another fund, which then 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 $2.6 billion to California State University (a major enterprise fund) and $1.5 billion to nonmajor governmental funds for support of trial courts. The Federal Fund transferred $4.0 billion to nonmajor governmental funds for hospital services under the Medi-Cal program. Table 42 presents interfund transfers of the primary government.

Table 42

Schedule of Interfund Transfers
June 30, 2011
(amounts in thousands)

	Transferred To						
Transferred From	**General Fund**	**Transportation Fund**	**Nonmajor Governmental Funds**	**Unemployment Programs Fund**	**California State University Fund**	**Internal Service Funds**	**Total**
Governmental funds							
General Fund	$ —	$ —	$ 2,381,813	$ —	$ 2,562,919	$ —	$ 4,944,732
Federal Fund	749,389	—	4,201,081	616,657	—	—	5,567,127
Transportation Fund	171,253	—	770,880	—	—	—	942,133
Nonmajor governmental funds	209,888	235	129,917	—	108,371	397	448,808
Total governmental funds	**1,130,530**	**235**	**7,483,691**	**616,657**	**2,671,290**	**397**	**11,902,800**
Public Building Construction Fund	—	—	—	—	**32,692**	—	**32,692**
Nonmajor enterprise funds	**36,349**	—	—	—	—	—	**36,349**
Internal service funds	**9,737**	—	**44,687**	—	—	—	**54,424**
Total primary government	**$ 1,176,616**	**$ 235**	**$ 7,528,378**	**$ 616,657**	**$ 2,703,982**	**$ 397**	**$ 12,026,265**

NOTE 19: FUND BALANCES, FUND DEFICITS, AND ENDOWMENTS

A. Fund Balances

The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned. See Note 1K for the new fund balance classifications as defined by GASB. For purposes of reporting in the State's CAFR, the following are the State's policies based on its interpretation of GASB Statement No. 54.

Committed fund balance: The highest level of decision-making authority within California statewide government is the California Legislature. The formal action required to establish, modify, or rescind a fund balance commitment is a statute that becomes law after a bill is passed. Commitments of fund balance, approved by State Legislative action, must be in place prior to the end of the State's fiscal year. The California State Legislature is made up of two houses: the Senate and the Assembly. Both houses must approve a bill. If both houses approve a bill, it then goes to the Governor. The Governor has three choices: the Governor can sign the bill into law, allow it to become law without his or her signature, or veto it. A governor's veto can be overridden by a two-thirds vote in each house.

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

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

Table 43 presents the composition of the fund balance of the governmental funds.

Table 43

Schedule of Fund Balance by Function
June 30, 2011
(amounts in thousands)

	General	Federal	Transportation	Nonmajor Governmental
Nonspendable				
Long-term interfund receivables	$ 47,304	$ —	$ —	$ —
Long-term loans receivable	100,715	—	—	—
Assets not in spendable form	—	—	—	32,196
Legally or contractually required to remain intact	—	—	—	7,252
Total nonspendable	**148,019**	**—**	**—**	**39,448**
Restricted				
General government	4,209	—	—	3,269,987
Education	59,328	296	4,632	1,426,403
Health and human services	89,026	212	—	4,125,104
Resources	—	10,651	—	7,247,289
State and consumer services	3,933	—	206,272	539,601
Business and transportation	—	110,395	7,512,567	3,252,114
Correctional programs	—	—	—	3,802
Total restricted	**156,496**	**121,554**	**7,723,471**	**19,864,300**
Committed				
General government	16,698	—	—	550,710
Education	4,433	—	—	47,149
Health and human services	8,719	—	2,304	189,458
Resources	—	—	20	1,350,585
State and consumer services	—	—	—	61,372
Business and transportation	—	—	46,201	437,593
Correctional programs	—	—	—	16,310
Total committed	**29,850**	**—**	**48,525**	**2,653,177**
Assigned - General government	—	—	—	268,888
Unassigned	**(20,273,606)**	**—**	**(4,764)**	**(17,083)**
Total fund balances (deficit)	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**	**$ 22,808,730**

B. Fund Deficits

Table 44 shows the funds that had deficits.

Table 44

Schedule of Fund Deficits
June 30, 2011
(amounts in thousands)

	Governmental Funds	Enterprise Funds	Internal Service Funds
General Fund	$ 19,939,241	$ —	$ —
Unemployment Programs Fund	—	6,879,180	—
Architecture Revolving Fund	—	—	25,228
Financial Information Systems Fund	—	—	28,915
Office of Systems Integration Fund	—	—	1,348
Service Revolving Fund	—	—	52,412
Total fund deficits	**$ 19,939,241**	**$ 6,879,180**	**$ 107,903**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net asset categories of the government-wide and fund financial statements. As of June 30, 2011, the total value of restricted endowments and gifts was $11.1 billion and unrestricted endowments and gifts was $1.6 billion. 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 $1.6 billion at June 30, 2011. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $829 million and $9 million, respectively.

NOTE 20: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. 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 discounted liability for unpaid self-insured workers' compensation losses is estimated to be $3.1 billion as of June 30, 2011. This estimate is primarily 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 $4.2 billion is discounted to $3.1 billion using a 3.5% interest rate. Of the total, $350 million is a current liability, of which $218 million is included in the General Fund, $119 million in the special revenue funds, $2 million in the internal service funds and $11 million in enterprise funds. The remaining $2.7 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 2.0% to 5.0%.

The California Public Employees' Retirement System (CalPERS) through its Public Employees' Benefits, a discretely presented component unit, administers three self-funded health care plans as risk pools available to all entities that contract for health insurance coverage under the Public Employees' Medical and Hospital Care Act. The plans retain all the risk of loss of allowable health claims. Claim liabilities are based on estimates of the ultimate costs of claims that have been reported but not settled and of claims that have been incurred but not reported. The estimated claims were calculated by a third-party administrator using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The other major discretely presented component units do not have significant liabilities related to self-insurance.

Table 45 shows the changes in the self-insurance claims liability for the primary government and the discretely presented component units.

Table 45

Schedule of Changes in Self-Insurance Claims
Years Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Units: University of California		Discretely Presented Component Units: Public Employee Benefits	
	2011	2010	2011	2010	2011	2010
Unpaid claims, beginning	$ 2,762,761	$ 2,577,638	$ 585,955	$ 598,014	$ 192,195	$ 216,584
Incurred claims	700,815	542,698	163,191	166,943	1,722,185	1,554,574
Claim payments	(382,055)	(357,575)	(160,070)	(179,002)	(1,678,058)	(1,578,963)
Unpaid claims, ending	**$ 3,081,521** *	**$ 2,762,761**	**$ 589,076**	**$ 585,955**	**$ 236,322**	**$ 192,195**

* Includes $51,665 for business-type activities.

NOTE 21: 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 46 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 Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

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

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Table 46

Nonmajor Enterprise Segments

(amounts in thousands)

Condensed Statement of Net Assets

June 30, 2011

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Assets				
Due from other funds	$ 34	$ 4,490	$ 143	$ 4,667
Due from other governments	—	162,717	—	162,717
Other current assets	24,157	330,839	158,626	513,622
Capital assets	—	—	611	611
Other noncurrent assets	65,779	2,818,618	1,362,147	4,246,544
Total assets	**$ 89,970**	**$ 3,316,664**	**$ 1,521,527**	**$ 4,928,161**
Liabilities				
Due to other funds	$ —	$ 393	$ —	$ 393
Other current liabilities	17,234	26,657	63,130	107,021
Noncurrent liabilities	37,829	116,686	1,298,718	1,453,233
Total liabilities	**55,063**	**143,736**	**1,361,848**	**1,560,647**
Net assets				
Investment in capital assets, net of related debt	—	—	611	611
Restricted	34,907	352,045	159,068	546,020
Unrestricted	—	2,820,883	—	2,820,883
Total net assets	**34,907**	**3,172,928**	**159,679**	**3,367,514**
Total liabilities and net assets	**$ 89,970**	**$ 3,316,664**	**$ 1,521,527**	**$ 4,928,161**

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

Year Ended June 30, 2011

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Operating revenues	$ 10,498	$ 54,603	$ 87,082	$ 152,183
Depreciation expense	—	—	(70)	(70)
Other operating expenses	(9,590)	(4,876)	(90,843)	(105,309)
Operating income (loss)	908	49,727	(3,831)	46,804
Nonoperating revenues (expenses)	—	(4,723)	(11,612)	(16,335)
Capital contributions	—	86,272	—	86,272
Change in net assets	908	131,276	(15,443)	116,741
Total net assets, July 1, 2010	**33,999**	**3,041,652**	**175,122**	**3,250,773**
Total net assets, June 30, 2011	**$ 34,907**	**$ 3,172,928**	**$ 159,679**	**$ 3,367,514**

Condensed Statement of Cash Flows

Year Ended June 30, 2011

	High Technology Education	State Water Pollution Control	Housing Loan	Total
Net cash provided by (used in):				
Operating activities	$ 20,247	$ (41,080)	$ 149,989	$ 129,156
Noncapital financing activities	(19,995)	(31,471)	(302,897)	(354,363)
Capital and related financing activities	—	91,120	(176)	90,944
Investing activities	—	(712)	2,529	1,817
Net decrease	**252**	**17,857**	**(150,555)**	**(132,446)**
Cash and pooled investments at July 1, 2010	**18,949**	**247,329**	**258,626**	**524,904**
Cash and pooled investments at June 30, 2011	**$ 19,201**	**$ 265,186**	**$ 108,071**	**$ 392,458**

NOTE 22: 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, 2011, these component units had $23.7 billion of debt outstanding, which is not debt of the State.

NOTE 23: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which 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, 2011; legal proceedings that were in progress as of June 30, 2011, and were settled or decided against the primary government as of February 24, 2012; and legal proceedings having a high probability of resulting in a decision against the primary government as of February 24, 2012, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

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

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

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board,* and *CA–Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited liability companies (LLC). In *Bakersfield Mall, LLC v. Franchise Tax Board* the plaintiff contends that not all of its income is derived within the State and therefore not all income should be subject to the LLC fee. The second case, *CA–Centerside II, LLC v. Franchise Tax Board*, alleges that the LLC fee is unconstitutional regarding any activities, whether in–state or out–of–state.

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

as *Northwest and Ventas*, and alleges that the LLC fee is unconstitutional regarding any activities, whether in–state or out–of–state. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion. In addition, plaintiffs will in all likelihood seek a very large award of attorneys' fees in these cases should they prevail.

The primary government is the defendant in both *California Redevelopment Association et al. v. Michael C. Genest et al.* and *County of Los Angeles, et al. v. Genest, et al.* These two cases challenge the constitutionality of Assembly Bill X4-26 that requires that redevelopment agencies remit a total of $1.7 billion in 2009-10 fiscal year and $350 million in 2010-11 fiscal year to a county Supplemental Education Revenue Augmentation Fund to be used by local schools. The State successfully defeated the claims in the superior court and is currently defending against the claims in the Court of Appeal. If the Court of Appeal grants judgment for the plaintiff, the State would need to pay the challenged amount to the schools from the General Fund.

The primary government is the defendant in numerous cases regarding the Governor's executive orders directing the furlough, without pay, of state employees. The first executive order, issued on December 19, 2008, directed furloughs of two days per month, effective February 1, 2009, through June 30, 2010. The second order, issued on July 1, 2009, required a third furlough day per month, effective through June 30, 2010. On July 28, 2010, the Governor issued a new executive order requiring furloughs for three days per month beginning August 1, 2010, until a new 2010-11 fiscal year budget was adopted and the Director of Finance determined that the State had sufficient cash flow to pay for essential services. Furloughs officially ended for all Service Employees International Union represented State employees in November 2010 and for all remaining bargaining units in April 2011.

Most cases related to the furloughs have been settled or dismissed with only five cases still pending. Neither the outcome nor the estimated potential loss for any of the cases can be determined at this time.

The California School Boards Association has filed a case against the primary government. *California School Boards Association, et al.v. State of California et al.* is challenging the amount of funds appropriated for education in the 2011-12 fiscal year, arguing that the amount violates the minimum funding guarantee in the California Constitution Article XVI, section 8 (Proposition 98). Plaintiffs argue that certain funds directed to local governments should have been included in the Proposition 98 calculation and that by not including these funds in the calculation the state underfunded education by approximately $2.8 billion in the 2011-12 fiscal year. The State has denied the material allegations and has filed an answer to the complaint. Currently it is anticipated that the State will ultimately add the $2.8 billion back to the minimum Proposition 98 calculation over the next five years; however, an unfavorable outcome of this case would require the State to add back the amount entirely in the 2012-13 fiscal year.

Until recently the primary government was a defendant in five cases related to Medi-Cal reimbursement rate reductions. As a result of intervening events including sunsetting of specific legislation, resolution of these matters will no longer have a future fiscal impact.

The University of California, the State Compensation Insurance Fund (SCIF), the California Housing Finance Agency (CalHFA), the Public Employees' Benefits Fund, and certain 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 of California, SCIF, CalHFA, the Public Employees' Benefit Fund, and certain nonmajor discretely presented component units 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 of California, CalHFA, and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University of California, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 24: PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which are fiduciary component units, are included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements. 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 48 as the net pension obligation (NPO) as of June 30, 2011. 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, the Judges' Retirement Fund II, and the Legislators' Retirement Fund. CalPERS also administers three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, the Public Agency Deferred Compensation Program, 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 website 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 four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS also offers the Pension2 Program through a third-party administrator. The Pension2 Program is a tax-deferred defined contribution plan meeting the requirements of Internal Revenue Code Sections 403(b) and 457. The Teachers' Health Benefits Fund provides postemployment 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 1,512 public agencies as of June 30, 2011.

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 $51.3 billion at June 30, 2010. This is a result of the difference between the actuarial value of assets of $257.1 billion and the actuarial accrued liability of $308.3 billion. Contributions are either actuarially determined or determined by statute.

2. Employer's Information

Plan Description: The primary government and certain discretely presented component units contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The 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. In the June 30, 2010 actuarial valuation, the payroll for primary government employees covered by the PERF for fiscal year 2008-09 was $16.3 billion.

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

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

Employees, with the exception of employees in the second-tier plans and the State's Alternate Retirement Program, contribute to the fund based on the required contribution rates. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $0 to $863. Employees' required contributions vary from 5.0% to 11.0% 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. Table 47 shows the required employer contribution rates for the primary government.

Table 47

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

Year Ended June 30, 2011

	Normal Cost	Unfunded Liability	Group Term Life Benefit	Total Rate
Miscellaneous members				
First tier	9.862 %	10.060 %	0.000 %	19.922 %
Second tier	9.562	10.060	0.000	19.622
Industrial (first and second tier)	13.623	4.390	0.170	18.183
California Highway Patrol	15.400	17.225	0.000	32.625
Peace officers and firefighters	18.363	10.447	0.077	28.887
Other safety members	16.439	4.109	0.124	20.672

For the year ended June 30, 2011, the annual pension cost (APC) and the amount of contributions made by the primary government were each $3.3 billion. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 2010, is also shown in Table 48 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 is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions: In the June 30, 2010 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 3.45% to 19.95%, depending on duration of service, and postemployment benefit increases of 2.00% or 3.00%, compounded annually. The projected salary increases include a 3.00% inflation assumption. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis.

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, 2011. The payroll for employees covered by the JRF for the year ended June 30, 2011, was approximately $80 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, 2011, 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, 2011, 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 APC and the amount of employer contributions made to the JRF for the year ended June 30, 2011, were $514 million and $167 million, respectively. The NPO of the JRF at June 30, 2011, was $3.0 billion, an increase of $346 million over last year's balance of $2.7 billion. The APC is comprised of $1.3 billion for the annual required contribution (ARC), $119 million for interest on the NPO, and a negative $868 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 48. Information on the last valuation, which was performed as of June 30, 2010, is shown in Table 48.

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

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.50% investment rate of return, projected salary increases of 3.25%, and postemployment 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, 2011, was approximately $224 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, 2011, the required member rate for the JRF II was 8.0%, and the primary government's contribution rate for the JRF II was 24.04% 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, 2011, the amount of contributions made for the JRF II were approximately $53.9 million, which is more than the actuarially determined APC and required contribution of approximately $50.9 million. The APC and the percentage of APC contributed for the year ended June 30, 2011, are shown in Table 48. Information on the last valuation, which was performed as of June 30, 2010, is also shown in Table 48.

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

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the individual 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 postemployment 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 payroll on a closed basis over 23 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, 2011, no statutory contribution was required, based on the June 30, 2009 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 16 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, 2011, employee contributions were not required because the plan was superfunded. "Superfunded" means that the plan's actuarial value of assets exceeds the present value of future benefits for current members.

The NPO of the LRF on June 30, 2011, was approximately $10 million. There was no APC because the 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 48. 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, 2010, is also shown in Table 48. The aggregate cost method that was used for the June 30, 2010 valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, the information about funded status in Table 48 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.

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

Actuarial Methods and Assumptions: In the June 30, 2010 actuarial valuation, the aggregate cost method was used. The actuarial assumptions included a 6.00% investment rate of return, projected salary increases of 3.25%, and postemployment 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 peace officers and firefighters employed by the State of California.

Funding Policy: Contributions to the plan are funded entirely by the primary government. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. Effective April 2011, the State suspended contributing on behalf of rank and file positions; and effective May 2011, the State suspended contributing on behalf of supervisors, management, and exempt positions. As of June 30, 2011, the duration of the suspension is unknown because the program is being administered according to the most recent Memorandum of Understanding. For the year ended June 30, 2011, contributions by the primary government to the SPOFF were approximately $39 million.

Contributions are invested in the CalPERS Moderate Asset Allocation Fund. Distributions are allowed only at retirement or permanent separation from all State employment. The benefits 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, 2011, there were 39,432 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. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance (CB) Benefit Program, and the Replacement Benefit (RB) Program. The STRP is a cost-sharing, multiple-employer, defined-benefit retirement plan that provides pension benefits to teachers and certain other employees of the California public school system.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 2011, the DB Program had 1,669 contributing employers and as of June 30, 2010, had 441,544 active and 166,976 inactive program members and 243,796 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, 2011, was approximately $26.3 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, 2011, the CB Benefit Program had 33 contributing school districts and 33,261 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs and was established in accordance with Internal Revenue Code (IRC) Section 415(m). IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of IRC Section 415(b), subject to withholding for any applicable income or employment taxes. During fiscal year 2010-11, the RB Program had 243 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 was 6.00% of creditable compensation through December 31, 2010, and increased to 8.00% 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 2010-11, 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, 2010, there is no normal cost deficit, but there was an unfunded obligation for benefits in place as of July 1, 1990. Therefore, the General Fund is required to contribute the additional quarterly payments at a contribution rate of 0.524% starting October 1, 2011.

The DBS Program member contribution rate is 2.0% 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 8.0% and the employer rate is 8.0%.

For the year ended June 30, 2011, the APC for the DB Program was approximately $6.0 billion; the employer and primary government contributions were approximately $2.2 billion and $568 million, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 48. Actuarial valuations of the DB Program are performed annually. Information from the last valuation is shown in Table 48.

G. CalSTRS Pension2 Program

Plan Description: CalSTRS administers the Pension2 Program, which is comprised of the IRC 403(b) and 457 programs, 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, 2011, the Pension2 IRC 403(b) and 457 programs had approximately 761 and 23 participating employers (school districts) and approximately 6,547 and 148 plan members, respectively.

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, 2011, there were 7,777 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, actuarial valuation of the DB Program.

Table 48

Actuarial Information – Pension Trusts – Primary Government

Valuation Date As Indicated

	Public Employees' Retirement Fund	Judges' Retirement Fund	Judges' Retirement II Fund	Legislators' Retirement Fund[1]	State Teachers' Retirement Defined Benefit Program Fund[2]
Last actuarial valuation	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010
Actuarial cost method	Individual Entry Age Normal	Individual Entry Age Normal	Individual Entry Age Normal	Aggregate Cost	Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed	None	Level % of Payroll, Open
Remaining amortization period	Not available[3]	None	23 Years	None	30 years
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value	Smoothed Market Value	Expected Value, With 33% Adjustment to Market Value
Actuarial assumption					
Investment rate of return	7.75 %	4.50[4] %	7.25 %	6.00 %	7.75 %
Projected salary increase	3.45-19.95	3.25	3.25	3.25	4.00
Includes inflation at	3.00	3.00	3.00	3.00	3.00
Post-retirement benefit increases	2.00 - 3.00	3.25	3.00	3.00	2.00
Annual pension costs (in millions)					
Year ended 6/30/09	$ 3,080	$ 400	$ 43	—	$ 4,547
Year ended 6/30/10	2,878	662	45	—	4,924
Year ended 6/30/11	3,277	514	51	—	5,985
Percent contribution					
Year ended 6/30/09	100 %	24 %	92 %	—	63 %
Year ended 6/30/10	100	16	95	—	55
Year ended 6/30/11	100	13	106	—	47
Net pension obligation (NPO) (in millions)					
Year ended 6/30/09	—	$ 2,226	$ —	$ 10	—
Year ended 6/30/10	—	2,703	2	10	—
Year ended 6/30/11	—	2,994	(1)	10	—
Funding as of last valuation (in millions)					
Actuarial value – assets	$ 97,346	64	461	127	$ 140,291
Actuarial accrued liabilities (AAL) – entry age	121,446	3,429	521	112	196,315
Excess of actuarial value of assets over AAL (EAV) (unfunded actuarial accrued liability (UAAL))	(24,100)	(3,365)	(60)	15	(56,024)
Covered payroll	16,281	86	213	2	26,275
Funded ratio	80.2 %	1.9 %	88.5 %	113.4 %	71.5 %
EAV (UAAL) as percent of covered payroll	(148.0) %	(3,912.8) %	(28.2) %	750.0 %	(213.2) %

[1] The aggregate cost method is used to determine the annual required contribution of the employer for 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.

[2] 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 $568 million and $2.2 billion, respectively, for the year ending June 30, 2011. Based on the most recent actuarial valuation, dated June 30, 2010, 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] Calculations not yet completed for June 30, 2010 valuations.

[4] The actuarial assumption for the investment rate of return was reduced from 7.0% to 4.5% to reflect the funding of the JRF on a pay-as-you-go basis.

NOTE 25: 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 (State substantive plan). The primary government also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the primary government has no liability. The discretely presented component units represent 3.3% 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 contributes to the California Employers' Retiree Benefit Trust Fund (CERBTF). The CERBTF is an agent multiple-employer irrevocable trust fund for the prefunding of health, dental, and other non-pension benefits. CalPERS reports on the CERBTF as part of its annual financial statements, which can be downloaded from the CalPERS website.

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-two trial courts have a single-employer defined benefit plan, five trial courts (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 biennial actuarial valuations. Forty-eight plans are not accounted for in a trust fund and do not issue separate reports. Five trial courts (Lassen, Orange, San Diego, Sonoma, and Yolo) each contribute to one of four trust funds that issue separate reports.

