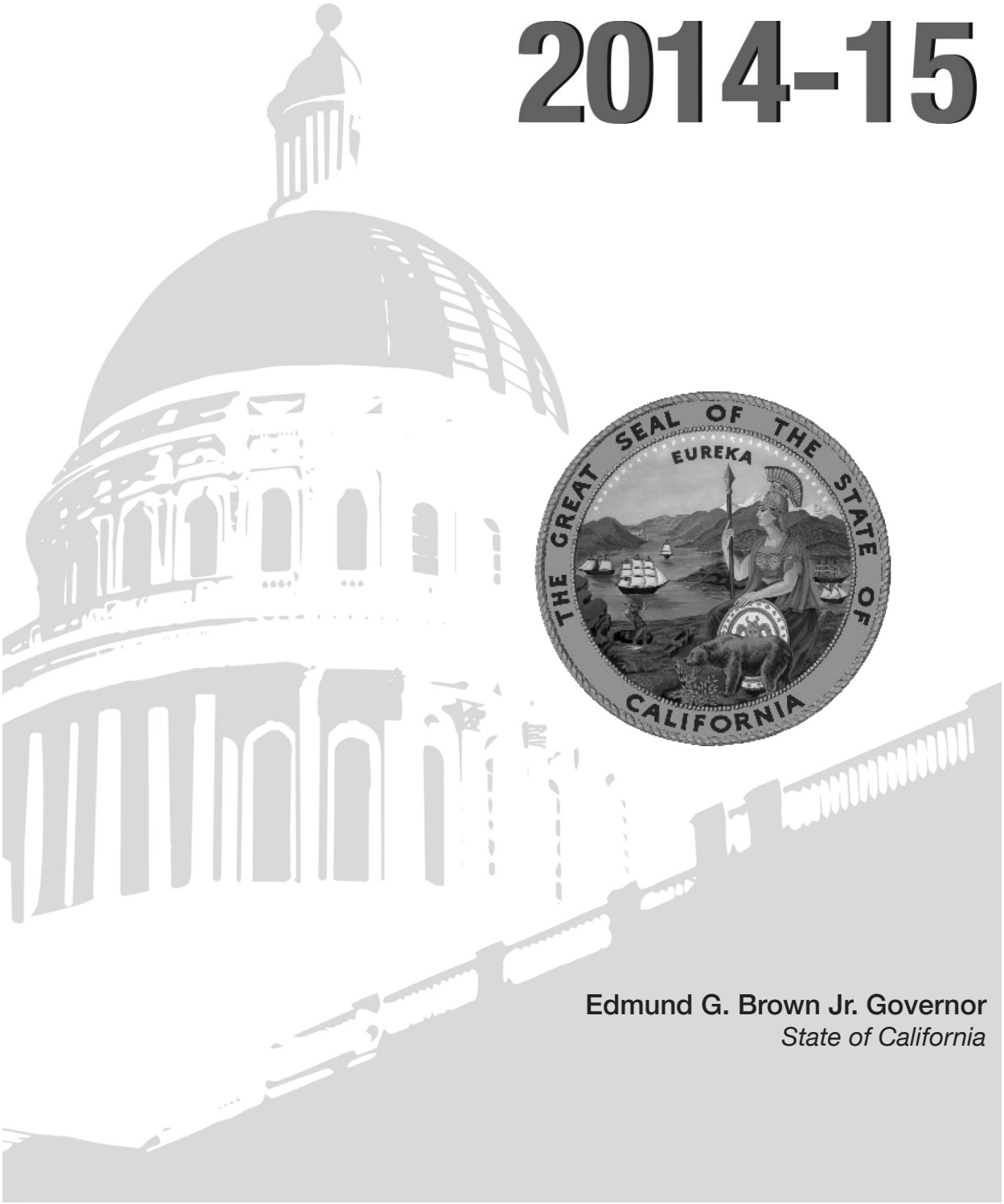
Single Audit Report

2014-15

Edmund G. Brown Jr. Governor
State of California

Single Audit Report

2014-15



Edmund G. Brown Jr. Governor
State of California

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR

EDMUND G. BROWN JR. • GOVERNOR
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

March 30, 2016

Mr. Daniel R. Levinson, Inspector General
Department of Health and Human Services
Room 5541, Cohen Building
330 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Mr. Levinson:

As the Governor's fiscal representative, I submit to you the State of California Single Audit Report for the fiscal year ended June 30, 2015. The report contains the Independent Auditor's Reports on the state's general-purpose financial statements, compliance and internal control over financial reporting, compliance and internal control related to federal grants, and schedule of expenditures of federal awards. Although the Independent Auditor identified one material weakness, the conditions do not adversely affect the state's general-purpose financial statements. The Independent Auditor also identified significant deficiencies related to internal control over compliance with major federal program requirements and identified several instances of noncompliance that were considered material. We recognize there are areas where internal controls and administration of federal awards need to be improved, and we are taking steps to address these issues. This year's combined results of the Single Audit Report identified an overall reduction of findings signifying improvements in California's operations.

California provides its citizens with numerous state and federal programs and activities and is more complex and vast than most economic entities in the world. Such complexity, along with ever-present budget constraints, challenges us to meet the requirements of those programs and activities efficiently and effectively. Moreover, these operations must exist within a system of internal and administrative controls that safeguards assets and resources and produces reliable financial information. Attaining these objectives and overseeing the financial and business practices of the state continues to be an important part of the Department of Finance's (Finance) leadership.

In meeting our responsibility for financial leadership and oversight, Finance provides education and training to departments as well as oversight of departmental internal audit units by issuing audit guidance and conducting quality assurance reviews. Further, we have an ongoing process of issuing statewide policy and providing technical advice to departments on various issues. The state is committed to sound and effective fiscal oversight.

Individual departments have separately responded to the Single Audit Report findings and recommendations. Accordingly, their viewpoints and corrective action plans are included in the report. The combined results of the Single Audit Report will be disseminated to all departments and Finance will remind departments of their responsibility for implementing corrective action plans. Further, we will monitor the findings and reported corrective actions to identify potential changes in statewide fiscal procedures.

The State Leadership Accountability Act (SLAA) specifies the head of each state department is responsible for establishing and maintaining systems of internal control within their department. This responsibility includes documenting the system, communicating system requirements to employees, and ensuring the system is functioning as prescribed and is modified for changing conditions. Moreover, all levels of state management must be involved in assessing and strengthening their systems of internal control to minimize fraud, errors, abuse, and waste of government funds. SLAA requires each department to conduct an internal review of its controls and report the results. Finance will continue to provide education and guidance to assist departments in meeting the SLAA requirements.

Finance is committed to ensuring proper financial operations and business practices of the state, as well as ensuring internal controls exist for the safeguarding and effective use of assets and resources. We will take into consideration the findings reported in the Single Audit Report during the course of our work.

If you have any questions concerning this letter, please contact Cheryl McCormick, Assistant Chief, Office of State Audits and Evaluations, at (916) 322-2985.

Sincerely,

MICHAEL COHEN
Director

Enclosure

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State of California Financial Report for the Year Ended June 30, 2015

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Independent Auditor's Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 78 percent of the assets and deferred outflows, and 36 percent of the revenues of the business-type activities.
- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 94 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 16 percent of the assets and deferred outflows, and 5 percent of the additions, revenues, and other financing sources of the Environmental and Natural Resources fund, a major governmental fund.
- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.
- The Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 86 percent of the assets and deferred outflows, and 33 percent of the additions, revenues and other financing sources of the aggregate remaining fund information.
- The discretely presented component units noted above.

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

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of California, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 1, the State decreased the beginning net position of the primary government by a net total of $67 billion to reflect the impact of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.*

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that a discussion and analysis by management, schedule of changes in net pension liability, schedule of state pension contributions, schedule of funding progress, infrastructure information, budgetary comparison information, reconciliation of budgetary and GAAP-basis fund balances, and related notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have

applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

JOHN F. COLLINS II, CPA
Deputy State Auditor

March 11, 2016

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Management's Discussion and Analysis

The following Management's Discussion and Analysis is required supplementary information to the State of California's financial statements. It describes and analyzes the financial position of the State, providing an overview of the State's activities for the year ended June 30, 2015. We encourage readers to consider the information we present here in conjunction with the information presented in the Controller's transmittal letter at the front of this report and in the State's financial statements and notes, which follow this section.

Financial Highlights – Primary Government

Government-wide Highlights

California's economic expansion during the 2014-15 fiscal year out-paced that of many other states, and its general revenues surpassed all budget projections, resulting in a healthy financial condition for the year ended June 30, 2015. The State's general revenues increased by $12.7 billion (10.0%) over the prior year. Expenses and transfers for the State's governmental activities also increased but were less than revenues received, resulting in a $13.1 billion increase in the governmental activities' net position, as restated. Total revenues and transfers for the State's business-type activities also surpassed expenses by $2.7 billion in fiscal year 2014-15.

Net Position – Although current year activity reflects a combined $15.8 billion increase in the primary government's net position, net position at the beginning of the year was restated as a result of the recognition of net pension liabilities associated with the implementation of GASB Statements No. 68 and No. 71, *Accounting and Financial Reporting for Pensions* (see Note 1 for further detail). The impact on the primary government's beginning net position as a result of this implementation was a decrease of $67.6 billion—$61.1 billion for governmental activities and $6.5 billion for business-type activities.

The primary government ended the 2014-15 fiscal year with a net deficit position of $41.0 billion. The total net deficit position is reduced by $103.0 billion for net investment in capital assets and by $31.1 billion for restricted net position, yielding a negative unrestricted net position of $175.1 billion. Restricted net position is dedicated for specified uses and is not available to fund current activities.

More than 51% ($89.9 billion) of the negative $175.1 billion consists of unfunded, employee-related, long-term liabilities that are recognized as soon as an obligation has been incurred, even though payment will occur over many future periods (net pension liability, net other postemployment benefit obligations, and compensated absences). Another 38.3% ($67.1 billion) consists of outstanding bonded debt issued to build capital assets for school districts and other local governmental entities. The bonded debt reduces the unrestricted net position; however, local governments, not the State, own the capital assets that would offset this reduction.

Fund Highlights

Governmental Funds – As of June 30, 2015, the primary government's governmental funds reported a combined ending fund balance of $26.1 billion, an increase of $6.3 billion over the prior fiscal year, as restated. The unrestricted fund balance, comprised of committed, assigned, and unassigned balances, was negative $448 million. The nonspendable and restricted fund balances were $59 million and $26.5 billion, respectively.

Proprietary Funds – As of June 30, 2015, the primary government's proprietary funds reported a combined ending net position of $1.2 billion, an increase of $2.8 billion over the prior fiscal year, as restated. The total net position is reduced by $2.5 billion for net investment in capital assets, expendable restrictions of $4.7 billion, and nonexpendable restrictions of $13 million, yielding a negative unrestricted net position of $6.0 billion.

Noncurrent Assets and Liabilities

As of June 30, 2015, the primary government's noncurrent assets totaled $152.5 billion, of which $132.4 billion is related to capital assets. State highway infrastructure assets of $70.7 billion represent the largest portion of the State's capital assets.

The primary government's noncurrent liabilities totaled $214.4 billion, which consists of $78.1 billion in general obligation bonds, $29.4 billion in revenue bonds, $89.9 billion in unfunded employee-related future obligations, and $17.0 billion in other noncurrent liabilities. During the 2014-15 fiscal year, the primary government's noncurrent liabilities increased by $53.4 billion (33.2%) over the previously reported noncurrent liabilities. This net increase includes an increase of $60.5 billion for the difference between the recognition of previously unreported net pension liability and the elimination of previously reported net pension obligation, a decrease of $5.3 billion in mandated cost claims payable, an increase of $3.1 billion in net other postemployment benefits obligation, a decrease of $2.0 billion in loans payable, a decrease of $1.8 billion in general obligation bonds payable, and a decrease of $932 million in revenue bonds payable.

Overview of the Financial Statements

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

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.

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

- The *Statement of Net Position* presents all of the State's financial and capital resources in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. Over time, increases or decreases in net position indicate whether the financial position of the State is improving or deteriorating.

- The *Statement of Activities* presents information showing how the State's net position changed during the most recent fiscal year. The State reports changes in net position as soon as the event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, this statement reports revenues and expenses for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

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

- *Governmental activities* are mostly supported by taxes, such as personal income and sales and use taxes, and intergovernmental revenues, primarily federal grants. Most services and expenses normally associated with state government fall into this activity category, including general government, education (public kindergarten through 12th grade [K–12] schools and institutions of higher education), health and human services, resources, state and consumer services, business and transportation, correctional programs, and interest on long-term debt.

- *Business-type activities* typically recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The business-type activities of the State of California include providing unemployment insurance programs, providing housing loans to California veterans, providing water to local water districts, providing services to California State University students, selling California State Lottery tickets, and selling electric power. These activities are carried out with minimal financial assistance from the governmental activities or general revenues of the State.

- *Component units* are organizations that are legally separate from the State, but are at the same time related to the State financially (i.e., the State is financially accountable for them) or the nature of their relationship with the State is so significant that their exclusion would cause the State's financial statements to be misleading or incomplete. Various types of component units are presented; all are legally separate. However, blended component units function as part of the State's operations. Fiduciary component units are primarily the resources and operations of the California Public Employees' Retirement System and the California State Teachers' Retirement System. Discretely presented component units contain some form of accountability either from or to the State.

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

Fund Financial Statements

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. 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. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 the information presented for governmental funds with similar information presented for governmental activities 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate comparison between governmental funds and governmental activities. Primary differences between the government-wide and fund-based statements relate to noncurrent assets, such as land and buildings, and noncurrent liabilities, such as bonded debt and amounts owed for net pension liability, compensated absences, and capital lease obligations. These amounts 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's various functions. For example, internal service funds provide public buildings construction, information technology, printing, fleet management, and architectural services primarily for state departments. As a result, their activity is considered governmental.
- *Fiduciary funds* account for resources held for the benefit of parties outside the State. Fiduciary funds and the activities of fiduciary component units are not reflected in the government-wide financial statements because the resources of these funds are not available to support state programs. The accounting used for fiduciary funds and similar component units is similar to that used for trusts.