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. During the 2010-11 fiscal year, approximately 154,500 annuitants were enrolled to receive health benefits and approximately 128,100 annuitants were enrolled to receive dental benefits. As of July 1, 2009—the most recent actuarial valuation date—the trial courts had approximately 3,300 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 funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis with a small amount of prefunding for California Highway Patrol members. The maximum 2011 monthly State contribution was $542 for one-party coverage, $1,030 for two-party coverage, and $1,326 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Forty-eight trial courts fund retirees' benefits on a pay-as-you-go basis. The 2010 monthly contribution rate for the trial courts with single-employer defined benefit plans—the latest year for which information is available—ranged from zero to $2,120. Two trial courts (Lassen and Yolo) contribute at

least the annual required contribution (ARC) of the employer, 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. Orange contributes 3.50% of payroll, with at least the ARC contributed each year. Sonoma contributes $50,000 per month to an other postemployment benefit (OPEB) trust and pays a portion of ongoing benefit payments directly from trial court assets. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.80% of annual covered pension payroll. For the year ended June 30, 2011, the State contributed $1.6 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $27 million and certain discretely presented component units represent $49 million.

Annual OPEB Cost and Net OPEB Obligation: The State's annual OPEB cost (expense) is calculated based on the ARC. Table 49 presents the State's OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2011, and the two preceding years, including trial courts.

Table 49

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 3,871,290	36.19 %	$ 4,930,848
June 30, 2010	4,078,493	34.31	7,597,735
June 30, 2011	4,359,929	36.70	10,357,406

Table 50 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 50

Schedule of Net OPEB Obligation
June 30, 2011
(amounts in thousands)

	Amount
Annual required contribution	$ 4,319,632
Interest on net OPEB obligation	339,070
Adjustment to annual required contribution	(298,773)
Annual OPEB cost	**4,359,929**
Contributions made	(1,600,258)
Increase in net OPEB obligation	2,759,671
Net OPEB obligation — beginning of year	**7,597,735**
Net OPEB obligation — end of year	**$ 10,357,406**

Funded Status and Funding Progress: As of June 30, 2011—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL), for benefits was $62.14 billion, and the actuarial value of assets was $7 million, resulting in an unfunded actuarial accrued liability (UAAL) of negative $62.14 billion. The covered payroll (annual payroll of active employees covered by the plan) was $18.01 billion, and the ratio of the UAAL to the covered payroll was negative 345%.

For the trial courts, as of July 1, 2009—the most recent actuarial valuation date—the AAL for benefits was $1.5 billion, and the actuarial value of assets was $9 million, resulting in an UAAL of negative $1.5 billion. The covered payroll was $1.0 billion, and the ratio of the UAAL to covered payroll was negative 147%.

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, 2011 State substantive plan 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 2012 and 9.00% in 2013, 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 30 years.

For the trial courts, in the July 1, 2009 biennial actuarial valuations, the entry age normal cost method was used. The actuarial assumptions included a 3.75% investment rate of return for 48 trial courts. Three trial courts (Lassen, Orange, and Yolo) use a 7.75% investment rate of return and Sonoma uses a 5.25% investment rate of return. The actuarial assumptions included an annual health care cost trend rate of 8.50%, initially, reduced by 0.50% increments to an ultimate rate of 5.00% after ten years. Annual inflation and payroll growth are assumed to be 3.00% and 3.25%, respectively. The UAAL is amortized as a level percentage of payroll on an open basis over 30 years for 46 trial courts, on a closed basis over 30 years for three trial courts (Lassen, Sonoma, and Yolo) and on a closed basis over 28 years for Orange. Two trial courts (Alpine and Mendocino) amortize the UAAL on a closed basis over 28 years as a level dollar amount.

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 (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 2010-11 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, 2010, the date of the latest actuarial valuation, 35,194 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 contribution.

Table 51 presents 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, 2011, and the two preceding years.

Table 51

Schedule of Annual OPEB Cost, Percentage of Annual OPEB Cost Contributed, and Net OPEB Obligation - University of California
(amounts in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$ 1,550,562	18.84 %	$ 2,377,128
June 30, 2010	1,694,847	17.59	3,773,804
June 30, 2011	1,812,905	18.16	5,257,422

Table 52 presents the components of the university's net OPEB obligation to the University of California Health and Welfare Plans.

Table 52

Schedule of Net OPEB Obligation - University of California
June 30, 2011
(amounts in thousands)

	Amount
Annual required contribution	$ 1,990,553
Interest on net OPEB obligation	207,997
Adjustment to annual required contribution	(385,645)
Annual OPEB cost	**1,812,905**
Contributions made	(329,287)
Increase in net OPEB obligation	1,483,618
Net OPEB obligation — beginning of year	**3,773,804**
Net OPEB obligation — end of year	**$ 5,257,422**

Funded Status and Funding Progress: For the University of California, as of July 1, 2010—the most recent actuarial valuation date—the AAL for benefits was $16.0 billion, and the actuarial value of assets was $74 million, resulting in a UAAL of negative $16.0 billion. The covered payroll (annual payroll of active employees covered by the plan) was $8.0 billion, and the ratio of the UAAL to the covered payroll was negative 200%.

Actuarial Methods and Assumptions: For the University of California, in the July 1, 2010 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 initial and future UAAL are being amortized as a flat dollar amount over 30 and 15 years, respectively, on a closed basis.

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2011, but prior to the date of the auditor's report.

A. Debt Issuances

In September and October 2011, the primary government issued a total of $4.5 billion in general obligation bonds to finance or refinance capital project facilities and other voter-approved costs for public purposes, including: neighborhood parks; safe drinking water; children's hospitals; public education facilities; transportation; highway safety, traffic reduction, air quality, and port security; housing and emergency shelters; watershed and flood protection; river, coast, and beach protection; water quality, supply, and conservation; literacy improvement and public library construction and renovation; medical research; high speed rail facilities; and disaster preparedness and flood prevention.

In November 2011, the primary government issued $439 million in economic recovery bonds to refund the Refunded Bonds, the proceeds of which were used to address Accumulated State Budget Deficit.

In August, September and October 2011, the Department of Water Resources issued $309 million in water system revenue bonds and $960 million in power supply revenue bonds to refund certain outstanding bonds and pay the related issuance costs.

In September 2011, the California State University issued $430 million in revenue bonds to finance or refinance construction projects at various campuses.

In July and September 2011, the Regents of the University of California, a discretely presented component unit, issued $1.2 billion in general revenue bonds to finance pension contributions to the UCRP and $400 million to finance and refinance certain facilities and projects of the university.

Between October and November 2011, the State Public Works Board issued $888 million in lease revenue bonds to finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections, University of California, Department of Mental Health and others.

In December 2011 and February 2012, the Department of Veteran Affairs issued a total of $322 million in home purchase revenue bonds.

B. Cash Management

In September 2011, the State issued $5.4 billion of Revenue Anticipation Notes to assist in cash flow management for the State's 2011-12 fiscal year.

In July 2011, the State Legislature passed Senate Bill 79, which created the State Agency Investment Fund (SAIF), under Government Code section 16330, that allows state agencies to invest a minimum of $500 million in monies not required by law to be invested in the Pooled Money Investment Account. California State University transferred $700 million to SAIF in September 2011. The University of California transferred $1.0 billion in September 2011.

C. Other

California's high demand for unemployment insurance benefits required additional loans from the U.S. Department of Labor during the 2010-11 fiscal year. As of June 30, 2011, the State had $11.0 billion in outstanding loans from the U.S. Department of Labor that was used to cover deficits in the Unemployment Programs Fund. As of February 24, 2012, the State had an outstanding loan balance of $10.2 billion, and it expects to request additional loans throughout 2012.

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with investments in U.S. Treasury and U.S. Agency debt securities of the primary government, fiduciary funds, and certain discretely presented component units.

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Required Supplementary Information

Schedule of Funding Progress

(amounts in millions)

Public Employees' Retirement Fund - Primary Government[1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 89,304	$ 107,642	$ (18,338)	83.0 %	$ 16,460	(111.4) %
June 30, 2009	93,377	116,827	(23,450)	79.9	16,333	(143.6)
June 30, 2010	97,346	121,446	(24,100)	80.2	16,281	(148.0)

Judges' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 19	$ 3,607	$ (3,588)	0.5 %	$ 111	(3,232.4) %
June 30, 2009	41	3,583	(3,542)	1.1	97	(3,651.5)
June 30, 2010	64	3,429	(3,365)	1.9	86	(3,912.8)

Judges' Retirement Fund II

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 335	$ 367	$ (32)	91.3 %	$ 175	(18.3) %
June 30, 2009	379	451	(72)	84.0	199	(36.2)
June 30, 2010	461	521	(60)	88.5	213	(28.2)

[1] This table reflects the actuarial value of assets; the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, reported the market value of assets.

[2] The Legislators' Retirement Fund (LRF) is funded using the aggregate actuarial cost valuation method. This method does not identify actuarial liabilities and funded ratios. 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.

[3] The trial courts reporting is based on 52 individual biennial actuarial valuations as of July 1, 2009, the latest information available.

Legislators' Retirement Fund[2]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 142	$ 103	$ 39	137.9 %	$ 2	1,950.0 %
June 30, 2009	134	112	22	119.6	2	1,100.0
June 30, 2010	127	112	15	113.4	2	750.0

State Teachers' Retirement Defined Benefit Program

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
June 30, 2008	$ 155,215	$ 177,734	$ (22,519)	87.3 %	$ 27,118	(83.0) %
June 30, 2009	145,142	185,683	(40,541)	78.2	27,327	(148.4)
June 30, 2010	140,291	196,315	(56,024)	71.5	26,275	(213.2)

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
State substantive plan						
June 30, 2009	$ —	$ 51,820	$ (51,820)	— %	$ 18,450	(280.9) %
June 30, 2010	5	59,911	(59,906)	0.0	17,540	(341.5)
June 30, 2011	7	62,144	(62,137)	0.0	18,010	(345.0)
Trial Courts [3]						
July 1, 2007	—	1,291	(1,291)	—	989	(130.6)
July 1, 2009	9	1,493	(1,484)	0.6	1,009	(147.0)

Schedule of Funding Progress (continued)

(amounts in millions)

University of California Retiree Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Actuarial Value of Assets Over AAL (Unfunded Actuarial Accrued Liability (UAAL)) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess (UAAL) as a Percentage of Covered Payroll ((a - b) / c)
July 1, 2008	$ 51	$ 13,800	$ (13,749)	0.4 %	$ 7,450	(184.6) %
July 1, 2009	77	15,062	(14,985)	0.5	7,853	(190.8)
July 1, 2010	74	16,049	(15,974)	0.5	7,995	(199.8)

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, 2011, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $61.4 billion, land purchased for highway projects totaling $12.1 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $6.0 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, 2011. Relinquishments for the fiscal year ending June 30, 2011, are $59 million of state highway infrastructure and $12 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 2008-09 through 2010-11 are shown in the following table.

Fiscal Year Ending June 30	Established BHI Baseline*	Actual BHI
2009	80.0	94.1
2010	80.0	94.6
2011	80.0	94.3

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

The following table provides details on the State's actual BHI as of June 30, 2011.

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,738	52.26 %	99.9
Good	4,575	35.48	96.3
Acceptable	852	6.61	85.7
Fair	206	1.60	73.5
Poor	138	1.07	62.7
Does not carry traffic	384	2.98	92.3
Total	**12,893**	**100.00 %**	

2. Roadways

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

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

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

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

Condition Assessment Date[1]	Established Condition Baseline Distressed Lane Miles (maximum)[2]	Actual Distressed Lane Miles	Actual Distressed Lane Miles as Percent of Total Lane Miles
December 2006	18,000	13,845	27.9 %
March 2008	18,000	12,998	26.3
December 2011[3]	18,000	12,333	24.9

[1] Condition assessment for the State's established condition baseline and actual distressed lane miles is being reported as of the *State of the Pavement* report publication date.
[2] The actual statewide distressed lane miles should not exceed the maximum distressed lane miles established by the State.
[3] The State's compliance with GASB 34, which requires a road condition assessment every three years, temporarily lapsed in March 2011. A survey was completed in December 2011 and the State will continue to use the modified approach for roadways.

The following table provides details on the State's actual distressed lane miles as of the last complete pavement- condition survey.

Pavement Condition	Lane Miles	Distressed Lane Miles
Excellent/Good	37,185	—
Fair	2,486	2,486
Poor	9,847	9,847
Total	**49,518**	**12,333**

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. Prior to the 2008-09 fiscal year, the State excluded the annual expenditures for one of its bridges from preservation costs. Beginning in the 2008-09 fiscal year, the State included the expenditures for the bridge in both budgeted and actual preservation costs and restated the costs 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)
2007	$ 2,694	$ 2,249
2008	2,956	1,871
2009	2,910	1,557
2010	2,162	640
2011	2,802	368

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2011
(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 11,509,000	$ 9,408,000	$ 9,613,595	$ 205,595
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	93,000	93,000	96,097	3,097
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	1,838,000	2,016,000	2,076,888	60,888
Vehicle license fees	1,506,311	1,393,311	1,366,483	(26,828)
Motor vehicle fuel tax	—	—	—	—
Personal income tax	47,784,000	51,945,000	49,602,618	(2,342,382)
Retail sales and use taxes	26,709,000	26,740,000	26,975,503	235,503
Other major taxes and licenses	319,521	319,221	335,335	16,114
Other revenues	3,025,931	3,025,931	2,066,515	(959,416)
Total revenues	**92,784,763**	**94,940,463**	**92,133,034**	**(2,807,429)**
EXPENDITURES				
State and consumer services	609,074	590,600	556,654	33,946
Business and transportation	494,065	493,790	493,679	111
Resources	1,223,899	1,177,651	1,067,318	110,333
Health and human services	28,966,812	29,075,611	26,772,957	2,302,654
Correctional programs	8,665,888	9,567,358	9,468,499	98,859
Education	45,079,575	43,767,239	43,749,141	18,098
General government:				
Tax relief	445,653	534,802	529,050	5,752
Debt service	5,013,571	5,018,950	4,940,066	78,884
Other general government	4,832,602	4,839,151	4,278,636	560,515
Total expenditures	**95,331,139**	**95,065,152**	**91,856,000**	**3,209,152**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	1,661,966	—
Transfers to other funds	—	—	(401,614)	—
Other additions and deductions	—	—	618,745	—
Total other financing sources (uses)	**—**	**—**	**1,879,097**	**—**
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	—	—	2,156,131	—
Fund balances, July 1, 2010	**—**	**—**	**(4,478,542)**	**—**
Fund balances, June 30, 2011	**$ —**	**$ —**	**$ (2,322,411)**	**$ —**

	Federal			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	61,973,830	61,973,830	61,973,830	—
Cigarette and tobacco taxes	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	—	—	—	—
Other revenues	68	68	52	(16)
Total revenues	**61,973,898**	**61,973,898**	**61,973,882**	**(16)**
EXPENDITURES				
State and consumer services	37,509	37,509	37,509	—
Business and transportation	4,153,312	4,153,312	4,153,312	—
Resources	402,594	402,594	402,594	—
Health and human services	40,377,821	40,377,821	40,377,821	—
Correctional programs	8,778	8,778	8,778	—
Education	7,167,425	7,167,425	7,167,425	—
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	2,737,481	2,737,481	2,737,481	—
Total expenditures	**54,884,920**	**54,884,920**	**54,884,920**	**—**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	20,576,858	—
Transfers to other funds	—	—	(27,643,483)	—
Other additions and deductions	—	—	(22,285)	—
Total other financing sources (uses)	**—**	**—**	**(7,088,910)**	**—**
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	—	—	52	—
Fund balances, July 1, 2010	**—**	**—**	**10,559**	**—**
Fund balances, June 30, 2011	**$ —**	**$ —**	**$ 10,611**	**$ —**

	Transportation			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ —	$ —	$ —	$ —
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	—	—	—	—
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	—	—	—	—
Vehicle license fees	—	—	—	—
Motor vehicle fuel tax	4,984,050	5,734,941	5,705,528	(29,413)
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	3,291,704	3,259,541	3,241,182	(18,359)
Other revenues	413,872	399,743	376,606	(23,137)
Total revenues	**8,689,626**	**9,394,225**	**9,323,316**	**(70,909)**
EXPENDITURES				
State and consumer services	116,267	109,150	93,255	15,895
Business and transportation	11,866,738	8,244,956	7,229,602	1,015,354
Resources	388,811	132,298	131,540	758
Health and human services	3,242	3,171	2,788	383
Correctional programs	—	—	—	—
Education	2,543	2,492	2,154	338
General government:				
Tax relief	—	—	—	—
Debt service	1,000	1,000	46	954
Other general government	1,902,074	1,900,363	1,888,762	11,601
Total expenditures	**14,280,675**	**10,393,430**	**9,348,147**	**1,045,283**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	10,909,792	—
Transfers to other funds	—	—	(12,365,008)	—
Other additions and deductions	—	—	257,128	—
Total other financing sources (uses)	**—**	**—**	**(1,198,088)**	**—**
Excess (deficency) of revenues and other sources over (under) expenditures and other uses	—	—	(1,222,919)	—
Fund balances, July 1, 2010	**—**	**—**	**28,224,297**	**—**
Fund balances, June 30, 2011	**$ —**	**$ —**	**$ 27,001,378**	**$ —**

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

June 30, 2011
(amounts in thousands)

	General	Special Revenue Funds: Federal	Special Revenue Funds: Transportation
Budgetary fund balance reclassified into			
GAAP statement fund structure	**$ (2,322,411)**	**$ 10,611**	**$ 27,001,378**
Basis difference:			
Interfund receivables	47,304	—	2,447,657
Loans receivable	159,845	124,879	—
Interfund payables	(4,112,570)	—	—
Escheat property	(975,577)	—	—
Bonds authorized but unissued	—	—	(21,272,381)
Tax revenues	682,100	—	—
GASB 54 classification changes	122,719	2,482	—
Other	1,419	—	(253,697)
Timing difference:			
Liabilities budgeted in subsequent years	(13,542,070)	(16,418)	(155,725)
GAAP fund balance (deficit), June 30, 2011	**$ (19,939,241)**	**$ 121,554**	**$ 7,767,232**

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 either expenditures or transfers on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused a $47 million increase to the fund balance in the General Fund and a $2.4 billion increase to the fund balance in the Transportation Fund. The adjustments related to loans receivable caused increases of $160 million in the General Fund and $125 million in the Federal Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused a $4.1 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 on a GAAP basis. This adjustment caused a $975 million decrease to the General Fund balance.

Bonds Authorized but Unissued: In the year that general obligation bonds are authorized by the voters, the full amount authorized is recognized as revenue on a budgetary basis. In accordance with GAAP, only the amount of bonds issued each year is reported as an other financing source. The adjustments related to bonds authorized but unissued caused a $21.3 billion decrease to the fund balance in the Transportation Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a fund balance increase of $682 million in the General Fund.

GASB Statement No. 54 Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. Additional information on GASB 54 can be found in Note 1, Summary of Significant Accounting Policies, Section K. These reclassifications caused fund balance increases of $123 million in the General Fund and $2 million in the Federal Fund. The $123 million of fund balance is not considered part of the General Fund for any budgetary purposes or for the *Budgetary/Legal Basis Annual Report*.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused a fund balance increase of $1 million in the General Fund and a fund balance decrease of $254 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 $13.5 billion in the General Fund, a fund balance decrease of $16 million in the Federal Fund, and a fund balance decrease of $156 million in the Transportation Fund. The large decrease in the General Fund primarily consists of $7.5 billion for deferred apportionment payments to K-12 schools and community colleges, $2.6 billion in tax overpayments, $1.3 billion for medical assistance, $813 million for June 2011 payroll that was deferred to July 2011, and $418 million for pension contributions.

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 debt service or capital projects, that are restricted or committed to expenditures for specific purposes.

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

The **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 parks, jails, and other public and local government programs.

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

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

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

The **Golden State Tobacco Securitization Corporation Fund** is a blended component unit that accounts for bond proceeds that are used to purchase Tobacco Revenue Settlements from the State.

(continued)

(continued)

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

Debt service funds 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.

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

The **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.