Discretely Presented Component Units Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Combining Financial Statements and Schedules

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

Government-wide Financial Analysis

Net Position

The primary government's combined net deficit position (governmental and business-type activities) as originally reported at June 30, 2014, decreased by $48.3 billion (or more than 659%) to a negative $41.0 billion a year later, but increased by $15.8 billion (27.8%) when adjusted for restatements. As mentioned previously, the net position at the beginning of the 2014-15 fiscal year was restated as a result of the recognition of the previously unreported net pension liability.

The primary government's $103.0 billion net investment in capital assets, such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) comprise a significant portion of its net position. This amount of capital assets is net of any outstanding debt used to acquire those assets. The State uses capital assets when providing services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, the resources needed to repay this debt must come from other sources because the State cannot use the capital assets to pay off the liabilities.

Another $31.1 billion of the primary government's net position represents resources that are externally restricted as to how they may be used, such as resources pledged to debt service. Internally imposed earmarking of resources is not presented in this publication as restricted net position. As of June 30, 2015, the primary government's combined unrestricted net deficit position was $175.1 billion—$169.7 billion for governmental activities and $5.4 billion for business-type activities.

A significant factor contributing to the unrestricted net deficit is that governments recognize a liability on the government-wide Statement of Net Position as soon as an obligation has been incurred, while financing and budgeting functions focus on when a liability will be paid. As of June 30, 2015, the primary government recognized $89.9 billion (51.3% of the $175.1 billion unrestricted net deficit) in unfunded employee-related obligations—net pension liability, net other postemployment benefits obligation, and compensated absences. In addition, the primary government recognized $67.1 billion (38.3% of the $175.1 billion unrestricted net deficit) in outstanding bonded debt issued to build capital assets for school districts and other local governmental entities, a common state practice nationwide. As the State does not own these capital assets, neither the assets nor the related bonded debt is included in the portion of net position reported as "net investment in capital assets." Instead, the bonded debt is reported as a noncurrent liability that increases the State's unrestricted net deficit position. The State can expect continued deficits in the unrestricted net position

of governmental activities as long as it has significant unfunded employee-related obligations and outstanding obligations for school districts and other local governmental entities.

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

Table 1

Net Position – Primary Government – Two-year Comparison
June 30, 2015 and 2014
(amounts in millions)

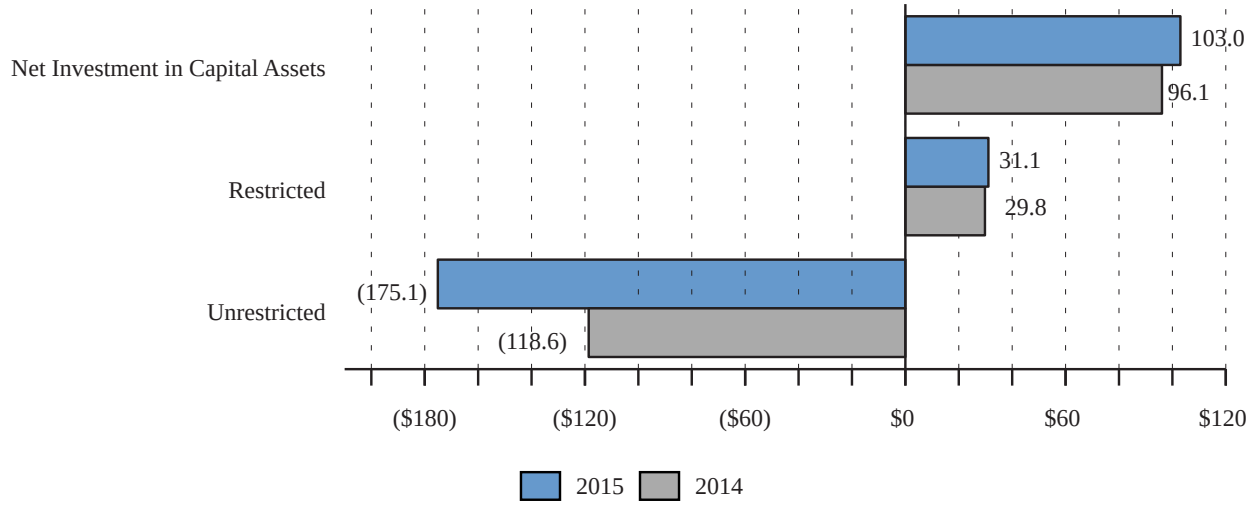
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
ASSETS						
Current and other assets	$ 74,530	$ 70,798	$ 24,539	$ 24,345	$ 99,069	$ 95,143
Capital assets	123,201	116,369	9,220	8,735	132,421	125,104
Total assets	**197,731**	**187,167**	**33,759**	**33,080**	**231,490**	**220,247**
DEFERRED OUTFLOWS OF RESOURCES	**6,128**	**986**	**1,050**	**242**	**7,178**	**1,228**
Total assets and deferred outflows of resources	**$ 203,859**	**$ 188,153**	**34,809**	**$ 33,322**	**$ 238,668**	**$ 221,475**
LIABILITIES						
Noncurrent liabilities	$ 186,897	$ 137,522	$ 27,511	$ 23,506	$ 214,408	$ 161,028
Other liabilities	47,391	48,456	3,841	3,676	51,232	52,132
Total liabilities	**234,288**	**185,978**	**31,352**	**27,182**	**265,640**	**213,160**
DEFERRED INFLOWS OF RESOURCES	**11,989**	**171**	**2,003**	**823**	**13,992**	**994**
Total liabilities and deferred inflows of resources	**246,277**	**186,149**	**33,355**	**28,005**	**279,632**	**214,154**
NET POSITION						
Net investment in capital assets	100,695	94,001	2,278	2,066	102,973	96,067
Restricted	26,632	24,951	4,537	4,913	31,169	29,864
Unrestricted	(169,745)	(116,948)	(5,361)	(1,662)	(175,106)	(118,610)
Total net position (deficit)	**(42,418)**	**2,004**	**1,454**	**5,317**	**(40,964)**	**7,321**
Total liabilities, deferred inflows of resources, and net position	**$ 203,859**	**$ 188,153**	**$ 34,809**	**$ 33,322**	**$ 238,668**	**$ 221,475**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

Chart 1 presents a two-year comparison of the State's net position.

Chart 1

Net Position – Primary Government – Two-year Comparison
June 30, 2015 and 2014
(amounts in billions)



Note: Prior-year adjustments recorded in the current year have not been reflected in the 2014 amounts.

Changes in Net Position

The expenses of the primary government totaled $259.7 billion for the year ended June 30, 2015. Of this amount, $136.5 billion (52.5%) was funded with program revenues (charges for services or program-specific grants and contributions), leaving $123.2 billion to be funded with general revenues (mainly taxes). The primary government's general revenues of $139.0 billion exceeded net unfunded expenses by $15.8 billion, resulting in a 27.8% increase in net position, as restated.

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

Table 2

Changes in Net Position – Primary Government – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
REVENUES						
Program Revenues:						
Charges for services	$ 24,390	$ 22,274	$ 24,091	$ 25,284	$ 48,481	$ 47,558
Operating grants and contributions	84,896	69,861	1,666	1,491	86,562	71,352
Capital grants and contributions	1,320	1,516	108	81	1,428	1,597
General Revenues:						
Taxes	138,600	125,812	—	—	138,600	125,812
Investment and interest	58	81	—	—	58	81
Miscellaneous	401	488	—	—	401	488
Total revenues	**249,665**	**220,032**	**25,865**	**26,856**	**275,530**	**246,888**
EXPENSES						
Program Expenses:						
General government	15,804	14,292	—	—	15,804	14,292
Education	59,521	54,720	—	—	59,521	54,720
Health and human services	122,064	105,037	—	—	122,064	105,037
Resources	6,420	5,855	—	—	6,420	5,855
State and consumer services	904	590	—	—	904	590
Business and transportation	12,898	13,427	—	—	12,898	13,427
Correctional programs	11,483	11,235	—	—	11,483	11,235
Interest on long-term debt	4,881	4,699	—	—	4,881	4,699
Electric Power	—	—	799	835	799	835
Water Resources	—	—	1,020	983	1,020	983
State Lottery	—	—	5,560	5,079	5,560	5,079
Unemployment Programs	—	—	11,390	13,673	11,390	13,673
California State University	—	—	6,848	6,545	6,848	6,545
Other enterprise programs	—	—	145	143	145	143
Total expenses	**233,975**	**209,855**	**25,762**	**27,258**	**259,737**	**237,113**
Excess (deficiency) before transfers	**15,690**	**10,177**	**103**	**(402)**	**15,793**	**9,775**
Transfers	(2,555)	(2,296)	2,555	2,296	—	—
Special item	—	(55)	—	(27)	—	(82)
Change in net position	13,135	7,826	2,658	1,867	15,793	9,693
Net position, beginning (restated)	**(55,553)**	**(5,822)**	**(1,204)**	**3,450**	**(56,757)**	**(2,372)**
Net position (deficits), ending	**$ (42,418)**	**$ 2,004**	**$ 1,454**	**$ 5,317**	**$ (40,964)**	**$ 7,321**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

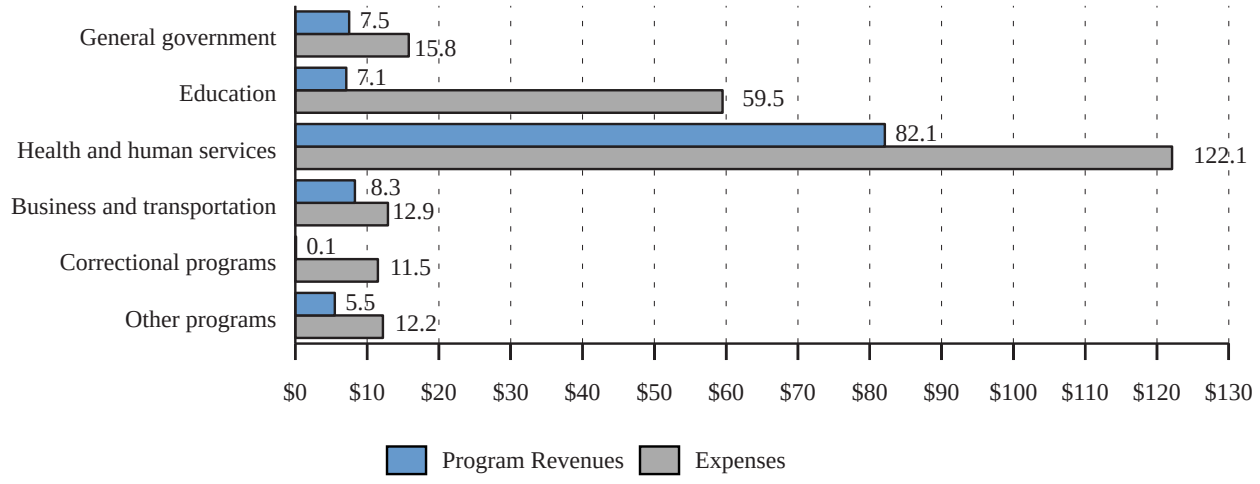
Governmental Activities

During the current fiscal year, the net deficit position for governmental activities improved $13.1 billion over the prior fiscal year's restated amount, for an ending deficit position of $42.4 billion. Governmental activities' expenses and transfers totaled $236.5 billion. Program revenues totaling $110.6 billion, including $86.2 billion received in federal grants, funded 46.7% of expenses and transfers, leaving $125.9 billion to be funded with general revenues (mainly taxes). General revenues for governmental activities totaled $139.0 billion, and the governmental activities' restated beginning net deficit position of $55.5 billion improved to a net deficit position of $42.4 billion for the year ended June 30, 2015, an improvement of $13.1 billion (23.6%).

Chart 2 presents a comparison of governmental activities' expenses to related revenue by program.

Chart 2

Program Revenues and Expenses – Governmental Activities
Year ended June 30, 2015
(amounts in billions)



For the year ended June 30, 2015, total state tax revenues collected for governmental activities increased by $12.8 billion (10.2%) over the prior year. Personal income taxes increased by $9.3 billion (13.5%) as a result of increases in both California's personal income and capital gains realization from favorable stock market and real estate performance. Sales and use tax revenue increased by $1.7 billion (4.8%) due to increases in the State's population and per capita consumption of taxable goods. Corporate taxes increased by $1.6 billion, reflecting an increase in corporate profits and the impact of Proposition 39, which changed the way multistate businesses calculate their California income tax liability.

Overall expenses for governmental activities increased by $24.1 billion (11.5%) over the prior year. The largest increase in expenditures, $17.0 billion (16.2%), occurred in health and human services programs; the majority of the increase is attributable to the Department of Health Care Services, which administers the State's Medi-Cal program. This growth in spending is largely related to continuing increases in Medi-Cal caseload and utilization of services in the second year of the Patient Protection and Affordable Care Act (federal health care reform). The other significant increase, $4.8 billion (8.8%), was in education spending through the Proposition 98 minimum funding guarantee; the increased spending was triggered by higher General Fund revenue.

Charts 3 and 4 present the percentage of total expenses for each governmental activities program and the percentage of total revenues by source.