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

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

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

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 that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Special Revenue									
	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
ASSETS										
Cash and pooled investments	$ 598,145	$ 6,086,964	$ 2,402,273	$ 273,220	$ 948,058	$ 845,816	$ 1,752,801	$ 145,698	$ 726,811	$ 13,779,786
Investments	—	—	—	—	—	—	159,980	499,696	—	659,676
Receivables (net)	39,078	445,773	23,262	69,184	3,709	30,323	353,441	2	130,075	1,094,847
Due from other funds	167,637	414,414	63,561	549	231,119	281,918	133,842	—	391,339	1,684,379
Due from other governments	14,428	37,934	3,645	870	—	3	21,473	—	24,852	103,205
Interfund receivables	555,733	1,621,926	1,043,694	153,858	74,238	83,777	205,482	—	1,139,364	4,878,072
Loans receivable	173,017	830,403	2,062,097	—	—	14,830	—	—	18,450	3,098,797
Other assets	509	—	—	—	—	—	29,008	—	—	29,517
Total assets	**$ 1,548,547**	**$ 9,437,414**	**$ 5,598,532**	**$ 497,681**	**$ 1,257,124**	**$ 1,256,667**	**$ 2,656,027**	**$ 645,396**	**$ 2,430,891**	**$ 25,328,279**
LIABILITIES										
Accounts payable	$ 44,037	$ 431,998	$ 314,657	$ 128,245	$ 5,956	$ 279,025	$ 242,655	$ 26	$ 165,578	$ 1,612,177
Due to other funds	26,980	34,708	1,033	41,426	—	2,551	14	—	14,408	121,120
Due to component units	—	—	—	4,231	—	—	—	—	192	4,423
Due to other governments	11,594	130,054	6,402	70,471	1,206,648	13,153	331,689	—	272,443	2,042,454
Interfund payables	1,283	9,872	—	—	—	—	—	—	5,371	16,526
Deposits	460	403	—	—	—	—	452,031	—	16,132	469,026
Advance collections	33,811	139,757	2,274	—	—	14,386	10,125	—	35,649	236,002
Interest payable	—	—	—	—	—	—	—	25,616	—	25,616
General obligation bonds payable	—	—	—	—	—	—	—	—	—	—
Other liabilities	33,933	7,317	655	8	—	—	97,239	—	13,395	152,547
Total liabilities	**152,098**	**754,109**	**325,021**	**244,381**	**1,212,604**	**309,115**	**1,133,753**	**25,642**	**523,168**	**4,679,891**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	39,448	—	—	39,448
Restricted	611,455	8,133,439	4,620,488	253,300	44,520	916,520	978,418	619,754	1,540,318	17,718,212
Committed	786,109	561,292	653,054	—	—	31,032	235,520	—	371,916	2,638,923
Assigned	—	—	—	—	—	—	268,888	—	—	268,888
Unassigned	(1,115)	(11,426)	(31)	—	—	—	—	—	(4,511)	(17,083)
Total fund balances	**1,396,449**	**8,683,305**	**5,273,511**	**253,300**	**44,520**	**947,552**	**1,522,274**	**619,754**	**1,907,723**	**20,648,388**
Total liabilities and fund balances	**$ 1,548,547**	**$ 9,437,414**	**$ 5,598,532**	**$ 497,681**	**$ 1,257,124**	**$ 1,256,667**	**$ 2,656,027**	**$ 645,396**	**$ 2,430,891**	**$ 25,328,279**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Debt Service			Capital Projects						
									Building Authorities	
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles
ASSETS										
Cash and pooled investments	$ 1,027,437	$ —	$ 1,027,437	$ 2,953	$ 655,761	$ 41,417	$ 414,498	$ 498,956	$ 20,755	$ 10,443
Investments	—	—	—	—	—	—	—	—	—	—
Receivables (net)	—	—	—	—	—	5	—	—	—	—
Due from other funds	7,720	—	7,720	—	548	14,359	507	—	2,278	2,611
Due from other governments	—	—	—	—	—	—	—	12,682	—	—
Interfund receivables	—	—	—	—	—	2,518	—	—	—	—
Loans receivable	—	—	—	—	—	—	—	—	—	—
Other assets	—	—	—	—	—	—	—	—	—	—
Total assets	**$ 1,035,157**	**$ —**	**$ 1,035,157**	**$ 2,953**	**$ 656,309**	**$ 58,299**	**$ 415,005**	**$ 511,638**	**$ 23,033**	**$ 13,054**
LIABILITIES										
Accounts payable	$ 19	$ —	$ 19	$ 11	$ 49,123	$ 766	$ 3,172	$ 2,293	$ —	$ —
Due to other funds	4,912	—	4,912	4	2,270	896	—	2,371	—	—
Due to component units	—	—	—	—	714	—	19	—	—	—
Due to other governments	—	—	—	—	—	1	—	7,001	—	—
Interfund payables	—	—	—	—	—	—	—	—	—	—
Deposits	—	—	—	—	—	—	—	—	—	—
Advance collections	—	—	—	—	—	52	—	—	—	—
Interest payable	161,684	—	161,684	—	—	—	—	—	629	450
General obligation bonds payable	383,830	—	383,830	—	—	—	—	—	—	—
Other liabilities	—	—	—	—	—	—	—	—	—	—
Total liabilities	**550,445**	**—**	**550,445**	**15**	**52,107**	**1,715**	**3,191**	**11,665**	**629**	**450**
FUND BALANCES										
Nonspendable	—	—	—	—	—	—	—	—	—	—
Restricted	484,712	—	484,712	2,938	604,202	44,989	411,814	499,973	22,404	12,604
Committed	—	—	—	—	—	11,595	—	—	—	—
Assigned	—	—	—	—	—	—	—	—	—	—
Unassigned	—	—	—	—	—	—	—	—	—	—
Total fund balances	**484,712**	**—**	**484,712**	**2,938**	**604,202**	**56,584**	**411,814**	**499,973**	**22,404**	**12,604**
Total liabilities and fund balances	**$ 1,035,157**	**$ —**	**$ 1,035,157**	**$ 2,953**	**$ 656,309**	**$ 58,299**	**$ 415,005**	**$ 511,638**	**$ 23,033**	**$ 13,054**

(continued)

Combining Balance Sheet (continued)

Nonmajor Governmental Funds

June 30, 2011
(amounts in thousands)

	Capital Projects						
	Building Authorities			Building Authorities			
	San Francisco	Oakland	Riverside	San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
ASSETS							
Cash and pooled investments	$ 21,554	$ 7,139	$ 978	$ 9,376	$ 13,060	$ 1,696,890	$ 16,504,113
Investments	—	—	—	—	—	—	659,676
Receivables (net)	—	—	—	—	—	5	1,094,852
Due from other funds	9,934	2,387	381	1,832	17	34,854	1,726,953
Due from other governments	—	—	—	—	—	12,682	115,887
Interfund receivables	—	—	—	—	927	3,445	4,881,517
Loans receivable	—	—	—	—	—	—	3,098,797
Other assets	—	—	—	—	—	—	29,517
Total assets	**$ 31,488**	**$ 9,526**	**$ 1,359**	**$ 11,208**	**$ 14,004**	**$ 1,747,876**	**$ 28,111,312**
LIABILITIES							
Accounts payable	$ —	$ —	$ —	$ —	$ 59	$ 55,424	$ 1,667,620
Due to other funds	—	—	—	—	—	5,541	131,573
Due to component units	—	—	—	—	—	733	5,156
Due to other governments	—	—	—	—	—	7,002	2,049,456
Interfund payables	—	—	—	—	—	—	16,526
Deposits	—	—	—	—	—	—	469,026
Advance collections	—	—	—	—	—	52	236,054
Interest payable	941	1,193	114	167	—	3,494	190,794
General obligation bonds payable	—	—	—	—	—	—	383,830
Other liabilities	—	—	—	—	—	—	152,547
Total liabilities	**941**	**1,193**	**114**	**167**	**59**	**72,246**	**5,302,582**
FUND BALANCES							
Nonspendable	—	—	—	—	—	—	39,448
Restricted	30,547	8,333	1,245	11,041	11,286	1,661,376	19,864,300
Committed	—	—	—	—	2,659	14,254	2,653,177
Assigned	—	—	—	—	—	—	268,888
Unassigned	—	—	—	—	—	—	(17,083)
Total fund balances	**30,547**	**8,333**	**1,245**	**11,041**	**13,945**	**1,675,630**	**22,808,730**
Total liabilities and fund balances	**$ 31,488**	**$ 9,526**	**$ 1,359**	**$ 11,208**	**$ 14,004**	**$ 1,747,876**	**$ 28,111,312**

(concluded)

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

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Special Revenue									
	Business and Professions Regulatory and Licensing	Environmental and Natural Resources	Financing for Local Governments and the Public	Cigarette and Tobacco Tax	Local Revenue and Public Safety	Health Care Related Programs	Trial Courts	Golden State Tobacco Securitization Corporation	Other Special Revenue Programs	Total Nonmajor Special Revenue
REVENUES										
Personal income taxes	$ —	$ —	$ 905,371	$ —	$ —	$ —	$ —	$ —	$ —	$ 905,371
Sales and use taxes	—	—	—	—	4,930,887	—	—	—	—	4,930,887
Insurance taxes	—	—	—	—	—	235,077	—	—	—	235,077
Other taxes	88,101	198,697	712,883	795,787	—	—	—	—	270	1,795,738
Intergovernmental	—	—	7,705	—	—	—	1,304,047	—	—	1,311,752
Licenses and permits	320,183	353,011	18,702	—	1,376,529	1	—	—	10,972	2,079,398
Charges for services	27,623	103,596	4,603	1,480	—	92	47,278	—	156,261	340,933
Fees	851,057	2,315,731	651	—	—	4,177,249	169,034	—	886,296	8,400,018
Penalties	11,352	21,545	13,410	—	—	690	482,467	—	279,851	809,315
Investment and interest	7,515	76,101	18,050	2,421	1,117	4,061	7,487	1,225	7,517	125,494
Other	12,447	119,234	465,292	120	—	668,590	172,001	360,749	302,200	2,100,633
Total revenues	**1,318,278**	**3,187,915**	**2,146,667**	**799,808**	**6,308,533**	**5,085,760**	**2,182,314**	**361,974**	**1,643,367**	**23,034,616**
EXPENDITURES										
Current:										
General government	463,171	80,267	590,048	15,018	2,837,455	257	3,476,132	—	813,209	8,275,557
Education	15,693	26,135	64,219	5,560	—	206,566	—	—	7,148	325,321
Health and human services	224,213	240,906	1,759,938	750,341	3,840,858	8,902,098	—	—	556,667	16,275,021
Resources	47,451	3,521,815	80,050	15,085	—	—	—	—	36,809	3,701,210
State and consumer services	246,349	72,856	160	—	—	—	176	—	182,452	501,993
Business and transportation	207,414	9,915	247,532	—	—	—	—	—	7,213	472,074
Correctional programs	—	—	93,454	—	23,995	—	—	—	19,143	136,592
Capital outlay	—	337,979	—	—	—	—	—	—	—	337,979
Debt service:										
Bond and commercial paper retirement	—	16,207	—	—	—	—	—	60,230	—	76,437
Interest and fiscal charges	—	4,595	51	—	—	18	—	315,268	—	319,932
Total expenditures	**1,204,291**	**4,310,675**	**2,835,452**	**786,004**	**6,702,308**	**9,108,939**	**3,476,308**	**375,498**	**1,622,641**	**30,422,116**
Excess (deficiency) of revenues over (under) expenditures	113,987	(1,122,760)	(688,785)	13,804	(393,775)	(4,023,179)	(1,293,994)	(13,524)	20,726	(7,387,500)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	1,293,110	138,345	—	—	47,155	—	—	—	1,478,610
Premium on bonds issued	—	409	7	—	—	18	—	—	—	434
Transfers in	22,512	201,959	326,147	—	401,773	4,203,554	1,522,965	—	34,134	6,713,044
Transfers out	(69,583)	(22,630)	(24,280)	(83,178)	—	—	—	—	(135,165)	(334,836)
Total other financing sources (uses)	**(47,071)**	**1,472,848**	**440,219**	**(83,178)**	**401,773**	**4,250,727**	**1,522,965**	**—**	**(101,031)**	**7,857,252**
Net change in fund balances	66,916	350,088	(248,566)	(69,374)	7,998	227,548	228,971	(13,524)	(80,305)	469,752
Fund balances, July 1, 2010	**1,329,533 ***	**8,333,217 ***	**5,522,077 ***	**322,674**	**36,522**	**720,004 ***	**1,293,303**	**633,278**	**1,988,028 ***	**20,178,636**
Fund balances, June 30, 2011	**$ 1,396,449**	**$ 8,683,305**	**$ 5,273,511**	**$ 253,300**	**$ 44,520**	**$ 947,552**	**$ 1,522,274**	**$ 619,754**	**$ 1,907,723**	**$ 20,648,388**

* Restated

(continued)

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

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Debt Service			Capital Projects						
									Building Authorities	
	Economic Recovery Bond Sinking	Transportation Debt Service	Total Nonmajor Debt Service	Prison Construction	Higher Education Construction	Natural Resources Acquisition and Enhancement	Hospital Construction	Local Government Construction	East Bay	Los Angeles
REVENUES										
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Sales and use taxes	1,216,641	—	1,216,641	—	—	—	—	—	—	—
Insurance taxes	—	—	—	—	—	—	—	—	—	—
Other taxes	—	—	—	—	—	—	—	—	—	—
Intergovernmental	—	—	—	—	—	—	—	—	—	—
Licenses and permits	—	—	—	—	—	—	—	—	—	—
Charges for services	167	—	167	—	—	—	—	—	—	—
Fees	—	—	—	—	—	—	—	—	—	—
Penalties	—	—	—	—	—	—	—	—	—	—
Investment and interest	3,005	—	3,005	9	5,025	32	2,438	14,521	103	107
Other	8,617	—	8,617	—	—	357	—	—	—	—
Total revenues	**1,228,430**	**—**	**1,228,430**	**9**	**5,025**	**389**	**2,438**	**14,521**	**103**	**107**
EXPENDITURES										
Current:										
General government	29,237	—	29,237	—	—	—	180,975	—	—	—
Education	—	—	—	—	—	—	—	2,547,624	—	—
Health and human services	—	—	—	—	—	—	—	—	—	—
Resources	—	—	—	—	—	2,078	—	—	—	—
State and consumer services	—	—	—	—	—	—	—	—	—	—
Business and transportation	—	—	—	—	—	—	—	—	—	—
Correctional programs	—	—	—	—	—	—	—	—	—	—
Capital outlay	—	—	—	714	520,761	34,251	400	16,077	68	47
Debt service:										
Bond and commercial paper retirement	933,000	198,098	1,131,098	—	—	—	—	—	7,538	19,880
Interest and fiscal charges	330,253	516,845	847,098	4	30	—	2	411	1,969	2,800
Total expenditures	**1,292,490**	**714,943**	**2,007,433**	**718**	**520,791**	**36,329**	**181,377**	**2,564,112**	**9,575**	**22,727**
Excess (deficiency) of revenues over (under) expenditures	(64,060)	(714,943)	(779,003)	(709)	(515,766)	(35,940)	(178,939)	(2,549,591)	(9,472)	(22,620)
OTHER FINANCING SOURCES (USES)										
General obligation bonds and commercial paper issued	—	—	—	1,005	78,240	—	5,440	1,493,405	—	—
Premium on bonds issued	—	—	—	—	30	—	2	561	—	—
Transfers in	—	714,943	714,943	—	—	37,608	—	15	9,669	10,002
Transfers out	—	—	—	—	(112,025)	(1,775)	—	(172)	—	—
Total other financing sources (uses)	**—**	**714,943**	714,943	**1,005**	**(33,755)**	**35,833**	**5,442**	**1,493,809**	**9,669**	**10,002**
Net change in fund balances	(64,060)	—	(64,060)	296	(549,521)	(107)	(173,497)	(1,055,782)	197	(12,618)
Fund balances, July 1, 2010	**548,772**	**—**	548,772	**2,642**	**1,153,723**	**56,691**	**585,311 ***	**1,555,755 ***	**22,207**	**25,222**
Fund balances, June 30, 2011	**$ 484,712**	**$ —**	$ 484,712	**$ 2,938**	**$ 604,202**	**$ 56,584**	**$ 411,814**	**$ 499,973**	**$ 22,404**	**$ 12,604**

* Restated

(continued)

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

Nonmajor Governmental Funds

Year Ended June 30, 2011
(amounts in thousands)

	Capital Projects						
	Building Authorities			Building Authorities			
	San Francisco	Oakland	Riverside	San Bernardino	Other Capital Projects	Total Nonmajor Capital Projects	Total Nonmajor Governmental
REVENUES							
Personal income taxes	$ —	$ —	$ —	$ —	$ —	$ —	$ 905,371
Sales and use taxes	—	—	—	—	—	—	6,147,528
Insurance taxes	—	—	—	—	—	—	235,077
Other taxes	—	—	—	—	—	—	1,795,738
Intergovernmental	—	—	—	—	—	—	1,311,752
Licenses and permits	—	—	—	—	—	—	2,079,398
Charges for services	—	—	—	—	—	—	341,100
Fees	—	—	—	—	—	—	8,400,018
Penalties	—	—	—	—	—	—	809,315
Investment and interest	103	36	5	46	65	22,490	150,989
Other	—	422	—	—	249	1,028	2,110,278
Total revenues	**103**	**458**	**5**	**46**	**314**	**23,518**	**24,286,564**
EXPENDITURES							
Current:							
General government	—	—	—	—	—	180,975	8,485,769
Education	—	—	—	—	—	2,547,624	2,872,945
Health and human services	—	—	—	—	—	—	16,275,021
Resources	—	—	—	—	—	2,078	3,703,288
State and consumer services	—	—	—	—	—	—	501,993
Business and transportation	—	—	—	—	—	—	472,074
Correctional programs	—	—	—	—	—	—	136,592
Capital outlay	2,580	—	—	—	10,503	585,401	923,380
Debt service:							
Bond and commercial paper retirement	16,700	4,605	510	2,725	—	51,958	1,259,493
Interest and fiscal charges	7,386	5,347	467	2,103	—	20,519	1,187,549
Total expenditures	**26,666**	**9,952**	**977**	**4,828**	**10,503**	**3,388,555**	**35,818,104**
Excess (deficiency) of revenues over (under) expenditures	(26,563)	(9,494)	(972)	(4,782)	(10,189)	(3,365,037)	(11,531,540)
OTHER FINANCING SOURCES (USES)							
General obligation bonds and commercial paper issued	—	—	—	—	—	1,578,090	3,056,700
Premium on bonds issued	—	—	—	—	—	593	1,027
Transfers in	27,638	9,560	987	4,912	—	100,391	7,528,378
Transfers out	—	—	—	—	—	(113,972)	(448,808)
Total other financing sources (uses)	**27,638**	**9,560**	**987**	**4,912**	**—**	**1,565,102**	**10,137,297**
Net change in fund balances	1,075	66	15	130	(10,189)	(1,799,935)	(1,394,243)
Fund balances, July 1, 2010	**29,472**	**8,267**	**1,230**	**10,911**	**24,134**	**3,475,565**	**24,202,973**
Fund balances, June 30, 2011	**$ 30,547**	**$ 8,333**	**$ 1,245**	**$ 11,041**	**$ 13,945**	**$ 1,675,630**	**$ 22,808,730**

* Restated

(concluded)

Budgetary Comparison Schedule

Budgetary Basis

Nonmajor Governmental Cost Funds*

Year Ended June 30, 2011
(amounts in thousands)

	Budget Amounts	Actual Amounts	Variance With Final Budget
REVENUES			
Cigarette and tobacco taxes	$ 802,687	$ 810,710	$ 8,023
Vehicle license fees	1,967,638	1,814,171	(153,467)
Personal income tax	891,000	905,813	14,813
Retail sales and use taxes	3,939,811	6,468,089	2,528,278
Other major taxes and licenses	328,851	389,051	60,200
Other revenues	12,731,164	12,984,848	253,684
Total revenues	**20,661,151**	**23,372,682**	**2,711,531**
EXPENDITURES			
State and consumer services	598,436	523,276	75,160
Business and transportation	896,134	864,470	31,664
Resources	3,427,255	3,181,370	245,885
Health and human services	15,488,328	15,238,090	250,238
Correctional programs	46,725	45,622	1,103
Education	83,753	65,864	17,889
General government	6,233,959	5,763,788	470,171
Total expenditures	**26,774,590**	**25,682,480**	**1,092,110**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	17,046,712	—
Transfers to other funds	—	(15,173,638)	—
Other additions and deductions	—	(1,152,860)	—
Total other financing sources (uses)	**—**	**720,214**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	(1,589,584)	—
Fund balances, July 1, 2010 (restated)	**—**	**10,933,832**	**—**
Fund balances, June 30, 2011	**$ —**	**$ 9,344,248**	**$ —**

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

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

The **Financial Information Systems Fund** accounts for charges for the development and subsequent use of the State's new financial information system.

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, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information Systems	Other Internal Service Programs	Total
ASSETS									
Current assets:									
Cash and pooled investments	$ 224,314	$ 48,198	$ 160,146	$ 5,442	$ 32,984	$ 2,987	$ 14,044	$ 218,989	$ 707,104
Receivables (net)	1,769	20,464	1,031	27,461	11,701	56,217	1	582	119,226
Due from other funds	67,506	38,181	34,866	39,644	88,829	74,339	1,619	54,853	399,837
Due from other governments	1,190	8,138	61	—	815	—	—	87	10,291
Prepaid items	12	82,266	262	476	2,993	16,789	2,353	2,362	107,513
Inventories	—	23,266	42,726	—	25,430	906	—	—	92,328
Total current assets	294,791	220,513	239,092	73,023	162,752	151,238	18,017	276,873	1,436,299
Noncurrent assets:									
Interfund receivables	—	—	—	—	—	—	—	202,245	202,245
Capital assets:									
Land	—	—	—	—	—	—	—	2,058	2,058
Buildings and other depreciable property	412	150,016	144,808	—	229,386	26,396	386	10,101	561,505
Intangible assets – amortizable	—	7,541	3,644	—	36,849	—	—	—	48,034
Less: accumulated depreciation/amortization	(412)	(121,576)	(104,035)	—	(205,899)	(26,396)	(167)	(5,478)	(463,963)
Construction in progress	—	—	433	—	18,762	—	—	219	19,414
Total noncurrent assets	—	35,981	44,850	—	79,098	—	219	209,145	369,293
Total assets	**$ 294,791**	**$ 256,494**	**$ 283,942**	**$ 73,023**	**$ 241,850**	**$ 151,238**	**$ 18,236**	**$ 486,018**	$ 1,805,592
LIABILITIES									
Current liabilities:									
Accounts payable	$ 23,040	$ 3,815	$ 17,626	$ 68,104	$ 32,189	$ 17,229	$ 7,642	$ 37,626	$ 207,271
Due to other funds	351	85,110	15	90	—	—	910	60,357	146,833
Due to component units	—	—	—	—	—	—	—	739	739
Due to other governments	—	—	—	530	—	—	—	17	547
Deposits	—	836	—	—	—	—	—	—	836
Contracts and notes payable	—	413	—	—	15,024	—	—	—	15,437
Advance collections	280,042	19,889	2,560	—	36	871	—	—	303,398
Current portion of long-term obligations	—	745	12,154	—	4,163	—	167	—	17,229
Other liabilities	365	140	10,040	—	32	676	—	4,113	15,366
Total current liabilities	303,798	110,948	42,395	68,724	51,444	18,776	8,719	102,852	707,656
Noncurrent liabilities:									
Interfund payables	—	4,067	—	—	1,597	94,993	37,650	782	139,089
Compensated absences payable	7,656	55,165	—	—	20,778	37,469	782	1,338	123,188
Net other postemployment benefits obligation	7,501	122,414	25,224	5,647	27,830	—	—	32,694	221,310
Other noncurrent liabilities	1,064	16,312	12,496	—	10,122	—	—	—	39,994
Total noncurrent liabilities	16,221	197,958	37,720	5,647	60,327	132,462	38,432	34,814	523,581
Total liabilities	**320,019**	**308,906**	**80,115**	**74,371**	**111,771**	**151,238**	**47,151**	**137,666**	1,231,237
NET ASSETS									
Investment in capital assets, net of related debt	—	35,237	44,850	—	54,137	—	—	7,071	141,295
Unrestricted	(25,228)	(87,649)	158,977	(1,348)	75,942	—	(28,915)	341,281	433,060
Total net assets (deficits)	**(25,228)**	**(52,412)**	**203,827**	**(1,348)**	**130,079**	**—**	**(28,915)**	**348,352**	574,355
Total liabilities and net assets	**$ 294,791**	**$ 256,494**	**$ 283,942**	**$ 73,023**	**$ 241,850**	**$ 151,238**	**$ 18,236**	**$ 486,018**	$ 1,805,592