Chart 3

Expenses by Program
Year ended June 30, 2015
(as a percent)

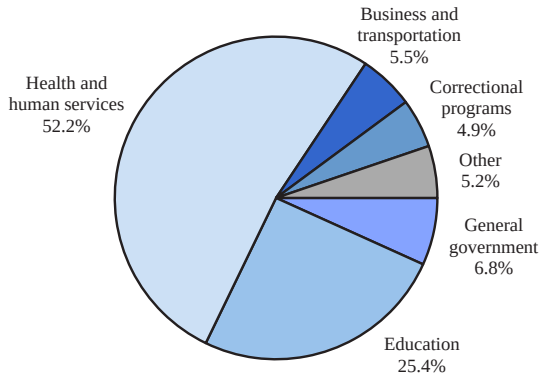
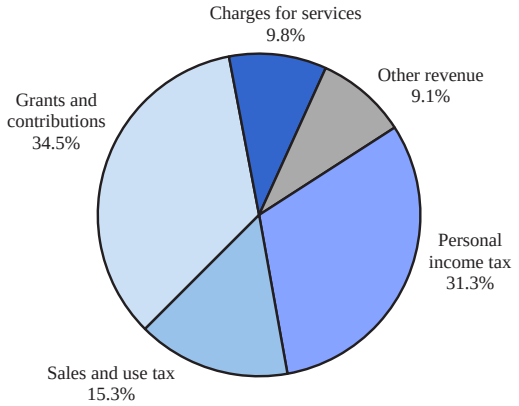


Chart 4

Revenues by Source
Year ended June 30, 2015
(as a percent)



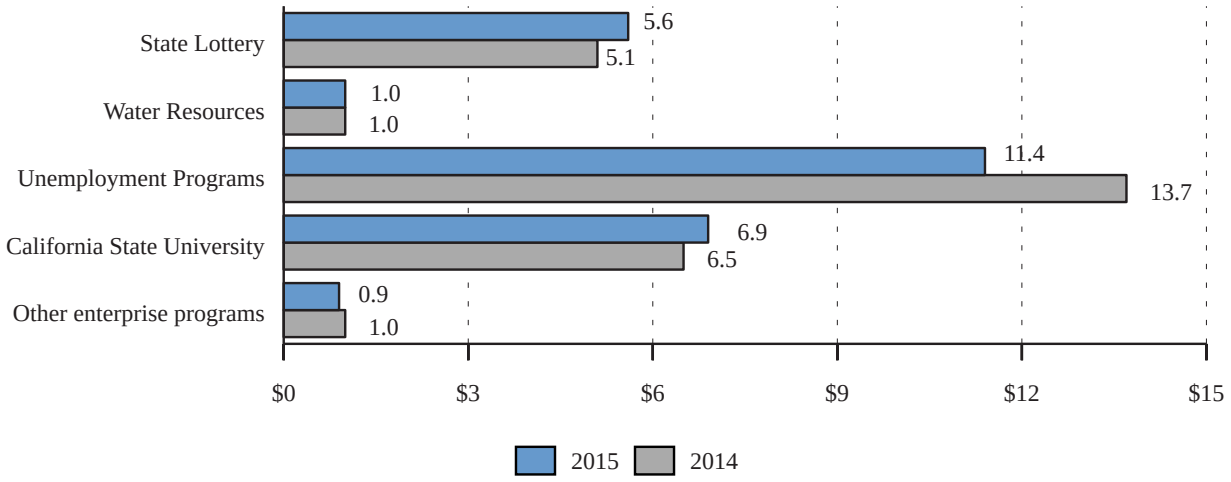
Business-type Activities

Business-type activities' expenses totaled $25.8 billion. Program revenues of $25.9 billion, primarily generated from charges for services, and $2.6 billion in transfers were sufficient to cover these expenses. Consequently, the business-type activities' total net position of $1.5 billion increased by $2.7 billion over the prior-year restated net deficit of $1.2 billion (220.8%) during the year ended June 30, 2015.

Chart 5 presents a two-year comparison of the expenses of the State's business-type activities.

Chart 5

Expenses – Business-type Activities – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)



Fund Financial Analysis

The State's governmental funds' balance increased by $6.3 billion over the prior year's restated ending fund balance. Proprietary funds' net position increased by $2.8 billion for fiscal year 2014-15, of which $2.0 billion was in the Unemployment Programs Fund, reducing its net position deficit to $872 million.

Governmental Funds

The governmental funds' Balance Sheet reported $78.1 billion in assets, $52.0 billion in liabilities and deferred inflows of resources, and $26.1 billion in fund balance as of June 30, 2015. Total assets of governmental funds increased by 5.0%, while total liabilities and deferred inflows of resources decreased by 4.8%, resulting in a total fund balance increase of $6.3 billion (31.5%) over the prior year's restated balance.

Within the governmental funds' total fund balance, $59 million is classified as nonspendable, as this amount consists of long-term interfund receivables, loans receivable, or legal or contractual requirements. Additionally, $26.5 billion is classified as restricted for specific programs by external constraints such as debt covenants and contractual obligations, or by constitutional provisions or enabling legislation. Furthermore, of the total fund balance, $4.2 billion is classified as committed for specific purposes and $17 million is classified as assigned for specific purposes. The unassigned balance of the governmental funds is a negative $4.7 billion.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds reported $249.9 billion in revenues, $248.4 billion in expenditures, and a net $4.7 billion in receipts from other financing sources. The ending fund balance of the governmental funds for the year ended June 30, 2015, was $26.1 billion, a $6.3 billion increase over the prior year's restated ending fund balance of $19.8 billion.

Personal income taxes, which account for 56.3% of tax revenues and 31.3% of total governmental fund revenues, increased by $9.5 billion over the prior fiscal year. Sales and use taxes, which account for 27.6% of tax revenues and 15.4% of total governmental fund revenues, increased by $2.0 billion over the prior fiscal year. Corporation taxes, which account for 7.8% of tax revenues and 4.3% of total governmental fund revenues, increased by $1.5 billion over the prior fiscal year. Governmental fund expenditures increased by $30.0 billion over the prior fiscal year, primarily for education and health and human services. The net other financing source from the issuance of general obligation bonds and commercial paper was $6.7 billion, a decrease of 8.9% from the prior fiscal year.

Chart 6 presents a two-year comparison of governmental funds' tax revenues.

Chart 6

Governmental Funds Tax Revenue – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)

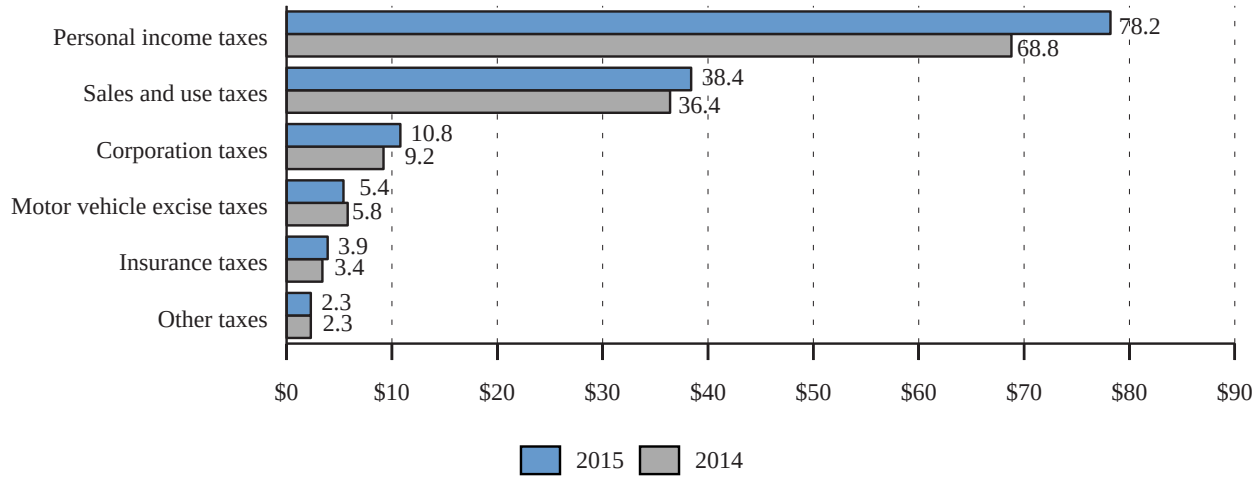
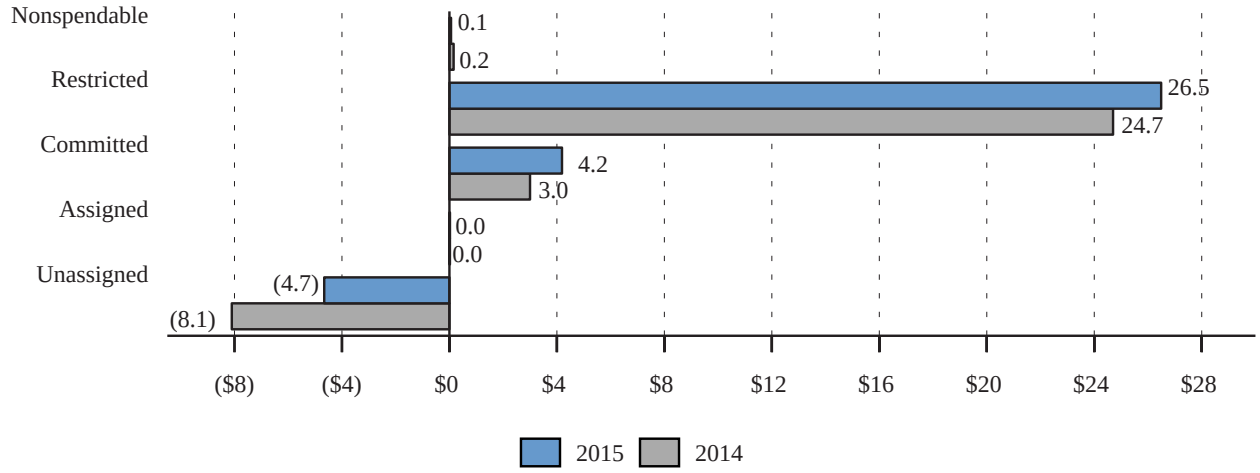


Chart 7 presents a two-year comparison of the components of the governmental funds' balance.

Chart 7

Governmental Funds – Components of Fund Balance – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in billions)



The State's major governmental funds are the General Fund, the Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund. The General Fund ended the fiscal year with a fund deficit of $2.2 billion. The Federal Fund, the Transportation Fund, and the Environmental and Natural Resources Fund ended the fiscal year with fund balances of $218 million, $8.2 billion, and $8.4 billion, respectively. The nonmajor governmental funds ended the fiscal year with a total fund balance of $11.5 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 $22.2 billion; liabilities and deferred inflows of resources of $24.4 billion; and nonspendable, restricted, and committed fund balances of $53 million, $2.3 billion, and $103 million, respectively, leaving the General Fund with a negative unassigned fund balance of $4.7 billion. Total assets of the General Fund increased by $2.8 billion (14.3%) over the prior fiscal year, while the total liabilities and deferred inflows of resources of the General Fund decreased by $2.4 billion (9.1%). The total net fund balance deficit decreased by $5.2 billion (70.1%).

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances, the General Fund had an excess of revenues over expenditures of $9.6 billion ($116.8 billion in revenues and $107.2 billion in expenditures). Approximately $111.3 billion (95.3%) of General Fund revenue is derived from the State's largest three taxes—personal income taxes ($76.9 billion), sales and use taxes ($23.6 billion), and corporation taxes ($10.8 billion). As a result of fund classifications made to comply with generally accepted governmental accounting principles, a total of $336 million in revenue, essentially all from unemployment programs, is included in the General Fund. These revenues are not considered General Fund revenues for any budgetary purposes or for the State's Budgetary/Legal Basis Annual Report.

During the 2014-15 fiscal year, total General Fund revenue increased by $12.6 billion (12.1%). The increase is a result of increases in personal income taxes of $9.3 billion (13.8%), sales and use taxes of $1.4 billion (6.1%), and corporation taxes of $1.5 billion (16.6%).

General Fund expenditures increased by $11.8 billion (12.4%). The largest increases were in education and general government expenditures, which were up $9.7 billion and $1.0 billion, respectively. The General Fund's deficit for the year ended June 30, 2015, was $2.2 billion, an improvement of $5.2 billion over the prior year's ending fund deficit of $7.4 billion.

Federal Fund: The Federal Fund reports federal grant revenues and the related expenditures to support the grant programs. The largest of these programs is for health and human services, which accounted for $73.3 billion (85.8%) of the total $85.4 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, amounting to $7.0 billion (8.3%) of the total. The Federal Fund's revenues increased by $14.8 billion, which was approximately the same amount of increase in the combined expenditures and transfers, resulting in only a $6 million fund balance increase over the prior year's ending fund balance of $212 million.

Transportation Fund: The Transportation Fund accounts for fuel taxes, bond proceeds, and other revenues used primarily for highway and passenger rail construction. The Transportation Fund's revenues decreased by 2.1%, while its expenditures decreased by 2.9%. Other financing sources provided net receipts of $2.6 billion. The Transportation Fund ended the fiscal year with an $8.2 billion fund balance, an increase of $751 million over the prior year.

Environmental and Natural Resources Fund: 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. Other financing sources provided net receipts of $881 million. The Environmental and Natural Resources Fund ended the fiscal year with an $8.4 billion fund balance, an increase of $658 million (8.5%) over the prior year.

Proprietary Funds

The net position at the beginning of the year for many of the State's proprietary funds was restated as a result of the recognition of net pension liabilities associated with the implementation of GASB Statements No. 68 and No. 71. The cumulative impact on the proprietary funds' beginning net position as a result of this implementation was a decrease of $7.3 billion—$6.5 billion for enterprise funds and $791 million for internal service funds.

Enterprise Funds: The total net position of the enterprise funds at June 30, 2015, was $1.5 billion—$2.7 billion greater than the prior year's restated net deficit position of $1.2 billion. The Unemployment Programs Fund had a decrease in its net deficit position of $2.0 billion, while the California State University Fund and nonmajor enterprise funds increased their net positions by $497 million and $156 million, respectively.