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

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
OPERATING REVENUES									
Services and sales	$ 304,843	$ 744,453	$ 216,179	$ 111,666	$ 332,236	$ 325,723	$ —	$ 363,413	$ 2,398,513
Total operating revenues	**304,843**	**744,453**	**216,179**	**111,666**	**332,236**	**325,723**	**—**	**363,413**	2,398,513
OPERATING EXPENSES									
Personal services	31,228	237,885	68,908	1,953	124,169	318,067	4,503	19,278	805,991
Supplies	—	—	2,124	—	—	5,408	—	214	7,746
Services and charges	270,316	486,538	127,792	109,935	179,657	119	10,639	253,645	1,438,641
Depreciation	—	13,122	7,453	—	21,085	2,129	167	225	44,181
Interest expense	—	62	—	—	—	—	—	—	62
Total operating expenses	**301,544**	**737,607**	**206,277**	**111,888**	**324,911**	**325,723**	**15,309**	**273,362**	2,296,621
Operating income (loss)	3,299	6,846	9,902	(222)	7,325	—	(15,309)	90,051	101,892
NONOPERATING REVENUES (EXPENSES)									
Investment and interest income	—	—	235	—	181	—	—	447	863
Interest expense and fiscal charges	—	—	(14)	—	(891)	—	—	—	(905)
Other	—	(46,655)	(1,842)	—	45,829	—	—	—	(2,668)
Total nonoperating revenues (expenses)	**—**	**(46,655)**	**(1,621)**	**—**	**45,119**	**—**	**—**	**447**	(2,710)
Income (loss) before capital contributions and transfers	3,299	(39,809)	8,281	(222)	52,444	—	(15,309)	90,498	99,182
Transfers in	—	397	—	—	—	—	—	—	397
Transfers out	—	(45,769)	—	—	—	—	—	(8,655)	(54,424)
Change in net assets	3,299	(85,181)	8,281	(222)	52,444	—	(15,309)	81,843	45,155
Total net assets (deficit), July 1, 2010	**(28,527)**	**32,769**	**195,546**	**(1,126)**	**77,635**	**—**	**(13,606)**	**266,509**	529,200
Total net assets (deficit), June 30, 2011	**$ (25,228)**	**$ (52,412)**	**$ 203,827**	**$ (1,348)**	**$ 130,079**	**$ —**	**$ (28,915)**	**$ 348,352**	$ 574,355

Combining Statement of Cash Flows

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
CASH FLOW FROM OPERATING ACTIVITIES									
Receipts from customers	$ 295,076	$ 769,815	$ 217,239	$ 27,924	$ 284,085	$ 316,898	$ 2	$ 363,454	$ 2,274,493
Receipts from interfund services provided	48,161	—	1,765	43,255	—	—	—	11,775	104,956
Payments to suppliers	(293,030)	(493,860)	(125,149)	(82,351)	(168,181)	—	(8,244)	(266,678)	(1,437,493)
Payments to employees	(26,091)	(205,219)	(53,276)	—	(108,197)	(310,539)	(3,721)	(9,242)	(716,285)
Payments for interfund services used	—	(38,573)	(12,749)	—	—	(719)	(756)	(19,546)	(72,343)
Other receipts (payments)	(668)	(2,034)	(104)	(308)	—	(18,488)	—	(17,621)	(39,223)
Net cash provided by (used in) operating activities	**23,448**	**30,129**	**27,726**	**(11,480)**	**7,707**	**(12,848)**	**(12,719)**	**62,142**	**114,105**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Change in interfund payables and loans payable	—	2,267	(2,399)	—	—	—	—	—	(132)
Interest paid on operating debt	—	—	(14)	—	—	—	—	—	(14)
Transfers in	—	397	—	—	5,998	—	—	—	6,395
Transfers out	—	(92,424)	—	—	—	—	—	(8,655)	(101,079)
Net cash provided by (used in) noncapital financing activities	**—**	**(89,760)**	**(2,413)**	**—**	**5,998**	**—**	**—**	**(8,655)**	**(94,830)**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisition of capital assets	—	(2,781)	(6,689)	—	(12,018)	(2,128)	(219)	—	(23,835)
Proceeds from sale of capital assets	—	34,912	552	—	—	—	—	174	35,638
Principal paid on notes payable and commercial paper	—	—	—	—	(16,222)	—	—	—	(16,222)
Interest paid	—	(61)	—	—	(891)	—	—	—	(952)
Net cash used in capital and related financing activities	**—**	**32,070**	**(6,137)**	**—**	**(29,131)**	**(2,128)**	**(219)**	**174**	**(5,371)**
CASH FLOWS FROM INVESTING ACTIVITIES									
Changes in interfund receivables and loans receivable	—	—	—	—	(2,500)	—	—	(106,669)	(109,169)
Earnings on investments	—	—	233	—	190	—	—	447	870
Net cash provided by (used in) investing activities	**—**	**—**	**233**	**—**	**(2,310)**	**—**	**—**	**(106,222)**	**(108,299)**
Net increase (decrease) in cash and pooled investments	23,448	(27,561)	19,409	(11,480)	(17,736)	(14,976)	(12,938)	(52,561)	(94,395)
Cash and pooled investments at July 1, 2010	**200,866**	**75,759**	**140,737**	**16,922**	**50,720**	**17,963**	**26,982**	**271,550**	**801,499**
Cash and pooled investments at June 30, 2011	**$ 224,314**	**$ 48,198**	**$ 160,146**	**$ 5,442**	**$ 32,984**	**$ 2,987**	**$ 14,044**	**$ 218,989**	**$ 707,104**

(continued)

Combining Statement of Cash Flows (continued)

Internal Service Funds

Year Ended June 30, 2011
(amounts in thousands)

	Architecture Revolving	Service Revolving	Prison Industries	Office of Systems Integration	Technology Services Revolving	Water Resources Revolving	Financial Information System	Other Internal Service Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES									
Operating income (loss)	$ 3,299	$ 6,846	$ 9,902	$ (222)	$ 7,325	$ —	$ (15,309)	$ 90,051	$ 101,892
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:									
Interest expense on operating debt	—	62	(104)	—	—	—	—	—	(42)
Depreciation	—	13,122	7,453	—	21,085	2,129	167	225	44,181
Change in assets and liabilities:									
Receivables	1,864	21,066	(34)	(25,112)	(1,324)	(8,825)	2	41	(12,322)
Due from other funds	51,836	20,541	(51)	43,280	(37,110)	9,086	(3,123)	(4,456)	80,003
Due from other governments	(65)	714	339	—	(511)	—	—	(75)	402
Prepaid items	25	(8,821)	(37)	(262)	563	439	(2,353)	1,393	(9,053)
Inventories	—	8,700	331	—	173	(46)	—	—	9,158
Accounts payable	(18,026)	(7,201)	(4,834)	28,356	10,164	(14,186)	4,748	(14,731)	(15,710)
Due to other funds	(6,107)	(59,114)	(116)	(25)	595	(9,805)	2,367	(13,694)	(85,899)
Due to component units	—	—	—	—	—	—	—	12	12
Due to other governments	—	—	—	530	—	—	—	(205)	325
Deposits	—	206	—	—	(5,900)	—	—	—	(5,694)
Contracts and notes payable	—	(1,061)	—	—	—	—	—	—	(1,061)
Advance collections	(11,632)	4,296	(2,194)	(59,978)	(3,306)	—	—	—	(72,814)
Other current liabilities	(602)	30	10,035	—	35	356	—	—	9,854
Interfund payables	—	—	—	—	—	476	—	—	476
Benefits payables	—	—	—	—	—	—	—	(6,044)	(6,044)
Compensated absences payable	11	(582)	766	—	9,929	7,528	782	89	18,523
Capital lease obligations	—	(4,893)	—	—	—	—	—	—	(4,893)
Other noncurrent liabilities	2,845	36,218	6,270	1,953	5,989	—	—	9,536	62,811
Total adjustments	20,149	23,283	17,824	(11,258)	382	(12,848)	2,590	(27,909)	12,213
Net cash provided by (used in) operating activities	**$ 23,448**	**$ 30,129**	**$ 27,726**	**$ (11,480)**	**$ 7,707**	**$ (12,848)**	**$ (12,719)**	**$ 62,142**	**$ 114,105**
									(concluded)
Noncash investing, capital, and financing activities									
Capital acquisitions financed through notes payable	$ —	$ —	$ —	$ —	$ 6,412	$ —	$ —	$ —	$ 6,412

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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 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, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
ASSETS					
Current assets:					
Cash and pooled investments	$ —	$ 201,621	$ 108,071	$ 146,995	$ 456,687
Restricted assets:					
Cash and pooled investments	3,815	63,565	—	—	67,380
Due from other governments	—	65,598	—	—	65,598
Net investment in direct financing leases	16,946	—	—	—	16,946
Receivables (net)	3,396	—	50,555	2,664	56,615
Due from other funds	34	4,490	143	1,662	6,329
Due from other governments	—	162,717	—	3,609	166,326
Prepaid items	—	—	—	16	16
Inventories	—	—	—	3,188	3,188
Other current assets	—	55	—	83	138
Total current assets	24,191	498,046	158,769	158,217	839,223
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	15,386	—	—	—	15,386
Investments	11,697	—	—	—	11,697
Loans receivable	—	238,597	—	—	238,597
Investments	—	—	32,247	—	32,247
Net investment in direct financing leases	38,648	—	—	—	38,648
Interfund receivables	—	2,202	11,544	130,232	143,978
Loans receivable	—	2,577,673	1,285,730	121,805	3,985,208
Deferred charges	48	146	8,476	—	8,670
Capital assets:					
Land	—	—	443	829	1,272
Buildings and other depreciable property	—	—	15,884	54,442	70,326
Intangible assets – amortizable	—	—	—	1,149	1,149
Less: accumulated depreciation/amortization	—	—	(15,716)	(48,965)	(64,681)
Other noncurrent assets	—	—	24,150	—	24,150
Total noncurrent assets	65,779	2,818,618	1,362,758	259,492	4,506,647
Total assets	**$ 89,970**	**$ 3,316,664**	**$ 1,521,527**	**$ 417,709**	$ 5,345,870

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Enterprise Funds

June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
LIABILITIES					
Current liabilities:					
Accounts payable	$ —	$ —	$ 793	$ 51,353	$ 52,146
Due to other funds	—	393	—	246	639
Due to other governments	—	—	—	22	22
Deferred revenue	—	74	—	—	74
Deposits	—	—	—	82	82
Advance collections	—	—	—	193	193
Interest payable	301	1,632	15,317	—	17,250
Current portion of long-term obligations	16,933	24,951	47,020	7,065	95,969
Other current liabilities	—	—	—	153	153
Total current liabilities	17,234	27,050	63,130	59,114	166,528
Noncurrent liabilities:					
Compensated absences payable	—	—	—	2,646	2,646
General obligation bonds payable	—	—	756,184	—	756,184
Revenue bonds payable	37,829	116,474	541,656	—	695,959
Net other postemployment benefits obligation	—	—	878	3,714	4,592
Other noncurrent liabilities	—	212	—	106,785	106,997
Total noncurrent liabilities	37,829	116,686	1,298,718	113,145	1,566,378
Total liabilities	**55,063**	**143,736**	**1,361,848**	**172,259**	**1,732,906**
NET ASSETS					
Investment in capital assets, net of related debt	—	—	611	5,078	5,689
Restricted – expendable:					
Debt service	34,907	47,850	—	—	82,757
Security for revenue bonds	—	304,195	—	—	304,195
Other purposes	—	—	159,068	198,637	357,705
Total expendable	34,907	352,045	159,068	198,637	744,657
Unrestricted	—	2,820,883	—	41,735	2,862,618
Total net assets	**34,907**	**3,172,928**	**159,679**	**245,450**	**3,612,964**
Total liabilities and net assets	**$ 89,970**	**$ 3,316,664**	**$ 1,521,527**	**$ 417,709**	**$ 5,345,870**

(concluded)

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

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
OPERATING REVENUES					
Services and sales	$ —	$ 6,372	$ 9,150	$ 95,649	$ 111,171
Investment and interest	568	48,231	73,869	1,109	123,777
Rent	9,930	—	—	6,336	16,266
Other	—	—	4,063	—	4,063
Total operating revenues	**10,498**	**54,603**	**87,082**	**103,094**	**255,277**
OPERATING EXPENSES					
Personal services	—	2,476	8,952	5,246	16,674
Services and charges	681	—	6,850	110,180	117,711
Depreciation	—	—	70	2,580	2,650
Interest expense	8,878	—	72,278	—	81,156
Amortization (recovery) of deferred charges	31	—	2,763	—	2,794
Other	—	2,400	—	—	2,400
Total operating expenses	**9,590**	**4,876**	**90,913**	**118,006**	**223,385**
Operating income (loss)	908	49,727	(3,831)	(14,912)	31,892
NONOPERATING REVENUES (EXPENSES)					
Investment and interest income	—	1,354	2,142	877	4,373
Interest expense and fiscal charges	—	(5,996)	—	—	(5,996)
Other	—	(81)	(13,754)	1,704	(12,131)
Total nonoperating revenues (expenses)	**—**	**(4,723)**	**(11,612)**	**2,581**	**(13,754)**
Income (loss) before capital contributions and transfers	908	45,004	(15,443)	(12,331)	18,138
Capital contributions	—	86,272	—	—	86,272
Transfers out	—	—	—	(36,349)	(36,349)
Change in net assets	908	131,276	(15,443)	(48,680)	68,061
Total net assets, July 1, 2010	**33,999**	**3,041,652**	**175,122**	**294,130 ***	**3,544,903**
Total net assets, June 30, 2011	**$ 34,907**	**$ 3,172,928**	**$ 159,679**	**$ 245,450**	**$ 3,612,964**

*Restated

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers/employees	$ —	$ 50,590	$ 8,593	$ 101,238	$ 160,421
Receipts from interfund services provided	—	—	—	1,250	1,250
Payments to suppliers	(681)	(2,741)	(15,043)	(127,721)	(146,186)
Payments to employees	—	(2,476)	(8,952)	(4,646)	(16,074)
Payments for interfund services used	—	(6)	—	(3,365)	(3,371)
Claims paid to other than employees	—	—	—	(2)	(2)
Other receipts (payments)	20,928	(86,447)	165,391	(10,298)	89,574
Net cash provided by (used in) operating activities	**20,247**	**(41,080)**	**149,989**	**(43,544)**	85,612
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Change in interfund payables and loans payable	—	—	32,746	—	32,746
Retirement of general obligation bonds	—	—	(202,750)	—	(202,750)
Retirement of revenue bonds	(19,995)	(24,390)	(130,770)	—	(175,155)
Interest paid on operating debt	—	(7,081)	—	—	(7,081)
Transfers in	—	—	49	—	49
Transfers out	—	—	(2,172)	(36,349)	(38,521)
Net cash provided by (used in) noncapital financing activities	**(19,995)**	**(31,471)**	**(302,897)**	**(36,349)**	(390,712)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Changes in interfund payables and loans payable	—	—	—	80	80
Acquisition of capital assets	—	—	(176)	(82)	(258)
Proceeds from sale of capital assets	—	—	—	3,152	3,152
Grants received	—	91,120	—	—	91,120
Net cash provided by (used in) capital and related financing activities	**—**	**91,120**	**(176)**	**3,150**	94,094
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from maturity and sale of investments	—	—	35,666	—	35,666
Change in interfund receivables and loans receivable	—	(2,117)	(35,279)	61,825	24,429
Earnings on investments	—	1,405	2,142	877	4,424
Net cash provided by (used in) investing activities	**—**	**(712)**	**2,529**	**62,702**	64,519
Net increase (decrease) in cash and pooled investments	252	17,857	(150,555)	(14,041)	(146,487)
Cash and pooled investments at July 1, 2010	**18,949**	**247,329**	**258,626**	**161,036 ***	685,940
Cash and pooled investments at June 30, 2011	**$ 19,201**	**$ 265,186**	**$ 108,071**	**$ 146,995**	$ 539,453

*Restated

(continued)

Combining Statement of Cash Flows (continued)

Nonmajor Enterprise Funds

Year Ended June 30, 2011
(amounts in thousands)

	High Technology Education	State Water Pollution Control	Housing Loan	Other Enterprise Programs	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ 908	$ 49,727	$ (3,831)	$ (14,912)	$ 31,892
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	—	—	70	2,580	2,650
Provisions and allowances	—	—	9,592	—	9,592
Amortization of discounts	87	—	—	—	87
Amortization of deferred charges	4,135	—	2,763	—	6,898
Other	359	(5,567)	(889)	1,704	(4,393)
Change in assets and liabilities:					
Receivables	—	—	2,125	(376)	1,749
Due from other funds	4	(6)	157	(924)	(769)
Due from other governments	—	374	—	(416)	(42)
Prepaid items	—	—	—	231	231
Inventories	—	—	—	173	173
Net investment in direct financing leases	14,844	—	—	—	14,844
Other current assets	—	—	1,537	161	1,698
Loans receivable	—	(85,184)	155,599	(6,355)	64,060
Interfund receivables	—	—	(9,062)	—	(9,062)
Accounts payable	—	—	793	(17,940)	(17,147)
Due to other funds	—	(341)	(1,969)	(1,240)	(3,550)
Due to other governments	—	—	—	15	15
Deposits	—	—	—	(2)	(2)
Advance collections	—	—	—	(85)	(85)
Interest payable	(90)	—	—	—	(90)
Other current liabilities	—	—	(4,513)	288	(4,225)
Deferred revenue	—	(83)	—	—	(83)
Benefits payable	—	—	(2,586)	—	(2,586)
Compensated absences payable	—	—	—	(345)	(345)
Other noncurrent liabilities	—	—	203	(6,101)	(5,898)
Total adjustments	19,339	(90,807)	153,820	(28,632)	53,720
Net cash provided by (used in) operating activities	**$ 20,247**	**$ (41,080)**	**$ 149,989**	**$ (43,544)**	**$ 85,612**

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Private Purpose Trust Funds

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

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

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

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

Combining Statement of Fiduciary Net Assets

Private Purpose Trust Funds

June 30, 2011
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ASSETS				
Cash and pooled investments	$ 902	$ 102,534	$ 1,663	$ 105,099
Investments, at fair value:				
Equity securities	67,810	—	—	67,810
Other	4,453,712	—	—	4,453,712
Total investments	4,521,522	—	—	4,521,522
Receivables (net)	13,218	—	—	13,218
Due from other funds	—	—	2	2
Due from other governments	—	—	62	62
Other assets	—	157,259	1	157,260
Total assets	**4,535,642**	**259,793**	**1,728**	4,797,163
LIABILITIES				
Accounts payable	13,872	—	332	14,204
Deposits	—	157,259	—	157,259
Other liabilities	—	—	519	519
Total liabilities	**13,872**	**157,259**	**851**	171,982
NET ASSETS				
Held in trust for benefits and other purposes	**$ 4,521,770**	**$ 102,534**	**$ 877**	$ 4,625,181

Combining Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Funds

Year Ended June 30, 2011
(amounts in thousands)

	Scholarshare Program Trust	Unclaimed Property	Other Private Purpose Trust	Total
ADDITIONS				
Investment income:				
Net appreciation in fair value of investments	$ 485,844	$ —	$ —	$ 485,844
Interest, dividends, and other investment income	132,765	—	—	132,765
Less: investment expense	(8,022)	—	—	(8,022)
Net investment income	610,587	—	—	610,587
Receipts from depositors	1,205,142	327,005	300	1,532,447
Total additions	**1,815,729**	**327,005**	**300**	2,143,034
DEDUCTIONS				
Administrative expenses	—	—	22	22
Payments to and for depositors	873,313	249,973	447	1,123,733
Total deductions	**873,313**	**249,973**	**469**	1,123,755
Change in net assets	942,416	77,032	(169)	1,019,279
Net assets, July 1, 2010	**3,579,354**	**25,502**	**1,046**	3,605,902
Net assets, June 30, 2011	**$ 4,521,770**	**$ 102,534**	**$ 877**	$ 4,625,181

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

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

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

The **Public Employees' Health Benefits Fund** is administered by CalPERS and accounts for the voluntary contributions from participating employers of the agent multiple-employer other 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.

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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 **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 peace officers and firefighters employed by 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.