As shown on the proprietary funds' Statement of Net Position, total assets and deferred outflows of resources for the enterprise funds were $35.3 billion as of June 30, 2015. Of this amount, current assets totaled $11.5 billion, noncurrent assets totaled $22.7 billion, and deferred outflows of resources totaled $1.1 billion. The total liabilities and deferred inflows of resources for the enterprise funds was $33.8 billion. The three largest liabilities of the enterprise funds are $12.7 billion in revenue bonds payable, $6.2 billion in net pension liability, and $5.7 billion in noncurrent loans payable. During the 2014-15 fiscal year, the State reduced by $1.9 billion the balance of the loans from the U.S. Department of Labor that covered prior-year deficits in the Unemployment Programs Fund leaving a balance of $5.7 billion as of June 30, 2015.

Total net position consisted of four segments: net investment in capital assets of $2.3 billion, a nonexpendable restricted net position of $13 million, a restricted expendable net position of $4.5 billion, and an unrestricted net deficit of $5.4 billion.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Position of proprietary funds, the enterprise funds ended the year with operating revenues of $22.9 billion, operating expenses of $22.9 billion, and net expenses from other transactions of $66 million. The largest sources of operating revenue were unemployment and disability insurance receipts of $13.4 billion in the Unemployment Programs Fund, and lottery ticket sales of $5.5 billion collected by the State Lottery Fund. The unemployment and disability insurance receipts in the Unemployment Programs Fund decreased by $1.8 billion from $15.2 billion in the prior fiscal year. These receipts came primarily from the federal government unemployment account to pay unemployment and disability benefits. The largest operating expenses were distributions of $11.1 billion to beneficiaries by the Unemployment Programs Fund, personal services of $4.2 billion by the California State University Fund, and lottery prizes of $3.5 billion distributed by the State Lottery Fund.

Internal Service Funds: The total net deficit of the internal service funds was $209 million as of June 30, 2015. The net position consists of three segments: net investment in capital assets of $292 million, a restricted expendable net position of $142 million, and an unrestricted net deficit of $642 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 a net position of $6.5 billion. The pension and other employee benefit trust funds ended the fiscal year with a net position of $513.5 billion. The State's only investment trust fund, the Local Agency Investment Fund, ended the fiscal year with a net position of $21.5 billion. Agency funds act as clearing accounts and thus do not have a net position.

For the year ended June 30, 2015, the fiduciary funds' combined net position was $541.5 billion, a $4.2 billion increase over the prior year restated net position. The net position increased primarily because contributions received and investment income in pension and other employee benefit trust funds exceeded payments made to participants.

General Fund Budget Highlights

The original General Fund budget of $101.4 billion was increased by $15.5 billion. This increase is mainly comprised of funding augmentations for education, health and human services, and other general government programs. The Proposition 98 minimum guarantee increased education funding as the result of increased General Fund revenue in the 2014-15 fiscal year. The increase in health and human services program funding is primarily due to the continuing implementation of the Patient Protection and Affordable Care Act, as well as caseload increases and augmentations for program contingencies. As provided in the Budget Act of 2014, sections 3.60 and 6.20, the augmentation for the purpose of state employee compensation and benefits and the reimbursement of mandate-related costs to cities, counties, and special districts increased the funding for the other general government programs. During fiscal year 2014-15, the General Fund actual budgetary basis expenditures were $115.1 billion, or $1.8 billion less than the final budgeted amount of $116.9 billion.

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

Table 3

General Fund Original and Final Budgets
Year ended June 30, 2015
(amounts in millions)

	Original	Final	Increase
Budgeted amounts			
State and consumer services	$ 15	$ 17	$ 2
Business and transportation	9	92	83
Resources	1,151	1,639	488
Health and human services	29,002	30,449	1,447
Correctional programs	9,385	9,913	528
Education	50,061	61,654	11,593
General government:			
Tax relief	417	427	10
Debt service	5,144	5,164	20
Other general government	6,293	7,580	1,287
Total	**$ 101,477**	**$ 116,935**	**$ 15,458**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2015, the State's investment in capital assets for its governmental and business-type activities amounted to $132.4 billion (net of accumulated depreciation/amortization). The State's capital assets include land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction/development in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land use rights, patents, copyrights, and trademarks. Infrastructure assets are items that normally are immovable, such as roads and bridges, and can be preserved for a greater number of years than can most capital assets.

As of June 30, 2015, the State's capital assets increased $7.3 billion, or 5.8% over the prior fiscal year. The majority of the increase occurred in state highway infrastructure, buildings and other depreciable property, and construction/development in progress. Included in the capital assets increase is a $3.6 billion beginning balance restatement, primarily for the understated state highway infrastructure and construction in progress.

Additional information on the State's capital assets can be found in Note 7.

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

Table 4

Capital Assets – Primary Government – Two-year Comparison
June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	$ 19,131	$ 18,258	$ 237	$ 222	$ 19,368	$ 18,480
State highway infrastructure	70,686	65,269	—	—	70,686	65,269
Collections – nondepreciable	23	23	11	7	34	30
Buildings and other depreciable property	28,310	27,554	12,274	11,738	40,584	39,292
Intangible assets – amortizable	1,215	1,091	338	336	1,553	1,427
Less: accumulated depreciation/amortization	(12,668)	(12,150)	(4,939)	(4,581)	(17,607)	(16,731)
Construction/development in progress	16,085	14,858	1,183	764	17,268	15,622
Intangible assets – nonamortizable	419	1,466	116	249	535	1,715
Total	**$ 123,201**	**$ 116,369**	**$ 9,220**	**$ 8,735**	**$ 132,421**	**$ 125,104**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

Modified Approach for Infrastructure Assets

The State has elected to use the modified approach for capitalizing infrastructure assets of the state highway system (state roadways and bridges). Under the modified approach, the State does not report depreciation expense for its roads and bridges but capitalizes all costs that add to their capacity and efficiency. All maintenance and preservation costs are expensed. Under the modified approach, the State maintains an asset management system to demonstrate that the infrastructure is preserved at or above established condition levels. During the 2014-15 fiscal year, the actual amount spent on preservation was 50.4% of the estimated budgeted amount needed to maintain the infrastructure assets at the established condition levels. Although the amount spent fell short of the budgeted amount, the assessed condition of the State's bridges and roadways is better than the established condition baselines with 84.3% of lane miles judged to be of excellent, good, or fair quality in the last completed pavement-condition survey. The State is responsible for maintaining 49,718 lane miles and 13,218 bridges.

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

Debt Administration

At June 30, 2015, the State had total bonded debt outstanding of $112.2 billion. Of this amount, $81.1 billion (72.3%) represents general obligation bonds, which are backed by the full faith and credit of the State. Included in the $81.1 billion of general obligation bonds is $944 million of Economic Recovery bonds that are secured by a pledge of revenues derived from dedicated sales and use taxes and will be fully paid during fiscal year 2015-2016. The current portion of general obligation bonds outstanding is $3.0 billion and the long-term portion is $78.1 billion. The remaining $31.1 billion (27.7%) of bonded debt outstanding represents revenue bonds, which are secured solely by specified revenue sources. The current portion of revenue bonds outstanding is $1.7 billion and the long-term portion is $29.4 billion.