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Combining Statement of Fiduciary Net Assets

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

June 30, 2011
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
ASSETS												
Cash and pooled investments	$ 2,265,872	$ 24,611	$ 499,477	$ 745	$ 18,359	$ 3,750	$ 7,063	$ 884	$ 660	$ 1	$ 11,076	$ 2,832,498
Investments, at fair value:												
Short-term	6,613,498	53,754	2,481,467	—	202,735	48,846	7	4	33,087	1,666	—	9,435,064
Equity securities	116,731,425	1,156,659	80,580,320	—	577,655	—	307,786	50,433	296,753	11,560	—	199,712,591
Debt securities	53,066,388	456,992	28,018,129	—	167,369	—	198,927	72,772	155,349	5,962	—	82,141,888
Real estate	19,106,946	179,151	18,865,311	—	8,905	—	56,531	—	14,765	489	—	38,232,098
Other	42,525,671	—	25,910,052	—	8,389,161	—	—	—	—	—	—	76,824,884
Securities lending collateral	20,420,264	—	25,200,355	—	—	—	—	—	—	—	—	45,620,619
Total investments	258,464,192	1,846,556	181,055,634	—	9,345,825	48,846	563,251	123,209	499,954	19,677	—	451,967,144
Receivables (net)	1,993,539	16,339	1,765,331	—	9,139	1,952	1,105	181	8	15	—	3,787,609
Due from other funds	418,229	1	167	3	130	—	4,601	—	—	—	13	423,144
Due from other governments	—	—	—	—	8	—	—	—	—	—	—	8
Other assets	691,045	—	243,875	—	—	—	—	—	—	—	—	934,920
Total assets	**263,832,877**	**1,887,507**	**183,564,484**	**748**	**9,373,461**	**54,548**	**576,020**	**124,274**	**500,622**	**19,693**	**11,089**	459,945,323
LIABILITIES												
Accounts payable	—	22	1,960,845	—	4,859	—	—	—	—	—	606	1,966,332
Due to other governments	923	—	1,433	—	—	—	—	—	—	—	—	2,356
Benefits payable	1,252,885	19,303	917,085	—	—	14	—	654	—	—	—	2,189,941
Securities lending obligations	20,264,886	—	25,272,358	—	—	—	—	—	—	—	—	45,537,244
Loans payable	—	—	25,985	—	—	—	—	—	—	—	—	25,985
Other liabilities	552,392	1,305	40,963	150	3,020	388	187	144	749	35	366	599,699
Total liabilities	**22,071,086**	**20,630**	**28,218,669**	**150**	**7,879**	**402**	**187**	**798**	**749**	**35**	**972**	50,321,557
NET ASSETS												
Held in trust for benefits and other purposes	**$ 241,761,791**	**$ 1,866,877**	**$ 155,345,815**	**$ 598**	**$ 9,365,582**	**$ 54,146**	**$ 575,833**	**$ 123,476**	**$ 499,873**	**$ 19,658**	**$ 10,117**	$ 409,623,766

Combining Statement of Changes in Fiduciary Net Assets

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

Year Ended June 30, 2011
(amounts in thousands)

	Public Employees' Retirement	Public Employees' Health Benefits	State Teachers' Retirement	Teachers' Health Benefits	Deferred Compensation	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Peace Officers' and Firefighters' Defined Contribution Plan	Supplemental Contributions Program	Other Pension and Other Employee Benefit Trust	Total
ADDITIONS												
Contributions:												
Employer	$ 7,465,397	$ 758,251	$ 3,503,615	$ 36,145	$ 84	$ 167,302	$ 53,863	$ —	$ 39,066	$ —	$ —	$ 12,023,723
Plan member	3,600,089	9,147	2,355,909	—	687,398	6,658	18,589	3	—	285	21,523	6,699,601
Total contributions	11,065,486	767,398	5,859,524	36,145	687,482	173,960	72,452	3	39,066	285	21,523	18,723,324
Investment income :												
Net appreciation in fair value of investments	41,297,805	—	26,586,479	—	189,722	—	91,543	17,667	88,724	—	—	68,271,940
Interest, dividends, and other investment income	5,120,836	331,492	3,650,687	10	1,122,674	184	53	—	8	3,639	—	10,229,583
Less: investment expense	(2,514,216)	—	(206,891)	—	(1,335)	—	—	—	(697)	(29)	—	(2,723,168)
Net investment income	43,904,425	331,492	30,030,275	10	1,311,061	184	91,596	17,667	88,035	3,610	—	75,778,355
Other	3,011	—	6,546	—	12,929	3,216	—	—	7	—	81	25,790
Total additions	**54,972,922**	**1,098,890**	**35,896,345**	**36,155**	**2,011,472**	**177,360**	**164,048**	**17,670**	**127,108**	**3,895**	**21,604**	**94,527,469**
DEDUCTIONS												
Distributions to beneficiaries	14,242,258	516,960	10,092,064	35,785	16,772	185,119	2,236	7,382	—	—	21,095	25,119,671
Refunds of contributions	227,168	—	116,089	—	—	—	5,870	440	—	—	—	349,567
Administrative expense	357,779	2,305	110,484	345	15,872	1,188	716	408	1,839	84	182	491,202
Payments to and for depositors	—	—	—	—	559,374	—	—	—	30,949	2,113	—	592,436
Total deductions	**14,827,205**	**519,265**	**10,318,637**	**36,130**	**592,018**	**186,307**	**8,822**	**8,230**	**32,788**	**2,197**	**21,277**	**26,552,876**
Change in net assets	40,145,717	579,625	25,577,708	25	1,419,454	(8,947)	155,226	9,440	94,320	1,698	327	67,974,593
Net assets, July 1, 2010	**201,616,074**	**1,287,252**	**129,768,107**	**573**	**7,946,128**	**63,093**	**420,607**	**114,036**	**405,553**	**17,960**	**9,790 ***	**341,649,173**
Net assets, June 30, 2011	**$ 241,761,791**	**$ 1,866,877**	**$ 155,345,815**	**$ 598**	**$ 9,365,582**	**$ 54,146**	**$ 575,833**	**$ 123,476**	**$ 499,873**	**$ 19,658**	**$ 10,117**	**$ 409,623,766**

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Agency Funds

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

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

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

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, 2011
(amounts in thousands)

	Receipting and Disbursing	Deposit	Other Agency Activities	Total
ASSETS				
Cash and pooled investments	$ 2,654,587	$ 1,559,894	$ 37,082	$ 4,251,563
Receivables (net)	456,835	21,115	1,599	479,549
Due from other funds	13,393,658	76,255	700	13,470,613
Due from other governments	13,165	105,294	—	118,459
Prepaid Items	25,458	1,684	—	27,142
Interfund receivables	55,817	29,671	4,744	90,232
Loans receivable	—	—	6,875	6,875
Other assets	81	49	—	130
Total assets	**$ 16,599,601**	**$ 1,793,962**	**$ 51,000**	$ 18,444,563
LIABILITIES				
Accounts payable	$ 5,248,591	$ 195,272	$ 4,979	$ 5,448,842
Due to other governments	11,046,831	11,066	25,644	11,083,541
Tax overpayments	2,995	—	—	2,995
Benefits payable	169,165	—	—	169,165
Deposits	42,636	751,392	6,493	800,521
Advance collections	85,446	805	—	86,251
Other liabilities	3,937	835,427	13,884	853,248
Total liabilities	**$ 16,599,601**	**$ 1,793,962**	**$ 51,000**	$ 18,444,563

Combining Statement of Changes in Fiduciary Assets and Liabilities

Agency Funds

Year Ended June 30, 2011
(amounts in thousands)

Receipting and Disbursing Fund

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 2,560,914	$ 147,314,791	$ 147,221,118	$ 2,654,587
Receivables (net)	429,658	2,562,399	2,535,222	456,835
Due from other funds	12,338,602	48,904,492	47,849,436	13,393,658
Due from other governments	17,883	56,727	61,445	13,165
Prepaid items	6,689	25,458	6,689	25,458
Interfund receivables	53,022	55,817	53,022	55,817
Loans receivable	66,977	—	66,977	—
Other assets	81	—	—	81
Total assets	**$ 15,473,826**	**$ 198,919,684**	**$ 197,793,909**	$ 16,599,601
LIABILITIES				
Accounts payable	$ 6,284,745	$ 32,352,540	$ 33,388,694	$ 5,248,591
Due to other governments	8,914,973	66,363,943	64,232,085	11,046,831
Tax overpayments	3,756	64,485	65,246	2,995
Benefits payable	151,356	3,992,678	3,974,869	169,165
Deposits	35,913	102,482	95,759	42,636
Advance collections	12,868	1,890,595	1,818,017	85,446
Interfund payables	66,977	—	66,977	—
Other liabilities	3,238	7,957	7,258	3,937
Total liabilities	**$ 15,473,826**	**$ 104,774,680**	**$ 103,648,905**	$ 16,599,601

Deposit Fund

	Balance July 1, 2010 *	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 1,452,424	$ 22,241,955	$ 22,134,485	$ 1,559,894
Receivables (net)	130,477	9,448	118,810	21,115
Due from other funds	65,728	26,281	15,754	76,255
Due from other governments	1,376	104,954	1,036	105,294
Prepaid items	2,381	—	697	1,684
Interfund receivables	54,221	29,671	54,221	29,671
Other assets	244	58,124	58,319	49
Total assets	**$ 1,706,851**	**$ 22,470,433**	**$ 22,383,322**	$ 1,793,962
LIABILITIES				
Accounts payable	$ 70,685	$ 244,590	$ 120,003	$ 195,272
Due to other governments	10,564	1,285	783	11,066
Deposits	781,093	501,891	531,592	751,392
Advance collections	843	—	38	805
Interfund payables	15,000	—	15,000	—
Other liabilities	828,666	21,287,862	21,281,101	835,427
Total liabilities	**$ 1,706,851**	**$ 22,035,628**	**$ 21,948,517**	$ 1,793,962

*Restated

(continued)

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

Agency Funds

Year Ended June 30, 2011
(amounts in thousands)

Other Agency Activity Funds

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 34,947	$ 9,661	$ 7,526	$ 37,082
Receivables (net)	868	731	—	1,599
Due from other funds	2,727	457	2,484	700
Due from other governments	—	—	—	—
Interfund receivables	5,344	4,744	5,344	4,744
Loans receivable	10,808	—	3,933	6,875
Total assets	**$ 54,694**	**$ 15,593**	**$ 19,287**	**$ 51,000**
LIABILITIES				
Accounts payable	$ 6,454	$ 2,324	$ 3,799	$ 4,979
Due to other governments	26,487	277	1,120	25,644
Deposits	6,591	10	108	6,493
Other liabilities	15,162	—	1,278	13,884
Total liabilities	**$ 54,694**	**$ 2,611**	**$ 6,305**	**$ 51,000**

Total

	Balance July 1, 2010 *	Additions	Deductions	Balance June 30, 2011
ASSETS				
Cash and pooled investments	$ 4,048,285	$ 169,566,407	$ 169,363,129	$ 4,251,563
Receivables (net)	561,003	2,572,578	2,654,032	479,549
Due from other funds	12,407,057	48,931,230	47,867,674	13,470,613
Due from other governments	19,259	161,681	62,481	118,459
Prepaid items	9,070	25,458	7,386	27,142
Interfund receivables	112,587	90,232	112,587	90,232
Loans receivable	77,785	—	70,910	6,875
Other assets	325	58,124	58,319	130
Total assets	**$ 17,235,371**	**$ 221,405,710**	**$ 220,196,518**	**$ 18,444,563**
LIABILITIES				
Accounts payable	$ 6,361,884	$ 32,599,454	$ 33,512,496	$ 5,448,842
Due to other governments	8,952,024	66,365,505	64,233,988	11,083,541
Tax overpayments	3,756	64,485	65,246	2,995
Benefits payable	151,356	3,992,678	3,974,869	169,165
Deposits	823,597	604,383	627,459	800,521
Advance collections	13,711	1,890,595	1,818,055	86,251
Interfund payables	81,977	—	81,977	—
Other liabilities	847,066	21,295,819	21,289,637	853,248
Total liabilities	**$ 17,235,371**	**$ 126,812,919**	**$ 125,603,727**	**$ 18,444,563**

*Restated

(concluded)

Nonmajor Component Units

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

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

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

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

The **California Health Facilities Financing Authority** was created to provide financing for constructing, equipping, or acquiring health facilities.

The **California Educational Facilities Authority** 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 component unit is as of and for the year ended September 30, 2010.

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, 2010.

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.

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

The **State Assistance Fund for Enterprise, Business and Industrial Development Corporation** was created to provide financial assistance to small businesses to enhance economic development.

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Combining Statement of Net Assets

Nonmajor Component Units

June 30, 2011
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
ASSETS					
Current assets:					
Cash and pooled investments	$ 2,003	$ —	$ 28,382	$ 29,023	$ 135,342
Investments	—	—	—	—	—
Restricted assets:					
Cash and pooled investments	—	81,515	—	—	—
Investments	—	11,693	—	—	1,245
Receivables (net)	33	16,155	426	4,963	9,753
Due from primary government	—	99	35	52	1
Prepaid items	—	—	—	—	1,057
Inventories	—	—	—	—	—
Other current assets	—	—	—	—	10
Total current assets	2,036	109,462	28,843	34,038	147,408
Noncurrent assets:					
Restricted assets:					
Cash and pooled investments	—	—	—	—	—
Investments	—	10,494	—	—	858
Investments	—	—	—	—	—
Receivables (net)	—	—	—	—	3,462
Loans receivable	—	308,923	—	33,028	—
Deferred charges	—	1,274	—	—	70
Capital assets:					
Land	—	—	—	—	—
Collections – nondepreciable	—	—	—	—	—
Buildings and other depreciable property	—	—	98	112	10,170
Intangible assets – amortizable	49	—	73	81	8,817
Less: accumulated depreciation/amortization	(7)	—	(98)	(69)	(15,650)
Construction in progress	—	—	—	—	—
Intangible assets – nonamortizable	—	—	8	—	—
Other noncurrent assets	—	—	—	—	—
Total noncurrent assets	42	320,691	81	33,152	7,727
Total assets	**$ 2,078**	**$ 430,153**	**$ 28,924**	**$ 67,190**	**$ 155,135**

	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	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
ASSETS								
Current assets:								
Cash and pooled investments	$ 155	$ 406,959	$ 56,711	$ 11,485	$ 1,412	$ 4	$ 3,549	$ 675,025
Investments	—	226,929	2,684	—	—	—	—	229,613
Restricted assets:								
Cash and pooled investments	—	—	7,198	2,105	—	—	1,140	91,958
Investments	—	—	8,390	—	—	—	—	21,328
Receivables (net)	3	344,273	7,382	3,910	—	—	192	387,090
Due from primary government	—	—	—	—	—	—	—	187
Prepaid items	—	—	933	116	—	—	52	2,158
Inventories	—	—	—	342	—	—	—	342
Other current assets	—	39,635	218	—	—	—	—	39,863
Total current assets	158	1,017,796	83,516	17,958	1,412	4	4,933	1,447,564
Noncurrent assets:								
Restricted assets:								
Cash and pooled investments	—	100,113	—	—	—	—	—	100,113
Investments	—	—	4,700	—	—	—	—	16,052
Investments	—	1,237,316	—	52,268	—	—	885	1,290,469
Receivables (net)	—	300,891	—	13,200	—	—	—	317,553
Loans receivable	—	—	—	—	—	—	3,563	345,514
Deferred charges	—	—	—	—	—	—	—	1,344
Capital assets:								
Land	—	94,010	22,225	5,585	—	—	—	121,820
Collections – nondepreciable	—	5,620	—	—	—	—	—	5,620
Buildings and other depreciable property	—	1,103,412	669,103	138,545	—	—	181	1,921,621
Intangible assets – amortizable	—	8,354	—	617	—	—	—	17,991
Less: accumulated depreciation/amortization	—	(415,813)	(365,992)	(44,838)	—	—	(138)	(842,605)
Construction in progress	—	16,211	1,612	—	—	—	—	17,823
Intangible assets – nonamortizable	—	5,082	—	—	—	—	—	5,090
Other noncurrent assets	—	44,745	435	8,291	—	—	—	53,471
Total noncurrent assets	—	2,499,941	332,083	173,668	—	—	4,491	3,371,876
Total assets	**$ 158**	**$ 3,517,737**	**$ 415,599**	**$ 191,626**	**$ 1,412**	**$ 4**	**$ 9,424**	**$ 4,819,440**

(continued)

Combining Statement of Net Assets (continued)

Nonmajor Component Units

June 30, 2011
(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	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	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
LIABILITIES													
Current liabilities:													
Accounts payable	$ 314	$ 420	$ 23,251	$ 813	$ 28,359	$ 5	$ 76,860	$ 7,878	$ 5,105	$ 2	$ —	$ 99	$ 143,106
Due to other governments	—	—	466	—	—	—	—	—	—	—	—	—	466
Deferred revenue	—	2,491	—	—	—	—	70,144	208	575	—	—	—	73,418
Deposits	—	—	520	—	—	—	—	1,734	541	—	—	—	2,795
Contracts and notes payable	—	—	—	—	—	—	—	17,723	—	—	—	5,622	23,345
Advance collections	—	—	—	101	—	—	—	—	—	422	—	—	523
Interest payable	—	1,511	—	—	—	—	—	689	—	—	—	—	2,200
Current portion of long-term obligations	—	5,325	—	—	—	—	145,201	3,026	1,465	—	—	—	155,017
Other current liabilities	103	19,081	103	104	58,602	—	113,122	13,617	—	—	—	—	204,732
Total current liabilities	417	28,828	24,340	1,018	86,961	5	405,327	44,875	7,686	424	—	5,721	605,602
Noncurrent liabilities:													
Loans payable	—	—	—	—	20,000	—	—	—	—	—	—	—	20,000
Compensated absences payable	—	—	—	—	56	—	2,943	8,507	527	—	—	—	12,033
Certificates of participation, commercial paper, and other borrowings	—	—	—	—	—	—	77,483	—	—	—	—	—	77,483
Capital lease obligations	—	—	—	—	—	—	363,533	58	—	—	—	—	363,591
Net other postemployment benefits	—	711	569	—	5,745	—	137,939	3,442	—	—	3	—	148,409
Revenue bonds payable	—	129,864	—	—	8,300	—	307,097	34,556	30,609	—	—	—	510,426
Other noncurrent liabilities	—	14	—	—	684	—	197,605	917	8,318	—	—	—	207,538
Total noncurrent liabilities	—	130,589	569	—	34,785	—	1,086,600	47,480	39,454	—	3	—	1,339,480
Total liabilities	**417**	**159,417**	**24,909**	**1,018**	**121,746**	**5**	**1,491,927**	**92,355**	**47,140**	**424**	**3**	**5,721**	**1,945,082**
NET ASSETS													
Investment in capital assets, net of related debt	—	—	81	124	3,297	—	198,938	271,648	69,388	—	—	44	543,520
Restricted:													
Nonexpendable – endowment	—	—	—	—	—	—	809,801	—	19,434	—	—	—	829,235
Expendable:													
Endowment	—	—	—	—	—	—	—	—	9,153	—	—	—	9,153
Education	—	—	—	—	—	—	632,292	—	15,027	—	—	—	647,319
Statute	—	270,736	—	—	—	—	—	—	—	—	—	—	270,736
Other purposes	1,661	—	3,934	66,048	29,342	153	—	18,517	—	—	1	—	119,656
Total expendable	1,661	270,736	3,934	66,048	29,342	153	632,292	18,517	24,180	—	1	—	1,046,864
Unrestricted	—	—	—	—	750	—	384,779	33,079	31,484	988	—	3,659	454,739
Total net assets	**1,661**	**270,736**	**4,015**	**66,172**	**33,389**	**153**	**2,025,810**	**323,244**	**144,486**	**988**	**1**	**3,703**	**2,874,358**
Total liabilities and net assets	**$ 2,078**	**$ 430,153**	**$ 28,924**	**$ 67,190**	**$ 155,135**	**$ 158**	**$ 3,517,737**	**$ 415,599**	**$ 191,626**	**$ 1,412**	**$ 4**	**$ 9,424**	**$ 4,819,440**

(concluded)

Combining Statement of Activities

Nonmajor Component Units

Year Ended June 30, 2011
(amounts in thousands)

	California Alternative Energy and Advanced Transportation Financing Authority	California Infrastructure and Economic Development Bank	California Pollution Control Financing Authority	California Health Facilities Financing Authority	California Educational Facilities Authority
OPERATING EXPENSES					
Personal services	$ —	$ —	$ 162	$ —	$ 57,516
Scholarships and fellowships	—	—	—	—	—
Supplies	—	—	—	—	—
Services and charges	1,001	2,673	24,464	2,072	192,589
Depreciation	—	—	5	—	2,228
Interest expense and fiscal charges	—	5,708	—	—	590
Amortization of deferred charges	—	152	—	—	—
Other	175	—	104	—	106,122
Total operating expenses	**1,176**	**8,533**	**24,735**	**2,072**	**359,045**
PROGRAM REVENUES					
Charges for services	—	11,977	10,253	3,289	120,677
Operating grants and contributions	—	—	—	—	—
Capital grants and contributions	—	—	—	—	—
Total program revenues	**—**	**11,977**	**10,253**	**3,289**	**120,677**
Net revenues (expenses)	(1,176)	3,444	(14,482)	1,217	(238,368)
GENERAL REVENUES					
Investment and interest income	—	481	—	—	505
Other	2,822	—	175	—	4
Total general revenues	**2,822**	**481**	**175**	**—**	**509**
Change in net assets	1,646	3,925	(14,307)	1,217	(237,859)
Net assets, July 1, 2010	**15**	**266,811**	**18,322**	**64,955**	**271,248**
Net assets, June 30, 2011	**$ 1,661**	**$ 270,736**	**$ 4,015**	**$ 66,172**	**$ 33,389**

	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	State Assistance Fund for Enterprise Business and Industrial Development Corporation	Total
OPERATING EXPENSES								
Personal services	$ —	$ 365,592	$ 75,668	$ 31,217	$ —	$ 3	$ —	$ 530,158
Scholarships and fellowships	—	45,104	—	1,180	—	—	—	46,284
Supplies	—	—	—	8,039	—	—	—	8,039
Services and charges	94	950,675	130,584	5,657	63	2	1,193	1,311,067
Depreciation	—	46,866	19,843	3,174	—	—	—	72,116
Interest expense and fiscal charges	—	37,074	1,946	1,399	—	—	159	46,876
Amortization of deferred charges	—	—	—	—	—	—	—	152
Other	—	28,512	38	1,842	—	—	136	136,929
Total operating expenses	**94**	**1,473,823**	**228,079**	**52,508**	**63**	**5**	**1,488**	**2,151,621**
PROGRAM REVENUES								
Charges for services	—	645,220	200,921	41,421	—	—	223	1,033,981
Operating grants and contributions	—	613,931	—	10,389	307	—	346	624,973
Capital grants and contributions	—	6,415	200	445	—	—	—	7,060
Total program revenues	**—**	**1,265,566**	**201,121**	**52,255**	**307**	**—**	**569**	**1,666,014**
Net revenues (expenses)	(94)	(208,257)	(26,958)	(253)	244	(5)	(919)	(485,607)
GENERAL REVENUES								
Investment and interest income	—	215,836	129	8,385	—	—	452	225,788
Other	178	302,295	22,844	4,300	—	—	187	332,805
Total general revenues	**178**	**518,131**	**22,973**	**12,685**	**—**	**—**	**639**	**558,593**
Change in net assets	84	309,874	(3,985)	12,432	244	(5)	(280)	72,986
Net assets, July 1, 2010	**69**	**1,715,936** *	**327,229**	**132,054**	**744**	**6** *	**3,983**	**2,801,372**
Net assets, June 30, 2011	**$ 153**	**$ 2,025,810**	**$ 323,244**	**$ 144,486**	**$ 988**	**$ 1**	**$ 3,703**	**$ 2,874,358**

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Statistical Section

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Financial Trends

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

Schedule of Net Assets by Component
Schedule of Changes in Net Assets
Schedule of Fund Balances–Governmental Funds
Schedule of Changes in Fund Balances–Governmental Funds

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

Schedule of Net Assets by Component

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[3]
Governmental activities										
Invested in capital assets,										
net of related debt [1]	$ 10,983,863	$ 14,180,116	$ 77,734,545	$ 79,579,676	$ 83,489,137	$ 81,352,744	$ 84,255,048	$ 83,285,184	$ 84,085,632	$ 85,460,957
Restricted	6,717,078	5,230,983	7,126,013	7,631,057	8,431,279	10,543,602	10,148,648	8,391,814	14,987,867	27,865,821
Unrestricted [2]	(19,417,429)	(43,927,987)	(52,897,395)	(52,631,090)	(54,710,847)	(56,519,478)	(69,346,950)	(86,302,434)	(103,272,097)	(123,783,314)
Total governmental activities										
net assets	**$ (1,716,488)**	**$ (24,516,888)**	**$ 31,963,163**	**$ 34,579,643**	**$ 37,209,569**	**$ 35,376,868**	**$ 25,056,746**	**$ 5,374,564**	**$ (4,198,598)**	**$ (10,456,536)**
Business-type activities										
Invested in capital assets,										
net of related debt	$ 905,632	$ 1,405,232	$ 1,058,136	$ 836,524	$ 818,405	$ 208,268	$ 49,510	$ (130,634)	$ 89,334	$ 1,382,957
Nonexpendable	—	—	—	—	—	—	—	—	—	21,812
Restricted	7,793,710	7,925,726	5,667,623	7,235,373	8,722,865	8,574,932	6,853,621	3,855,051	3,404,682	3,615,945
Unrestricted	15,567	(125,809)	1,316,631	1,566,246	1,801,304	2,430,492	3,009,297	717,740	(4,250,609)	(4,214,494)
Total business-type activities										
net assets	**$ 8,714,909**	**$ 9,205,149**	**$ 8,042,390**	**$ 9,638,143**	**$ 11,342,574**	**$ 11,213,692**	**$ 9,912,428**	**$ 4,442,157**	**$ (756,593)**	**$ 806,220**
Primary government										
Invested in capital assets,										
net of related debt [1]	$ 11,889,495	$ 15,585,348	$ 78,792,681	$ 80,416,200	$ 84,307,542	$ 81,561,012	$ 84,304,558	$ 83,154,550	$ 84,174,966	$ 86,843,914
Nonexpendable	—	—	—	—	—	—	—	—	—	21,812
Restricted	14,510,788	13,156,709	12,793,636	14,866,430	17,154,144	19,118,534	17,002,269	12,246,865	18,392,549	31,481,766
Unrestricted [2]	(19,401,862)	(44,053,796)	(51,580,764)	(51,064,844)	(52,909,543)	(54,088,986)	(66,337,653)	(85,584,694)	(107,522,706)	(127,997,808)
Total primary government										
net assets	**$ 6,998,421**	**$ (15,311,739)**	**$ 40,005,553**	**$ 44,217,786**	**$ 48,552,143**	**$ 46,590,560**	**$ 34,969,174**	**$ 9,816,721**	**$ (4,955,191)**	**$ (9,650,316)**

[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.

[3] In fiscal year 2011, the net assets of the governmental funds and enterprise funds changed primarily as a result of the reclassification of $1.2 billion beginning net assets of the California State University Fund from governmental activities.

Schedule of Changes in Net Assets

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[5]
Governmental activities										
Expenses										
General government [1]	$ 11,645,679	$ 12,522,222	$ 11,017,624	$ 10,965,932	$ 10,379,122	$ 14,261,590	$ 13,187,080	$ 13,895,948	$ 12,454,969	$ 13,520,557
Education	45,882,706	51,446,964	51,457,841	53,152,986	62,652,997	61,542,105	65,130,420	65,643,486	61,764,385	56,486,944
Health and human services	53,056,652	59,141,547	60,020,524	62,016,344	65,763,380	69,979,980	74,309,784	79,077,015	80,799,454	92,475,364
Resources	3,594,345	3,430,853	4,436,309	4,160,949	4,161,814	5,316,769	6,333,252	5,626,359	6,019,104	5,853,278
State and consumer services	1,014,797	437,134	1,029,460	1,038,327	595,602	1,214,740	1,129,063	1,518,402	979,962	1,405,019
Business and transportation	7,532,507	7,514,723	7,579,221	7,142,209	8,809,236	9,763,200	13,068,043	11,980,315	14,155,767	11,119,644
Correctional programs	5,803,243	6,681,270	6,214,862	6,611,219	7,299,124	8,945,325	10,504,182	10,835,203	10,310,229	10,295,564
Interest on long-term debt	1,747,104	1,780,748	1,737,696	2,408,246	2,893,537	2,596,316	4,184,631	3,801,283	4,146,259	4,377,064
Total expenses	**130,277,033**	**142,955,461**	**143,493,537**	**147,496,212**	**162,554,812**	**173,620,025**	**187,846,455**	**192,378,011**	**190,630,129**	**195,533,434**
Program revenues										
Charges for services:										
General government [1]	4,128,682	1,138,617	4,386,968	4,733,155	4,620,030	4,495,166	4,404,126	4,781,126	4,918,132	5,057,082
Education	2,323,881	2,710,369	2,631,859	2,936,693	3,360,919	2,689,906	3,343,205	3,483,072	4,231,692	110,423
Health and human services	2,114,441	4,867,578	1,751,752	3,280,970	4,554,673	4,751,011	5,191,548	4,256,069	3,769,794	8,471,261
Resources	1,246,058	1,189,327	1,544,260	1,934,532	2,198,886	2,110,593	2,648,952	2,578,738	2,597,712	2,797,264
State and consumer services	568,186	454,051	496,561	601,322	640,088	704,512	692,348	658,486	654,034	660,196
Business and transportation	2,810,411	2,759,007	2,295,747	2,541,072	3,776,098	4,040,268	3,987,958	4,210,461	5,420,261	4,010,433
Correctional programs	12,915	12,406	13,915	12,354	37,203	30,821	27,702	21,592	18,097	14,981
Operating grants/contributions	34,012,965	38,409,125	41,072,413	41,135,441	42,254,065	43,440,102	45,849,413	57,828,622	75,469,783	67,849,215
Capital grants/contributions	1,584,290	1,302,376	916,961	1,090,419	1,272,506	1,164,526	1,207,101	1,142,691	962,388	1,272,326
Total program revenues	**48,801,829**	**52,842,856**	**55,110,436**	**58,265,958**	**62,714,468**	**63,426,905**	**67,352,353**	**78,960,857**	**98,041,893**	**90,243,181**
Total governmental activities net program expenses	**(81,475,204)**	**(90,112,605)**	**(88,383,101)**	**(89,230,254)**	**(99,840,344)**	**(110,193,120)**	**(120,494,102)**	**(113,417,154)**	**(92,588,236)**	**(105,290,253)**
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	51,251,266	53,272,229	55,355,266	45,709,344	43,866,857	51,719,107
Sales and use taxes	26,026,927	26,930,469	28,651,768	32,488,563	34,162,177	35,427,013	34,856,824	31,244,979	33,784,106	33,521,221
Corporation taxes	4,564,596	6,489,209	9,027,816	11,174,937	10,735,792	11,211,267	11,207,468	10,741,140	9,472,611	9,384,416
Insurance taxes	1,599,064	1,886,312	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,880
Other taxes	2,882,163	2,897,469	2,329,987	2,507,729	2,099,075	5,939,890	5,594,970	5,264,685	5,234,531	7,768,010
Investment and interest	790,514	371,935	155,430	289,363	504,655	730,066	639,059	175,584	114,933	62,946
Escheat [2]	—	—	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146
Other	375,495	5,718	87,663	—	—	—	—	—	—	—
Transfers	13,475	66,630	32,965	27,727	23,259	29,855	54,994	21,015	(13,441,875)	(3,251,598)
Nonoperating grants and gifts	—	575,906	—	—	—	—	—	—	—	—
Special item [3]	—	—	—	—	1,218,311	—	—	—	—	—
Total general revenues and other changes in net assets	**69,278,017**	**71,753,589**	**80,930,175**	**91,749,628**	**102,499,000**	**109,109,889**	**110,181,738**	**95,535,944**	**81,416,410**	**101,745,128**
Total governmental activities change in net assets	**$ (12,197,187)**	**$ (18,359,016)**	**$ (7,452,926)**	**$ 2,519,374**	**$ 2,658,656**	**$ (1,083,231)**	**$ (10,312,364)**	**$ (17,881,210)**	**$ (11,171,826)**	**$ (3,545,125)**

(continued)

[1] Tax relief program expenses and revenue reported separately prior to fiscal year 2009 are now included with general government.
[2] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.
[3] In fiscal year 2006, a related organization assumed debt on the State's behalf.
[4] Since fiscal year 2004, the Public Employees' Benefits Fund is reported as a discretely presented component unit.
[5] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.

Schedule of Changes in Net Assets (continued)

For the Past Ten Fiscal Years
(accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[5]
Business-type activities										
Expenses										
Electric Power	$ 4,241,000	$ 4,985,000	$ 5,203,000	$ 5,655,000	$ 5,342,000	$ 5,865,000	$ 5,362,000	$ 4,560,000	$ 3,908,000	$ 2,317,000
Water Resources	770,351	739,819	731,099	731,393	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793
Public Building Construction	294,818	347,898	296,502	299,900	334,094	334,777	371,904	420,465	494,332	390,173
State Lottery	2,913,051	2,791,144	3,347,644	3,493,984	3,911,717	3,470,615	3,173,060	3,069,365	3,166,447	3,507,524
Unemployment Programs	8,900,546	10,651,949	10,271,962	8,939,654	8,584,521	9,136,218	10,622,582	19,609,068	29,614,598	25,619,138
California State University	—	—	—	—	—	—	—	—	—	5,851,355
High Technology Education	38,415	37,727	37,261	33,690	30,871	22,704	16,916	15,590	15,025	9,590
Toll Facilities	26,058	21,796	18,968	20,861	18,265	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	168,513	220,334	426,187	449,080	491,914	844,798	699,018	486,349	856,106	—
State Water Pollution Control Revolving	—	14,970	15,131	14,638	20,427	12,702	13,056	12,261	16,893	10,953
School Building Aid	29,837	—	—	—	—	—	—	—	—	—
Housing Loan	217,523	206,864	173,629	142,085	138,988	127,206	132,101	130,777	122,114	104,667
Public Employees' Benefits [4]	1,760,926	1,694,231	—	—	—	—	—	—	—	—
Other enterprise programs	142,556	103,974	98,654	86,612	113,976	141,859	122,921	147,441	130,329	118,006
Total expenses	**19,503,594**	**21,815,706**	**20,620,037**	**19,866,897**	**19,936,464**	**20,907,469**	**21,522,772**	**29,366,153**	**39,393,506**	**39,044,199**
Program revenues										
Charges for services:										
Electric Power	4,241,000	4,985,000	5,203,000	5,655,000	5,342,000	5,865,000	5,362,000	4,560,000	3,908,000	2,317,000
Water Resources	761,222	693,566	714,647	750,282	949,691	951,590	1,009,214	914,837	1,069,662	1,115,793
Public Building Construction	320,220	317,741	307,910	315,718	384,442	396,895	384,816	366,151	430,069	456,467
State Lottery	2,966,270	2,936,030	3,143,408	3,512,126	3,740,041	3,461,699	3,242,828	3,051,320	3,145,259	3,484,689
Unemployment Programs	7,799,776	8,230,208	9,631,916	10,459,688	10,263,447	9,017,969	8,829,018	14,273,975	11,255,098	24,678,783
California State University	—	—	—	—	—	—	—	—	—	2,505,545
High Technology Education	44,127	44,268	34,052	36,737	26,508	22,966	20,600	15,975	13,015	10,498
Toll Facilities	5,933	172	121	66	21	—	—	—	—	—
State University Dormitory Building Maintenance and Equipment	187,921	284,719	250,208	395,396	512,231	554,851	640,208	811,454	599,571	—
State Water Pollution Control Revolving	—	54,201	51,687	55,218	64,740	78,564	71,404	59,923	56,121	55,957
School Building Aid	24,348	—	—	—	—	—	—	—	—	—
Housing Loan	222,086	189,812	143,805	121,063	127,733	130,293	130,139	109,636	85,321	89,224
Public Employees' Benefits [4]	1,682,323	2,066,530	—	—	—	—	—	—	—	—
Other enterprise programs	131,152	134,544	114,081	115,901	129,048	134,018	137,476	124,952	98,957	105,676
Operating grants/contributions	1,545	762	—	—	—	—	—	—	—	1,216,808
Capital grants/contributions	—	145,341	47,528	73,182	56,942	182,989	189,064	71,882	91,808	86,272
Total program revenues	**18,387,923**	**20,082,894**	**19,642,363**	**21,490,377**	**21,596,844**	**20,796,834**	**20,016,767**	**24,360,105**	**20,752,881**	**36,122,712**
Total business-type activities net program revenues (expenses)	**(1,115,671)**	**(1,732,812)**	**(977,674)**	**1,623,480**	**1,660,380**	**(110,635)**	**(1,506,005)**	**(5,006,048)**	**(18,640,625)**	**(2,921,487)**
Other changes in net assets										
Transfers	(13,475)	(66,630)	(32,965)	(27,727)	(23,259)	(29,855)	(54,994)	(21,015)	13,441,875	3,251,598
Total business-type activities change in net assets	**$ (1,129,146)**	**$ (1,799,442)**	**$ (1,010,639)**	**$ 1,595,753**	**$ 1,637,121**	**$ (140,490)**	**$ (1,560,999)**	**$ (5,027,063)**	**$ (5,198,750)**	**$ 330,111**
Total primary government change in net assets	**$ (13,326,333)**	**$ (20,158,458)**	**$ (8,463,565)**	**$ 4,115,127**	**$ 4,295,777**	**$ (1,223,721)**	**$ (11,873,363)**	**$ (22,908,273)**	**$ (16,370,576)**	**$ (3,215,014)**

(concluded)

Schedule of Fund Balances – Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[1]
General Fund										
Reserved	$ 2,465,632	$ 2,051,790	$ 1,691,034	$ 1,597,085	$ 1,999,953	$ 2,596,537	$ 2,113,149	$ 2,260,504	$ 1,320,782	$ —
Unreserved	(5,987,214)	(15,419,588)	(3,231,734)	(1,410,228)	672,862	(4,504,075)	(6,282,018)	(18,344,400)	(20,929,640)	—
Nonspendable	—	—	—	—	—	—	—	—	—	148,019
Restricted	—	—	—	—	—	—	—	—	—	156,496
Committed	—	—	—	—	—	—	—	—	—	29,850
Unassigned	—	—	—	—	—	—	—	—	—	(20,273,606)
Total General Fund	**$ (3,521,582)**	**$ (13,367,798)**	**$ (1,540,700)**	**$ 186,857**	**$ 2,672,815**	**$ (1,907,538)**	**$ (4,168,869)**	**$ (16,083,896)**	**$ (19,608,858)**	**$ (19,939,241)**
All other governmental funds										
Reserved	$ 15,119,363	$ 15,080,420	$ 14,625,056	$ 14,924,365	$ 16,198,481	$ 21,955,300	$ 19,512,083	$ 27,465,566	$ 41,087,578	$ —
Unreserved, reported in:										
Special revenue funds	446,626	(3,563,435)	(1,343,432)	(329,018)	(806,558)	(914,843)	(1,817,290)	(3,539,254)	(8,554,611)	—
Capital projects funds	(456,682)	(225,697)	(226,919)	(403,106)	(882,550)	(1,128,608)	(837,349)	686,113	838,879	—
Nonspendable	—	—	—	—	—	—	—	—	—	39,448
Restricted	—	—	—	—	—	—	—	—	—	27,709,325
Committed	—	—	—	—	—	—	—	—	—	2,701,702
Assigned	—	—	—	—	—	—	—	—	—	268,888
Unassigned	—	—	—	—	—	—	—	—	—	(21,847)
Total all other governmental funds	**$ 15,109,307**	**$ 11,291,288**	**$ 13,054,705**	**$ 14,192,241**	**$ 14,509,373**	**$ 19,911,849**	**$ 16,857,444**	**$ 24,612,425**	**$ 33,371,846**	**$ 30,697,516**

Note: In fiscal year 2011, the State implemented GASB Statement No. 54, which significantly changed the fund balance classifications. Fiscal year 2011 fund balance classifications are not comparable to prior years' classifications.

[1] In fiscal year 2011, the California State University Fund, which consisted of $1.2 billion beginning fund balance, was reclassified from governmental to enterprise funds.

Schedule of Changes in Fund Balances – Governmental Funds

For the Past Ten Fiscal Years
(modified accrual basis of accounting, amounts in thousands)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011[4]
Revenues										
Personal income taxes	$ 32,874,734	$ 32,661,274	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798	$ 51,691,153
Sales and use taxes	25,907,118	26,945,705	28,685,600	32,201,242	34,300,402	35,451,311	34,764,651	31,425,308	33,696,412	33,488,805
Corporation taxes	4,553,105	6,861,200	8,379,316	11,191,937	10,709,792	11,210,267	11,201,468	10,738,140	9,467,611	9,433,416
Insurance taxes	1,599,064	1,886,312	2,119,315	2,231,060	2,212,916	2,165,567	2,190,870	2,063,555	2,235,251	2,311,881
Other taxes	3,038,111	2,745,987	2,422,326	2,482,335	2,367,670	5,800,027	5,675,894	5,245,416	5,235,801	7,829,662
Intergovernmental	36,827,930	41,934,230	42,918,982	42,933,381	45,466,185	46,442,519	48,969,006	61,053,091	79,183,291	69,160,916
Licenses and permits	2,903,858	2,995,740	3,469,741	4,954,025	5,125,223	5,266,142	5,326,854	5,805,369	6,900,747	6,767,437
Charges for services	853,874	907,481	919,280	949,147	1,002,410	911,387	1,025,569	986,773	974,181	1,008,647
Fees and penalties	5,023,910	4,184,896	4,662,893	5,388,332	6,008,306	6,093,948	6,800,633	6,204,288	7,291,894	10,262,387
Investment and interest	1,179,775	614,240	377,694	576,097	1,058,119	1,555,202	1,591,025	1,108,058	281,881	212,116
Escheat [1]	—	—	598,681	525,897	291,549	334,002	282,287	315,642	149,996	229,146
Other	2,958,572	3,043,575	2,999,820	3,755,426	4,518,621	3,732,591	4,265,010	3,933,035	3,555,282	2,941,484
Total revenues	**117,720,051**	**124,780,640**	**135,276,487**	**149,784,231**	**163,859,611**	**172,252,487**	**177,290,329**	**174,361,401**	**192,857,145**	**195,337,050**
Expenditures										
General government [2]	11,439,651	11,940,555	11,012,217	10,647,740	9,394,308	14,062,920	12,745,860	13,075,901	12,036,503	12,997,651
Education	45,324,021	50,744,179	49,526,563	52,242,779	59,768,677	61,103,008	64,367,612	63,857,066	59,229,726	55,547,139
Health and human services	53,142,973	58,996,212	59,820,274	62,015,628	65,968,433	70,157,806	74,102,708	78,731,136	80,321,470	91,941,309
Resources	3,721,729	3,368,473	3,686,083	4,077,102	4,296,715	5,191,078	6,123,609	5,209,684	5,456,904	5,254,757
State and consumer services	1,091,008	940,665	935,427	973,466	1,111,128	1,214,752	1,239,397	1,266,068	1,088,494	1,183,536
Business and transportation	8,493,157	8,917,181	9,119,237	8,556,618	10,370,589	11,485,069	14,747,506	13,803,518	14,083,790	13,181,390
Correctional programs	5,593,033	5,841,103	6,236,725	6,658,614	7,552,790	9,030,299	9,972,507	9,883,593	9,553,992	9,253,791
Capital outlay	1,654,494	1,666,932	1,245,871	1,534,150	2,128,050	1,345,021	1,724,074	1,432,376	1,691,674	1,128,011
Debt service:										
Bond and commercial paper retirement	3,618,284	4,068,685	1,384,595	3,672,119	6,375,607	5,691,791	8,970,533	5,131,600	3,259,203	3,118,906
Interest and fiscal charges	1,418,880	1,803,378	1,686,776	2,243,764	3,135,763	2,881,849	3,394,433	3,584,358	4,022,922	4,355,110
Total expenditures	**135,497,230**	**148,287,363**	**144,653,768**	**152,621,980**	**170,102,060**	**182,163,593**	**197,388,239**	**195,975,300**	**190,744,678**	**197,961,600**
Excess (deficiency) of revenues over (under) expenditures	(17,777,179)	(23,506,723)	(9,377,281)	(2,837,749)	(6,242,449)	(9,911,106)	(20,097,910)	(21,613,899)	2,112,467	(2,624,550)
Other financing sources (uses)										
General obligation bonds and commercial paper issued	5,292,034	9,062,000	18,385,480	5,058,339	7,750,500	9,040,500	14,193,760	16,764,085	12,039,472	4,525,000
Revenue bonds issued	—	3,000,000	4,347,570	99,250	—	—	—	97,635	—	—
Refunding/remarketing debt issued	1,105,025	275,000	1,183,875	1,937,430	5,086,944	9,098,376	1,798,685	—	4,176,050	—
Payment to refund/remarket long-term debt	(1,105,025)	(275,000)	(1,183,875)	(1,937,430)	(4,561,944)	(7,840,621)	(1,844,006)	—	(4,221,604)	—
Premium on bonds issued [3]	—	—	—	—	—	—	295,439	126,107	267,980	32,607
Proceeds fom loans	—	—	—	—	—	—	—	—	1,996,737	35,538
Capital leases [4]	274,955	515,996	85,390	414,738	748,037	178,936	268,686	364,813	811,816	204,631
Transfers in	5,948,918	8,253,164	18,475,032	4,580,201	5,137,895	9,311,462	11,414,132	6,776,476	6,548,447	8,705,229
Transfers out	(5,954,783)	(8,070,387)	(18,428,564)	(4,546,792)	(5,113,107)	(9,242,771)	(11,336,764)	(6,689,658)	(19,952,766)	(11,902,800)
Total other financing sources	**5,561,124**	**12,760,773**	**22,864,908**	**5,605,736**	**9,048,325**	**10,545,882**	**14,789,932**	**17,439,458**	**1,666,132**	**1,600,205**
Net change in fund balances	**$ (12,216,055)**	**$ (10,745,950)**	**$ 13,487,627**	**$ 2,767,987**	**$ 2,805,876**	**$ 634,776**	**$ (5,307,978)**	**$ (4,174,441)**	**$ 3,778,599**	**$ (1,024,345)**
Debt service as a percentage of noncapital expenditures	3.8%	4.0%	2.2%	3.9%	5.7%	4.8%	6.4%	4.5%	3.9%	3.8%

[1] Prior to fiscal year 2004, escheat revenue was recorded in the Unclaimed Property private purpose trust fund.
[2] Tax relief program expenditures reported separately prior to fiscal year 2009 are now included with general government.
[3] Prior to fiscal year 2008, premiums on bonds issued were netted against debt service interest and fiscal charges.
[4] In fiscal year 2011, the California State University Fund was reclassified from governmental to enterprise funds.

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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)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income by Industry [1]										
Farm earnings	$ 8,427,822	$ 8,955,752	$ 10,150,317	$ 12,280,621	$ 10,768,206	$ 10,717,550	$ 12,956,636	$ 11,305,755	$ 12,733,336	$ 14,388,058
Forestry, fishing, and other natural resources	4,507,107	4,692,043	4,953,075	5,423,645	5,525,123	6,113,265	6,315,641	6,283,890	5,810,207	6,087,301
Mining	2,566,500	2,281,871	2,622,108	3,181,084	3,377,669	4,079,889	4,149,812	5,941,012	3,573,326	4,005,008
Construction and utilities	66,923,767	68,531,509	72,753,415	81,718,323	88,489,742	95,449,922	92,210,578	81,616,505	68,196,525	64,997,062
Manufacturing	116,186,473	110,571,372	111,918,656	116,471,620	120,967,397	125,552,449	126,898,654	125,477,543	117,076,154	118,954,788
Wholesale trade	43,929,340	44,487,228	46,030,247	48,890,179	52,746,931	57,076,834	61,044,879	58,513,945	53,503,312	54,864,272
Retail trade	64,333,784	66,440,439	69,598,467	72,126,176	75,246,169	77,120,391	78,294,262	70,187,437	67,392,192	69,965,832
Transportation and warehousing	27,727,571	27,642,083	28,252,985	30,593,660	31,323,480	32,479,826	34,039,990	33,013,734	31,121,392	32,028,443
Information, finance, and insurance	111,373,268	109,810,563	114,338,117	122,791,650	129,547,463	135,194,422	137,224,346	134,631,911	126,734,027	131,407,014
Real estate	26,141,268	27,827,645	29,904,716	31,619,196	33,359,788	32,636,932	26,843,294	25,820,542	20,397,841	21,114,788
Services	309,031,154	317,717,940	329,697,856	352,185,406	370,221,265	398,268,992	418,477,513	436,308,219	416,494,893	435,998,294
Federal, civilian	18,613,384	19,808,005	20,322,392	21,782,393	22,656,661	23,106,175	23,799,175	24,515,496	25,554,656	28,315,174
Military	9,978,596	11,018,816	12,601,587	13,970,944	14,527,841	15,278,175	16,291,470	17,748,164	19,232,459	20,180,968
State and local government	107,093,120	115,002,719	123,256,592	128,409,947	134,562,236	142,082,695	152,816,128	160,301,440	159,301,017	157,276,145
Other [2]	251,889,416	252,559,551	256,580,472	270,782,509	294,341,042	340,375,871	375,037,756	418,653,795	401,335,916	430,696,151
Total personal income	**$ 1,168,722,570**	**$ 1,187,347,536**	**$ 1,232,981,002**	**$ 1,312,227,353**	**$ 1,387,661,013**	**$ 1,495,533,388**	**$ 1,566,400,134**	**$ 1,610,319,388**	**$ 1,528,457,253**	**$ 1,590,279,298**
Average effective rate [3]	5.9%	4.5%	4.3%	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%

(continued)

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

[1] 2001-2009 information updated.
[2] Other personal income includes dividends, interest, rental income, residence adjustment, government transfers for individuals, and deductions for social insurance.
[3] The total direct rate for personal income is not available. The average effective rate equals personal income tax revenue divided by adjusted gross income.

Schedule of Revenue Base (continued)

For the Past Ten Calendar Years
(amounts in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[1]	2010
Taxable Sales by Industry										
Retail										
Apparel	$ 13,388,444	$ 14,029,200	$ 15,179,710	$ 16,957,137	$ 18,712,125	$ 19,829,416	$ 20,855,890	$ 22,120,094	$ —	$ —
General merchandise	47,191,016	48,486,891	50,550,818	53,939,532	56,787,153	59,264,894	59,897,350	56,425,472	—	—
Specialty	43,976,514	43,539,120	45,191,191	48,961,996	52,376,758	54,695,680	34,122,471	27,380,740	—	—
Food	18,823,587	18,951,412	19,407,823	19,825,771	21,128,469	21,864,179	22,461,059	21,504,308	—	—
Restaurant and bars	36,849,193	38,079,830	40,049,699	43,275,038	46,412,847	49,229,418	51,658,575	52,051,404	—	—
Household	13,332,175	13,983,287	15,104,217	16,405,347	17,388,704	17,383,449	16,720,852	17,199,187	—	—
Building materials	24,208,900	25,816,009	28,200,869	34,154,543	36,152,218	36,163,326	32,656,324	26,647,007	—	—
Automotive	85,400,884	87,749,497	94,766,776	103,528,856	112,167,922	115,154,535	117,864,918	106,555,420	—	—
Other	10,785,808	10,977,060	11,765,951	13,124,468	14,681,929	15,481,675	30,787,663	27,434,795	—	—
Business and personal service	22,240,823	21,812,699	21,648,470	22,306,787	23,090,910	23,650,322	23,355,672	22,045,958	—	—
All other	125,320,216	117,525,089	118,230,944	127,597,308	138,005,393	146,935,543	150,669,375	152,289,155	—	—
Total taxable sales	**$ 441,517,560**	**$ 440,950,094**	**$ 460,096,468**	**$ 500,076,783**	**$ 536,904,428**	**$ 559,652,437**	**$ 561,050,149**	**$ 531,653,540**	**$ —**	**$ —**
Direct sales tax rate [2]	4.75%	5.00%	5.00%	5.25%[3]	5.25%	5.25%	5.25%	5.25%	—	—

	2001	2002	2003	2004	2005	2006	2007	2008	2009[1]	2010
Taxable Sales by Industry (Using NAICS Codes)[1]										
Retail and Food Services										
Motor vehicle and parts dealers	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 44,488,198	$ 47,355,568
Furniture and home furnishings stores	—	—	—	—	—	—	—	—	8,481,020	8,742,984
Electronics and appliance stores	—	—	—	—	—	—	—	—	13,384,338	13,749,019
Building materials, garden equipment & supplies	—	—	—	—	—	—	—	—	23,978,313	24,750,865
Food and beverage	—	—	—	—	—	—	—	—	22,546,285	22,787,407
Health and personal care stores	—	—	—	—	—	—	—	—	9,244,958	9,525,910
Gasoline stations	—	—	—	—	—	—	—	—	39,077,835	45,226,491
Clothing and clothing accessories stores	—	—	—	—	—	—	—	—	25,641,272	27,267,430
Sporting goods, hobby, book & music stores	—	—	—	—	—	—	—	—	10,294,172	10,365,480
General merchandise stores	—	—	—	—	—	—	—	—	44,921,639	46,323,804
Miscellaneous store retailers	—	—	—	—	—	—	—	—	16,385,169	16,569,690
Nonstore retailers	—	—	—	—	—	—	—	—	2,849,864	2,830,615
Food services and drinking places	—	—	—	—	—	—	—	—	49,921,543	51,282,453
All other outlets	—	—	—	—	—	—	—	—	145,278,339	150,570,269
Total taxable sales	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 456,492,945**	**$ 477,347,985**
Direct sales tax rate [2]	—	—	—	—	—	—	—	—	6.25%[4]	6.25%

(concluded)

Source: California State Board of Equalization (BOE)

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 and 2010 is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.

[2] 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.

[3] Rate change was effective on July 1, 2004.

[4] Rate change was effective on April 1, 2009.

Schedule of Revenue Payers by Industry/Income Level

For Calendar Years 2001 and 2009

Personal Income Tax Filers and Liability by Income Level [1]

	2001			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,128,604	8.3 %	$ 4,572	0.0 %
5,000 to 9,999	1,155,324	8.5	10,039	0.0
10,000 to 14,999	1,225,683	9.0	25,923	0.1
15,000 to 19,999	1,130,921	8.3	73,824	0.2
20,000 to 24,999	1,002,785	7.4	147,888	0.5
25,000 to 29,999	909,626	6.7	226,629	0.7
30,000 to 39,999	1,549,987	11.4	728,231	2.3
40,000 to 49,999	1,157,477	8.5	924,568	3.0
50,000 to 99,999	2,846,463	20.9	5,787,835	18.5
$ 100,000 and over	1,495,310	11.0	23,354,608	74.7
Total	**13,602,180**	**100.0 %**	**$ 31,284,117**	**100.0 %**

	2009			
	Number of Filers	Percent of Total	Tax Liability [2]	Percent of Total
Under $ 5,000	1,227,731	8.4 %	$ 7,868	0.0 %
5,000 to 9,999	1,169,737	8.0	9,098	0.0
10,000 to 14,999	1,198,714	8.2	18,447	0.0
15,000 to 19,999	1,183,310	8.1	51,735	0.1
20,000 to 24,999	1,010,590	6.9	107,008	0.3
25,000 to 29,999	898,055	6.1	169,021	0.4
30,000 to 39,999	1,493,475	10.2	572,636	1.5
40,000 to 49,999	1,215,105	8.3	893,622	2.3
50,000 to 99,999	3,066,722	20.9	6,049,084	15.6
$ 100,000 and over	2,174,766	14.9	30,991,082	79.8
Total	**14,638,205**	**100.0 %**	**$ 38,869,601**	**100.0 %**

Source: California Franchise Tax Board

[1] For California resident tax returns. Calendar year 2009 is the most recent year for which data are available.
[2] Amounts in thousands.

For Calendar Years 2001 and 2010

Sales Tax Permits and Tax Liability by Industry

	2001 (Using Business Codes)[1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail				
Apparel	31,576	3.3 %	$ 635,951	3.0 %
General merchandise	12,260	1.3	2,241,573	10.7
Specialty	165,266	17.0	2,088,884	10.0
Food	24,323	2.5	894,120	4.3
Restaurant and bars	76,150	7.8	1,750,337	8.4
Household	26,945	2.8	633,278	3.0
Building materials	9,586	1.0	1,149,923	5.5
Automotive	32,088	3.3	4,056,542	19.3
Other	20,908	2.2	512,326	2.4
Business and personal service	102,798	10.6	1,056,439	5.0
All other	467,679	48.2	5,952,710	28.4
Total	**969,579**	**100.0 %**	**$ 20,972,083**	**100.0 %**

	2010 (Using NAICS Codes)[1]			
	Number of Permits [2]	Percent of Total	Tax Liability [3]	Percent of Total
Retail and Food Services				
Motor vehicle and parts dealers	32,727	3.4 %	$ 2,959,723	9.9 %
Furniture and home furnishings stores	18,252	1.9	546,437	1.8
Electronics and appliance stores	21,984	2.3	859,314	2.9
Building materials, garden equipment & supplies	17,035	1.7	1,546,929	5.2
Food and beverage	29,900	3.1	1,424,213	4.8
Health and personal care stores	21,188	2.2	595,369	2.0
Gasoline stations	10,096	1.0	2,826,656	9.5
Clothing and clothing accessories stores	65,734	6.7	1,704,214	5.7
Sporting goods, hobby, book & music stores	27,724	2.8	647,842	2.2
General merchandise stores	15,684	1.6	2,895,238	9.7
Miscellaneous store retailers	118,369	12.1	1,035,606	3.5
Nonstore retailers	178,056	18.2	176,913	0.6
Food services and drinking places	92,370	9.4	3,205,153	10.7
All other outlets	328,928	33.6	9,410,642	31.5
Total	**978,047**	**100.0 %**	**$ 29,834,249**	**100.0 %**

Source: State Board of Equalization

[1] Due to BOE's conversion from business coding to North American Industry Classification System (NAICS) coding for the reporting of Taxable Sales by Industry, industry level data for 2009 is not comparable to that reported for prior years. The NAICS conversion process for over one million permit holders was not completed until the end of 2008, so 2009 was the first year BOE used the new format with NAICS codes.
[2] As of July 1.
[3] Calculated by multiplying the taxable sales by industry shown on pages 268 and 269 by the direct sales tax rate. Amounts in thousands.

Schedule of Personal Income Tax Rates

Calendar Years 2001 - 2010

Married Filing Jointly and Surviving Spouse

Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
1.0	Up to $11,496	Up to $11,668	Up to $11,924	Up to $12,294	Up to $12,638	Up to $13,244	Up to $13,654	Up to $14,336	Up to $14,120	Up to $14,248
2.0	11,496 – 27,250	11,668 – 27,658	11,924 – 28,266	12,294 – 29,142	12,638 – 29,958	13,244 – 31,963	13,654 – 32,370	14,336 – 33,988	14,120 – 33,478	14,248 – 33,780
4.0	27,250 – 43,006	27,658 – 43,652	28,266 – 44,612	29,142 – 45,994	29,958 – 47,282	31,963 – 49,552	32,370 – 51,088	33,988 – 53,642	33,478 – 52,838	33,780 – 53,314
6.0	43,006 – 59,700	43,652 – 60,596	44,612 – 61,930	45,994 – 63,850	47,282 – 65,638	49,552 – 68,788	51,088 – 70,920	53,642 – 74,466	52,838 – 73,350	53,314 – 74,010
8.0	59,700 – 75,450	60,596 – 76,582	61,930 – 78,266	63,850 – 80,692	65,638 – 82,952	68,788 – 86,934	70,920 – 89,628	74,466 – 94,110	73,350 – 92,698	74,010 – 93,532
9.3	$75,450 and over	$76,582 and over	$78,266 and over	$80,692 and over	82,952 – 999,999	86,934 – 999,999	89,628 – 999,999	94,110 – 999,999	92,698 – 999,999	93,532 – 999,999
10.3	—	—	—	—	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

Single and Married Filing Separately

Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
1.0	Up to $5,748	Up to $5,834	Up to $5,962	Up to $6,147	Up to $6,319	Up to $6,622	Up to $6,827	Up to $7,168	Up to $7,060	Up to $7,124
2.0	5,748 – 13,625	5,834 – 13,829	5,962 – 14,133	6,147 – 14,571	6,319 – 14,979	6,622 – 15,698	6,827 – 16,185	7,168 – 16,994	7,060 – 16,739	7,124 – 16,890
4.0	13,625 – 21,503	13,829 – 21,826	14,133 – 22,306	14,571 – 22,997	14,979 – 23,641	15,698 – 24,776	16,185 – 25,544	16,994 – 26,821	16,739 – 26,419	16,890 – 26,657
6.0	21,503 – 29,850	21,826 – 30,298	22,306 – 30,965	22,997 – 31,925	23,641 – 32,819	24,776 – 34,394	25,544 – 35,460	26,821 – 37,233	26,419 – 36,675	26,657 – 37,005
8.0	29,850 – 37,725	30,298 – 38,291	30,965 – 39,133	31,925 – 40,346	32,819 – 41,476	34,394 – 43,467	35,460 – 44,814	37,233 – 47,055	36,675 – 46,349	37,005 – 46,766
9.3	$37,725 and over	$38,291 and over	$39,133 and over	$40,346 and over	41,476 – 999,999	43,467 – 999,999	44,814 – 999,999	47,055 – 999,999	46,349 – 999,999	46,766 – 999,999
10.3	—	—	—	—	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

Head of Household

Tax Rate	2001 Income Level	2002 Income Level	2003 Income Level	2004 Income Level	2005 [1] Income Level	2006 Income Level	2007 Income Level	2008 Income Level	2009 [2] Income Level	2010 [2] Income Level
1.0	Up to $11,500	Up to $11,673	Up to $11,930	Up to $12,300	Up to $12,644	Up to $13,251	Up to $13,662	Up to $14,345	Up to $14,130	Up to $14,257
2.0	11,500 – 27,250	11,673 – 27,659	11,930 – 28,267	12,300 – 29,143	12,644 – 29,959	13,251 – 31,397	13,662 – 32,370	14,345 – 33,989	14,130 – 33,479	14,257 – 33,780
4.0	27,250 – 35,126	27,659 – 35,653	28,267 – 36,437	29,143 – 37,567	29,959 – 38,619	31,397 – 40,473	32,370 – 41,728	33,989 – 43,814	33,479 – 43,157	33,780 – 43,545
6.0	35,126 – 43,473	35,653 – 44,125	36,437 – 45,096	37,567 – 46,494	38,619 – 47,796	40,473 – 50,090	41,728 – 51,643	43,814 – 54,225	43,157 – 53,412	43,545 – 53,893
8.0	43,473 – 51,350	44,125 – 52,120	45,096 – 53,267	46,494 – 54,918	47,796 – 56,456	50,090 – 59,166	51,643 – 61,000	54,225 – 64,050	53,412 – 63,089	53,893 – 63,657
9.3	$51,350 and over	$52,120 and over	$53,267 and over	$54,918 and over	56,456 – 999,999	59,166 – 999,999	61,000 – 999,999	64,050 – 999,999	63,089 – 999,999	63,657 – 999,999
10.3	—	—	—	—	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over	$1,000,000 and over

Source: California Franchise Tax Board

[1] Beginning in 2005, there is an additional tax of 1% on taxable income over $1 million for the expansion of mental health services.
[2] Beginning in 2009, tax rates increased by 0.25% for all income levels.

Average Effective Rate

(amounts in thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Personal income tax revenue [1]	$ 44,629,742	$ 32,874,734	$ 32,661,274	$ 37,722,839	$ 42,595,352	$ 50,798,418	$ 53,289,524	$ 55,197,062	$ 45,482,726	$ 43,884,798
Adjusted gross income [2]	754,140,238	731,160,385	762,491,998	841,229,496	932,142,017	990,695,484	1,059,967,500	972,420,100	881,160,200	939,888,500
Average effective rate [3]	5.9%	4.5%	4.3%	4.5%	4.6%	5.1%	5.0%	5.7%	5.2%	4.7%

[1] Personal income tax revenue is reported on a fiscal year basis.
[2] Source: California Franchise Tax Board. Fiscal year 2010 information reflects returns processed as of December 2011.
[3] The average effective rate equals personal income tax revenue divided by adjusted gross income.

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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 Ten Fiscal Years

(amounts in thousands, except per capita)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental Activities										
General obligation bonds [1]	$ 22,110,822	$ 26,757,371	$ 43,924,636	$ 45,541,417	$ 47,003,817	$ 50,269,442	$ 56,424,532	$ 68,653,507	$ 77,745,789	$ 79,469,085
Revenue bonds	784,015	3,752,040	8,101,855	8,068,980	7,300,638	8,009,784	7,811,832	7,767,855	7,611,939	7,511,092
Certificates of participation and commercial paper	540,092	1,856,702	849,360	752,013	923,890	1,358,051	1,736,089	1,407,908	1,342,119	1,335,340
Capital lease obligations	3,597,536	3,906,423	3,745,410	3,918,560	4,466,828	4,346,179	4,376,410	4,456,039	4,967,290	4,882,233
Total governmental activities	**27,032,465**	**36,272,536**	**56,621,261**	**58,280,970**	**59,695,173**	**63,983,456**	**70,348,863**	**82,285,309**	**91,667,137**	**93,197,750**
Business-type activities										
General obligation bonds [1]	3,221,310	2,809,275	2,215,800	2,090,105	1,963,305	1,954,220	1,907,243	1,702,377	1,477,663	1,218,639
Revenue bonds	8,900,472	21,557,908	22,239,016	22,943,536	22,812,509	22,934,094	23,003,097	23,053,114	24,538,094	23,290,315
Certificates of participation and commercial paper	3,937,426	101,528	97,179	51,093	231,121	179,782	67,204	51,307	64,518	139,974
Total business-type activities	**16,059,208**	**24,468,711**	**24,551,995**	**25,084,734**	**25,006,935**	**25,068,096**	**24,977,544**	**24,806,798**	**26,080,275**	**24,648,928**
Total primary government	**$ 43,091,673**	**$ 60,741,247**	**$ 81,173,256**	**$ 83,365,704**	**$ 84,702,108**	**$ 89,051,552**	**$ 95,326,407**	**$ 107,092,107**	**$ 117,747,412**	**$ 117,846,678**
Debt as a percentage of personal income [2]	3.7%	5.1%	6.6%	6.4%	6.1%	6.0%	6.1%	6.7%	7.7%	7.4%
Amount of debt per capita [3]	$ 1,249	$ 1,739	$ 2,294	$ 2,332	$ 2,354	$ 2,457	$ 2,608	$ 2,906	$ 3,176	$ 3,158

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

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 286 and 287 for the prior calendar year.
[3] Amount calculated using population data shown on pages 286 and 287 for the prior calendar year.

Schedule of Ratios of General Bonded Debt Outstanding

For the Past Ten Fiscal Years
(amounts in thousands, except per capita)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net general bonded debt										
General obligation bonds [1]	$ 25,332,132	$ 29,566,646	$ 35,244,356	$ 36,735,442	$ 39,034,092	$ 43,234,702	$ 47,828,805	$ 61,724,439	$ 71,284,447	$ 73,516,674
Economic Recovery bonds	—	—	10,896,080	10,896,080	9,933,030	8,988,960	10,502,970	8,631,445	7,939,005	7,171,050
Less: restricted debt service fund	—	—	—	—	212,883	792,841	552,326	894	113,172	143,777
Net Economic Recovery bonds	—	—	10,896,080	10,896,080	9,720,147	8,196,119	9,950,644	8,630,551	7,825,833	7,027,273
Net general bonded debt	**$ 25,332,132**	**$ 29,566,646**	**$ 46,140,436**	**$ 47,631,522**	**$ 48,754,239**	**$ 51,430,821**	**$ 57,779,449**	**$ 70,354,990**	**$ 79,110,280**	**$ 80,543,947**
Net general bonded debt as a percentage of personal income [2]	2.2%	2.5%	3.7%	3.6%	3.5%	3.4%	3.7%	4.4%	5.2%	5.1%
Amount of net general bonded debt per capita [3]	$ 734	$ 846	$ 1,304	$ 1,332	$ 1,355	$ 1,419	$ 1,581	$ 1,909	$ 2,134	$ 2,158

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

[1] Prior to fiscal year 2008, net unamortized bond premiums and refunding losses were not included.
[2] Ratio calculated using personal income data shown on pages 286 and 287 for the prior calendar year.
[3] Amount calculated using population data shown on pages 286 and 287 for the prior calendar year.

Schedule of General Obligation Bonds Outstanding

June 30, 2011
(amounts in thousands)

Governmental activity		
California Clean Water, Clean Air, Safe Neighborhood Parks and Coastal Protection	$	2,193,180
California Library Construction and Renovation		288,380
California Park and Recreational Facilities		22,440
California Parklands		4,515
California Safe Drinking Water		78,445
California Stem Cell Research and Cures		1,075,700
California Wildlife, Coastal, and Park Land Conservation		173,245
Children's Hospital		1,171,230
Class Size Reduction Public Education Facilities		6,952,220
Clean Air and Transportation Improvement		1,018,605
Clean Water		17,945
Clean Water and Water Conservation		6,660
Clean Water and Water Reclamation		30,345
Community Parklands		6,200
County Correctional Facility Capital Expenditure		39,705
County Correctional Facility Capital Expenditure and Youth Facility		123,450
Disaster Preparedness and Flood Prevention		2,143,785
Earthquake Safety and Public Building Rehabilitation		156,355
Economic Recovery		7,171,050
Fish and Wildlife Habitat Enhancement		6,850
Higher Education Facilities		560,100
Highway Safety, Traffic Reduction, Air Quality, and Port Security		8,239,840
Housing Emergency Shelter		3,280,365
Housing and Homeless		3,105
Kindergarten-University Public Education Facilities		28,827,170
Lake Tahoe Acquisitions		2,605
New Prison Construction		115,850
Passenger Rail and Clean Air		210,320
Public Education Facilities		1,821,435
Safe, Clean, Reliable Water Supply		719,800
Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection		1,591,330
Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection		2,379,855
Safe Neighborhood Parks		1,660,420
Safe, Reliable High-Speed Passenger Train		410,050
School Building and Earthquake		19,975
School Facilities		1,633,750
Seismic Retrofit		1,458,605
State School Building Lease-Purchase		7,850
State, Urban, and Coastal Park		5,580
Veterans' Homes		40,345
Voting Modernization		72,520
Water Conservation		30,000
Water Conservation and Water Quality		47,485
Water Security, Clean Drinking Water, Coastal and Beach Protection		2,636,095
Total governmental activity		**78,454,755**
Business-type activity		
California Water Resources Development		420,540
Veterans Farm and Home Building		799,475
Total business-type activity		**1,220,015**
Total general obligation bonds		**79,674,770**
Unamortized bond premium/discount/other		1,012,954
Total general obligation bonds payable	**$**	**80,687,724**

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	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
	2009	109,636	21,838	87,798	22,205	33,699	55,904	1.57
	2010	85,321	16,404	68,917	111,085	34,874	145,959	0.47
	2011	89,224	15,802	73,422	130,770	32,619	163,389	0.45
Water Resources	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
	2009	914,837	694,598	220,239	80,347	130,219	210,566	1.04
	2010	1,042,843	837,459	205,384	97,360	124,296	221,656	0.93
	2011	1,096,196	880,540	215,656	108,870	124,345	233,215	0.92
Water Pollution Control	2003	54,201	5,032	49,169	—	9,830	9,830	5.00
	2004	51,687	4,059	47,628	—	10,923	10,923	4.36
	2005	55,218	4,082	51,136	21,425	10,424	31,849	1.61
	2006	64,740	10,615	54,125	22,185	9,812	31,997	1.69
	2007	78,564	3,387	75,177	22,850	9,178	32,028	2.35
	2008	71,404	4,521	66,883	23,585	8,422	32,007	2.09
	2009	59,923	4,416	55,507	22,930	7,747	30,677	1.80
	2010	53,365	9,880	43,485	23,655	6,928	30,583	1.42
	2011	49,585	4,876	44,709	24,390	5,996	30,386	1.47

(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)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] 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
	2009	4,560,000	3,604,000	956,000	493,000	399,000	892,000	1.07
	2010	3,908,000	3,007,000	901,000	518,000	373,000	891,000	1.01
	2011	2,317,000	1,427,000	890,000	460,000	344,000	804,000	1.11
Public Buildings Construction	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
	2009	366,151	78,489	287,662	360,559	335,248	695,807	0.41
	2010	430,069	120,565	309,504	377,998	367,055	745,053	0.42
	2011	423,775	507	423,268	394,490	383,185	777,675	0.54
High Technology Education	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
	2009	15,975	3,837	12,138	36,730	11,704	48,434	0.25
	2010	13,015	5,009	8,006	19,665	9,977	29,642	0.27
	2011	10,498	681	9,817	19,995	8,878	28,873	0.34
California State University	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	511,895	128,314	105,229	115,928	221,157	0.58
	2009	811,454	261,628	549,826	43,572	129,238	172,810	3.18
	2010	599,572	577,765	21,807	47,815	151,988	199,803	0.11
	2011	3,722,414	5,455,059	(1,732,645)	56,344	172,231	228,575	(7.58)

	June 30	Gross Revenue [1]	Operating Expenses [2]	Net Revenue Available for Debt Service	Debt Service Requirements [3] Principal	Interest	Total	Coverage
CSU Channel Island Financing Authority [4]	2003	$ 5,844	$ —	$ 5,844	$ —	$ 4,058	$ 4,058	1.44
	2004	5,449	—	5,449	—	4,205	4,205	1.30
	2005	8,149	10	8,139	—	5,541	5,541	1.47
	2006	8,377	11	8,366	—	6,123	6,123	1.37
	2007	7,397	8	7,389	—	6,951	6,951	1.06
	2008	245	13	232	—	556	556	0.42
Building Authorities	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
	2009	78,733	68	78,665	48,594	25,028	73,622	1.07
	2010	76,535	—	76,535	50,948	34,058	85,006	0.90
	2011	63,168	—	63,168	51,957	20,071	72,028	0.88
Golden State Tobacco Securitization Corporation	2003	4,947	—	4,947	—	59,369	59,369	0.08
	2004	427,159	367	426,792	60,427	298,708	359,135	1.19
	2005	427,159	305	426,854	55,500	330,652	386,152	1.11
	2006	396,987	—	396,987	61,320	307,824	369,144	1.08
	2007	413,246	—	413,246	133,555	276,965	410,520	1.01
	2008	445,097	—	445,097	129,120	326,631	455,751	0.98
	2009	493,448	—	493,448	116,960	320,679	437,639	1.12
	2010	393,487	—	393,487	138,260	316,038	454,298	0.87
	2011	361,974	—	361,974	60,230	315,268	375,498	0.96
Toll Bridge Seismic Retrofit [4]	2004	139,366	119,141	20,225	—	28,615	28,615	0.71
	2005	131,791	97,386	34,405	—	28,615	28,615	1.20
Grant Anticipation Revenue Vehicles [5]	2004	13,150	—	13,150	—	13,150	13,150	1.00
	2005	65,134	—	65,134	41,545	23,589	65,134	1.00
	2006	72,338	—	72,338	47,845	24,493	72,338	1.00
	2007	72,149	—	72,149	49,190	22,959	72,149	1.00
	2008	71,945	—	71,945	50,985	20,960	71,945	1.00
	2009	77,193	—	77,193	55,275	21,918	77,193	1.00
	2010	83,272	—	83,272	62,335	20,937	83,272	1.00
	2011	84,294	—	84,294	64,785	19,509	84,294	1.00

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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

For the Past Ten Calendar Years

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population (in thousands)										
California [1]	34,513	34,938	35,389	35,753	35,986	36,247	36,553	36,856	37,077	37,318
% Change	1.2%	1.2%	1.3%	1.0%	0.7%	0.7%	0.8%	0.8%	0.6%	0.6%
United States [1]	285,082	287,804	290,326	293,046	295,753	298,593	301,580	304,375	307,007	309,330
% Change	1.0%	1.0%	0.9%	0.9%	0.9%	1.0%	1.0%	0.9%	0.9%	0.8%
Total personal income (in millions)										
California [1]	$ 1,168,723	$ 1,187,348	$ 1,232,981	$ 1,312,227	$ 1,387,661	$ 1,495,533	$ 1,566,400	$ 1,610,319	$ 1,528,457	$ 1,590,279
% Change	2.9%	1.6%	3.8%	6.4%	5.7%	7.8%	4.7%	2.8%	-5.1%	4.0%
United States [1]	$ 8,878,830	$ 9,054,702	$ 9,369,072	$ 9,928,790	$ 10,476,669	$ 11,256,516	$ 11,900,562	$ 12,451,599	$ 11,916,808	$ 12,357,113
% Change	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.7%	4.6%	-4.3%	3.7%
Per capita personal income										
California [2]	$ 33,863	$ 33,984	$ 34,841	$ 36,703	$ 38,561	$ 41,259	$ 42,853	$ 43,692	$ 41,224	$ 42,614
% Change	1.7%	0.4%	2.5%	5.3%	5.1%	7.0%	3.9%	2.0%	-5.6%	3.4%
United States [2]	$ 31,145	$ 31,461	$ 32,271	$ 33,881	$ 35,424	$ 37,699	$ 39,461	$ 40,909	$ 38,816	$ 39,948
% Change	2.7%	1.0%	2.6%	5.0%	4.6%	6.4%	4.7%	3.7%	-5.1%	2.9%
Labor force and employment (in thousands)										
California										
Civilian labor force [1]	17,152	17,344	17,391	17,444	17,545	17,687	17,929	18,191	18,204	18,176
Employed [1]	16,220	16,181	16,200	16,355	16,592	16,821	16,970	16,883	16,142	15,916
Unemployed [1]	932	1,163	1,191	1,090	953	865	959	1,308	2,063	2,260
Unemployment rate [1]	5.4%	6.7%	6.8%	6.2%	5.4%	4.9%	5.3%	7.2%	11.3%	12.4%
United States unemployment rate	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%

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.

Schedule of Employment by Industry

For Calendar Years 2001 and 2010

	2001		2010	
	Employees	Percent of Total State Employment	Employees	Percent of Total State Employment
Industry				
Services	5,505,800	36.7 %	5,834,700	40.9 %
Government				
Federal	197,000	1.3	206,900	1.4
Military	57,400	0.4	61,000	0.4
State and Local	2,127,800	14.2	2,159,200	15.1
Retail trade	1,575,900	10.5	1,508,800	10.6
Manufacturing	1,778,600	11.9	1,242,400	8.7
Information, finance, and insurance	1,114,500	7.4	940,900	6.6
Construction and utilities	835,200	5.6	617,400	4.3
Wholesale trade	658,900	4.4	643,200	4.5
Transportation and warehousing	459,300	3.1	407,300	2.9
Farming	379,500	2.5	381,600	2.7
Real estate	267,200	1.8	247,900	1.7
Natural resources and mining	25,600	0.2	26,800	0.2
Total	**14,982,700**	**100.0 %**	**14,278,100**	**100.0 %**

Source: Labor Market Information Division, California Employment Development Department

Operating Information

The ***operating information*** schedules assist the reader in evaluating the size, efficiency, and effectiveness of the State's government. This section includes the following operating information schedules:

Schedule of Full-time Equivalent State Employees by Function
Schedule of Operating Indicators by Function
Schedule of Capital Asset Statistics by Function

Schedule of Full-time Equivalent State Employees by Function

For the Past Ten Fiscal Years

Fiscal Year	General Government	Education	Health and Human Services	Resources	State and Consumer Services	Business and Transportation	Correctional Programs	Total
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
2009	22,347	135,720	50,996	21,985	16,350	42,254	60,957	350,609
2010	30,390	133,642	43,663	22,223	15,868	40,590	59,401	345,777
2011	32,535	138,017	48,638	23,611	17,043	44,844	67,272	371,959

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.

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Schedule of Operating Indicators by Function

For the Past Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
State Lottery										
Total revenue [1]	$ 2,896	$ 2,782	$ 2,974	$ 3,334	$ 3,585	$ 3,318	$ 3,050	$ 2,955	$ 3,041	$ 3,439
Allocation to Education Fund [1]	$ 1,027	$ 977	$ 1,044	$ 1,149	$ 1,259	$ 1,177	$ 1,069	$ 1,028	$ 1,072	$ 1,103
Judicial Council of California										
Supreme Court [2]										
Cases filed	8,917	8,862	8,564	8,990	9,261	8,988	10,521	9,274	9,562	N/A
Cases disposed	8,802	8,652	8,565	8,535	9,878	9,247	10,440	9,513	9,439	N/A
Courts of Appeal										
Notices of appeal filed [3]										
Civil	6,850	6,917	6,484	6,142	6,018	6,116	5,913	5,958	6,122	N/A
Criminal	6,361	6,493	6,625	6,312	6,516	6,508	6,681	6,819	6,857	N/A
Juvenile	2,631	2,481	2,703	2,626	2,715	2,880	2,900	2,858	2,759	N/A
Trial Courts										
Total civil cases [4, 10]										
Filings	1,569,231	1,548,402	1,503,419	1,426,822	1,418,722	1,462,820	1,582,092	1,729,648	1,647,817	N/A
Dispositions	1,377,659	1,386,017	1,360,908	1,304,924	1,267,534	1,286,736	1,280,184	1,537,243	1,530,502	N/A
Department of Food and Agriculture										
Milk production (million lbs) [5]	35,065	35,437	36,465	37,564	38,830	40,683	41,203	39,512	40,385	41,462
Farm land (thousand acres) [5]	27,600	26,900	26,400	25,900	25,700	25,400	25,400	25,400	25,400	N/A
Education										
Public Colleges and Universities										
Fall enrollment										
Community Colleges	1,746,602	1,635,253	1,584,170	1,606,858	1,637,767	1,723,225	1,793,801	1,792,944	1,746,686	N/A
California State University	406,615	407,530	395,825	405,282	417,156	433,017	437,008	433,054	412,372	N/A
University of California	201,297	208,391	207,909	209,080	214,298	220,034	226,040	230,528	234,464	N/A
K-12 Schools										
Fall enrollment										
Public	6,147,375	6,244,403	6,299,015	6,322,217	6,312,103	6,286,943	6,275,469	6,252,011	6,190,425	6,217,002
Private	635,719	611,350	599,605	591,056	594,597	583,794	564,734	536,393	531,111	515,143

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.

(continued)

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 from reports available at December 31, 2011.
8 Data compiled from a 10% sample of California licensed drivers.
9 A center-line mile is measured by the yellow dividing strip that runs down the middle of the road, regardless of the number of lanes on each side.
10 Some prior years were updated based on more current information.
N/A = not available

Schedule of Operating Indicators by Function (continued)

For the Past Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Health and Human Services										
Department of Public Health										
Vital statistics										
Live births [5]	529,245	540,827	544,685	548,700	562,157	566,137	551,567	526,774	509,979	N/A
Department of Social Services										
Total Food Stamp households (avg per month)	678,294	682,202	722,519	792,617	809,782	823,335	892,992	1,067,380	1,340,859	1,576,039
Employment Development Department										
Number of employed [5, 6, 10]	14,907,400	14,871,400	15,126,100	15,440,600	15,613,300	15,691,100	15,142,000	14,326,300	14,409,200	14,646,400
Resources										
Department of Fish and Game										
Sport fishing licenses sold [7, 10]	3,105,525	2,961,100	2,929,204	2,870,727	2,924,325	3,003,783	2,857,236	2,838,776	2,410,057	2,483,558
Hunting licenses sold [7, 10]	1,536,387	1,563,647	1,593,517	1,625,078	1,655,760	1,718,657	1,670,190	1,679,864	1,677,779	1,786,162
California Energy Commission										
Electrical energy generation (gigawatt hours) [10]	274,294	279,800	290,013	289,123	298,094	304,516	307,145	298,310	290,187	N/A
State and Consumer Services										
Franchise Tax Board										
Personal Income Tax [5]										
Number of tax returns filed	13,575,583	13,624,349	13,832,810	14,087,896	14,382,677	15,016,273	14,806,336	14,638,205	N/A	N/A
Taxable income [1]	$ 601,713	$ 619,166	$ 695,075	$ 767,877	$ 812,008	$ 872,869	$ 799,490	$ 729,658	N/A	N/A
Total tax liability [1]	$ 28,568	$ 30,374	$ 36,093	$ 43,131	$ 45,716	$ 49,693	$ 41,676	$ 38,870	N/A	N/A
Corporation Tax [5]										
Number of tax returns filed	550,853	589,310	616,805	651,060	684,363	709,937	722,358	727,675	N/A	N/A
Income reported for taxation [1]	$ 29,686	$ 50,819	$ 82,328	$ 115,474	$ 140,325	$ 121,843	$ 67,921	$ 55,367	N/A	N/A
Total tax liability [1]	$ 5,601	$ 6,227	$ 7,123	$ 8,680	$ 9,992	$ 9,414	$ 9,106	$ 7,858	N/A	N/A
Business and Transportation										
Department of Motor Vehicles										
Motor vehicle registration [10]	30,875,085	31,017,017	33,289,925	33,363,963	33,882,029	32,047,124	31,920,649	31,799,398	31,987,821	N/A
License issued by age [5, 8]										
Under age 18	288,444	283,258	287,800	277,168	268,199	262,415	244,481	229,545	218,997	N/A
Between 18-80	21,848,657	21,937,723	22,073,101	22,155,604	22,450,786	22,804,927	22,922,361	22,910,011	23,001,119	N/A
Over age 80	468,709	466,105	482,340	494,577	518,102	562,518	552,150	560,491	579,397	N/A
California Highway Patrol										
Total number of DUI arrests [5, 10]	82,375	87,496	94,023	89,946	94,251	92,270	97,019	95,135	89,814	88,922
Department of Transportation										
Highway center-line miles—rural [5, 9]	11,439	11,414	11,380	11,090	10,821	10,830	10,811	10,808	10,785	N/A
Highway center-line miles—urban [5, 9]	3,843	3,811	3,829	4,123	4,422	4,439	4,393	4,384	4,375	N/A
Correctional Programs										
Department of Corrections and Rehabilitation										
Division of Adult Institutions										
Institution population at December 31 each year	158,099	160,362	162,687	166,723	171,310	170,452	170,283	167,922	162,200	147,181
Division of Juvenile Justice										
Institution population at June 30 each year	5,954	5,024	4,067	3,348	2,962	2,531	1,877	1,589	1,474	1,263

(concluded)

Schedule of Capital Asset Statistics by Function

For the Past Ten Fiscal Years

	2002[1]	2003[2]	2004[3]	2005	2006	2007	2008	2009	2010	2011
General Government										
Department of Food and Agriculture										
Vehicles and mobile equipment[4]	786	941	929	903	907	915	818	803	746	809
Square footage of structures (in thousands)	N/A	467	467	467	453	453	453	466	466	466
Department of Justice										
Vehicles and mobile equipment	999	1,012	967	969	968	966	826	870	816	677
Department of Military										
Vehicles and mobile equipment	173	173	155	152	210	182	206	182	208	249
Square footage of structures (in thousands)	N/A	5,091	5,218	3,348	3,388	3,388	3,387	3,383	3,154	3,530
Department of Veterans Affairs										
Veterans homes	3	3	3	3	3	3	3	5	6	6
Vehicles and mobile equipment	180	157	157	139	111	248	251	120	113	132
Square footage of structures (in thousands)	N/A	1,141	1,598	1,598	1,598	1,598	1,598	1,683	1,600	2,086
Education										
California State University										
Vehicles and mobile equipment[4, 5]	N/A	N/A	N/A	N/A	601	3,343	3,994	4,015	4,338	4,415
Campuses	23	23	23	23	23	23	23	23	23	23
Square footage of structures (in thousands)	N/A	50,476	58,983	59,588	59,921	62,198	63,971	66,686	69,049	71,287
Health and Human Services										
Department of Developmental Services										
Vehicles and mobile equipment	771	886	900	836	655	829	839	701	569	818
Developmental centers	7	7	7	7	7	7	7	7	5	5
Square footage of structures (in thousands)	N/A	5,914	5,160	5,185	5,181	5,181	5,186	5,187	5,185	5,294
Department of Mental Health										
Vehicles and mobile equipment	421	425	438	439	655	629	638	658	665	709
State hospitals	4	4	4	4	5	5	5	5	5	5
Square footage of structures (in thousands)	N/A	4,527	4,628	4,626	4,673	6,359	6,364	6,348	6,331	6,331

Sources: California Department of General Services (DGS)

(continued)

[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] For fiscal year 2008, DGS was not able to obtain complete set of data from the agency.
[5] Prior to fiscal year 2006, DGS did not require the California State University to report its vehicles. Since 2006, more campuses have reported vehicle information.
[6] For 2008, the California Highway Patrol purchased numerous vehicles, and in their physical count also included motorcycles, which had not been reported for previous years.
[7] For fiscal year 2006, Department of Corrections and Rehabilitation merged with Department of Youth Authority.
N/A = not available

Schedule of Capital Asset Statistics by Function (continued)

For the Past Ten Fiscal Years

	2002[1]	2003[2]	2004[3]	2005	2006	2007	2008	2009	2010	2011
Resources										
Department of Fish and Game										
Vehicles and mobile equipment	3,005	2,754	2,754	3,157	3,182	3,311	2,868	3,640	2,630	3,180
Square footage of structures (in thousands)	N/A	1,108	1,108	1,108	1,112	1,120	1,192	1,269	1,301	1,313
Department of Forestry and Fire										
Vehicles and mobile equipment	3,054	3,071	3,079	3,016	2,572	2,945	3,043	3,067	2,598	2,804
Square footage of structures (in thousands)	N/A	3,656	3,892	3,892	3,885	3,883	3,869	3,851	3,947	3,943
Department of Parks and Recreation										
Vehicles and mobile equipment	3,753	2,467	2,709	3,044	2,742	2,988	3,023	3,220	3,102	3,715
State Parks	266	273	277	278	278	276	279	278	278	279
Acres of state park land (in thousands)	1,433	1,461	1,488	1,506	1,552	1,235	1,248	1,331	1,365	1,334
Square footage of structures (in thousands)	N/A	6,732	6,510	6,348	6,350	6,350	6,350	6,350	6,350	6,433
State Lands Commission										
Vehicles and mobile equipment	58	56	56	56	49	51	49	57	47	50
Acres of land (in thousands)	N/A	4,608	4,498	4,498	4,496	4,492	4,491	4,491	4,491	4,491
State and Consumer Services										
Department of Consumer Affairs										
Vehicles and mobile equipment	1,257	762	646	628	1,050	640	726	718	574	578
Department of General Services										
Vehicles and mobile equipment	6,087	7,451	6,895	6,883	6,894	7,330	7,558	6,736	5,761	5,670
Square footage of structures (in thousands)	N/A	14,812	15,981	15,995	17,350	18,084	18,084	18,084	18,394	18,602
Business and Transportation										
California Highway Patrol										
Vehicles and mobile equipment[6]	3,930	4,373	3,933	3,930	4,105	4,655	5,228	5,914	5,422	5,337
Square footage of structures (in thousands)	N/A	1,034	1,146	1,147	1,087	1,110	1,118	1,118	1,135	1,135
Department of Motor Vehicles										
Vehicles and mobile equipment	434	434	395	395	373	458	434	417	366	366
Square footage of structures (in thousands)	N/A	1,853	1,853	1,853	1,827	1,866	1,848	1,855	1,855	1,842
Department of Transportation										
Vehicles and mobile equipment	11,152	11,057	11,039	10,856	11,048	11,130	11,098	13,346	11,302	12,759
Square footage of structures (in thousands)	N/A	5,723	6,274	6,284	6,632	6,618	6,229	6,434	6,444	6,519
Correctional Programs										
Department of Corrections and Rehabilitation										
Vehicles and mobile equipment[4]	6,795	7,221	7,189	7,006	6,451	6,657	7,908	7,778	5,787	5,985
Prisons and juvenile facilities[7]	32	32	32	32	32	41	41	39	39	39
Square footage of structures (in thousands)	N/A	39,591	40,483	40,472	40,622	40,777	40,831	40,852	41,228	41,399

(concluded)

STATE OF CALIFORNIA

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TABLE OF PARTICIPATING AGENCIES

$__________
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series D
(Various California State University Projects)

$____________
Lease Revenue Bonds
(Trustees of the California State University)
2012 Series E
(California State University: Various Buildings)

$___________
Lease Revenue Refunding Bonds
(The Regents of the University of California)
2012 Series F
(UCLA Replacement Hospitals)

Summary of Project Information[(1)]

Participating Agency	***Project***	***Bond Par Amounts Total***
Trustees of the California State University	Art Center and Satellite Plant Project at California State University, Bakersfield	
	Physical Education Replacement Building at California Maritime Academy	
	Spartan Complex Renovation at San Jose State University	
	Total 2012D Bonds	
Trustees of the California State University	California State University: Various Buildings	
	Total 2012E Bonds	
The Regents of the University of California	UCLA Replacement Hospitals	
	Total 2012F Bonds	

(1) Detailed project descriptions are contained in Appendix B-1 and Appendix B-2.