During the fiscal year, the State issued $6.6 billion in new general obligation bonds for children's hospitals; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality and port security; transportation; housing and emergency shelters; local and passenger rail projects; safe drinking water; water quality and supply, flood control, river and coastal protection; medical research; earthquake safety and public building rehabilitation; veterans' homes; high-speed passenger train projects; and to refund previously outstanding general obligation bonds and commercial paper.

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

Table 5

Long-term Obligations – Primary Government – Two-year Comparison
Years ended June 30, 2015 and 2014
(amounts in millions)

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Government-wide noncurrent liabilities						
General obligation bonds	$ 77,527	$ 79,287	$ 579	$ 617	$ 78,106	$ 79,904
Revenue bonds payable	17,739	18,270	11,670	12,070	29,409	30,340
Total bonded debt	95,266	97,557	12,249	12,687	107,515	110,244
Net pension liability/obligation	57,456	3,238	6,249	—	63,705	3,238
Net other postemployment benefits obligation	21,594	18,617	735	628	22,329	19,245
Mandated cost claims payable	2,377	7,715	—	—	2,377	7,715
Loans payable	—	—	5,671	7,633	5,671	7,633
Compensated absences payable	3,681	3,751	188	183	3,869	3,934
Workers compensation benefits payable	3,448	3,291	3	3	3,451	3,294
Capital lease obligations	215	200	1,136	1,180	1,351	1,380
Certificates of participation and commercial paper	482	589	89	51	571	640
Other noncurrent liabilities	2,378	2,563	1,191	1,141	3,569	3,704
Total noncurrent liabilities	**186,897**	**137,521**	**27,511**	**23,506**	**214,408**	**161,027**
Current portion of long-term obligations	5,071	5,807	2,078	1,931	7,149	7,738
Total long-term obligations	**$ 191,968**	**$ 143,328**	**$ 29,589**	**$ 25,437**	**$ 221,557**	**$ 168,765**

Note: Prior-year adjustments recorded in the current year have not been reflected in the prior-year column.

During the 2014-15 fiscal year, the State implemented GASB Statements No. 68 and 71, which resulted in the elimination of the June 30, 2014 net pension obligation of $3.2 billion and the recognition of a net pension liability of $63.7 billion at June 30, 2015—a net increase of $60.5 billion in long-term obligations. All other long-term obligations not associated with pensions decreased by a net $4.0 billion from the prior year. The largest decreases were $4.8 billion in state-mandated cost claims payable, $2.8 billion in general obligation bonds, and $2.0 billion in loans payable to the U.S. Department of Labor for prior-year shortfalls in the unemployment program. The largest increase was $3.1 billion in other postemployment benefit obligations because the State does not fully fund the annual actuarially calculated cost of these benefits.

Note 10, Long-term Obligations; Notes 11 through 16; and Notes 24 and 25 include additional information on the State's long-term obligations.

In November 2014, Standard and Poor's Rating Services raised the State's general obligation rating to "A+" from "A", citing as a motivating factor the November 4, 2014 voter approval of Proposition 2, which strengthens the budget stabilization account. In February 2015, Fitch raised the State's general obligation rating to "A+" from "A", citing the State's continued improvement in its fundamental fiscal position, institutionalized changes to its fiscal operations, and ongoing economic and revenue recovery as contributing to an improved financial position and enhancing the State's ability to address future fiscal challenges.

Economic Condition and Future Budgets

The Economy for the Year Ending June 30, 2015

The U.S. economy completed its sixth year of recovery as California ended its fiscal year on June 30, 2015. California's income growth outperformed that of the nation as a whole during the 2014-15 fiscal year. The State's total personal income increased by 5.5% during the year, compared to the 4.6% increase posted for the U.S. as a whole. As personal income grew, consumer spending also increased, as demonstrated by the 9.9% increase in automobile registrations (an increase from the 6.6% year-over-year increase observed in the 2013-14 fiscal year). During the 2014-15 fiscal year, a total of 1.9 million new vehicle registrations were recorded.

The State's real estate market showed signs of continued strength during the fiscal year. As of June 2015, prices for existing single-family homes were 7.0% higher and sales were up 11% compared to the prior year. Homebuilding continued in California at an accelerated rate, with permits issued during the 2014-15 fiscal year increasing by approximately 10% to nearly 94,000 units. Nonresidential construction increased by 4.1%, with the value of nonresidential permits increasing to $23.5 billion.

California's labor market continued to add jobs during the 2014-15 fiscal year. Total employment for June 2015 rose to 17.8 million jobs, a gain of more than 481,000 jobs from June 2014. Mirroring that increase, the State's unemployment rate fell from 7.5% at June 2014 to 6.3% at June 2015.

Economic Outlook for the 2015-16 Fiscal Year as of December 31, 2015

California's economy continued to improve during the first several months of the fiscal year beginning July 1, 2015. Job gains, falling unemployment, increases in personal income, higher auto sales, and rising construction illustrated the size and scope of this growth.

Employment opportunities in California continued to improve during the first several months of the 2015-16 fiscal year. Seasonally adjusted job growth averaged about 8,900 jobs per month, although the pace of growth slowed somewhat relative to the gains observed during the 2014-15 fiscal year. California's jobless rate continued to fall during the first half of fiscal year 2015-16. By December, it had receded to 5.8% from 6.3% in June 2015.

California's personal income growth continued to outpace that of the nation during the first quarter of fiscal year 2015-16. During that period, the State's total personal income increased by 6.5% over the same period last year, compared to a 4.6% increase nationally. The pace of new car sales continued to increase during the beginning of the 2015-16 fiscal year, with an annual increase of 10.3% for the 12 months ending December 2015.

The housing market continued to show strength during the first half of the 2015-16 fiscal year. As of December 2015, home prices were up 7.8% relative to prices during the same period one year earlier, and the number of sales had increased by 10.7% from the level observed in December 2014. New residential construction accelerated slightly in the first half of the 2015-16 fiscal year. The number of permits for new residential units increased to an annual pace of 95,000 units as of December 2015, an increase of 11.9% compared to the same period last year.

California's 2015-16 Budget

California's 2015-16 Budget Act was enacted on June 24, 2015. The Budget Act appropriated $167.6 billion—$115.4 billion from the General Fund, $45.7 billion from special funds, and $6.5 billion from bond funds. The General Fund's budgeted expenditures increased $896 million, or 0.8% over last year's General Fund budget. The General Fund's revenues were projected to be $115.0 billion after a projected $1.9 billion transfer to the Budget Stabilization Account (Rainy Day Fund). General Fund revenue comes predominantly from taxes, with personal income taxes expected to provide 66.5% of total revenue. California's major taxes (personal income, sales and use, and corporation taxes) are projected to supply approximately 96.9% of the General Fund's resources in the 2015-16 fiscal year.

The spending plan for the 2015-16 fiscal year implemented the first year of Proposition 2, approved by voters in November 2014, which uses spikes in capital gains to save money for the next recession and to pay down the State's debts and unfunded liabilities. Despite the projected $1.9 billion transfer to the Budget Stabilization Account and $1.9 billion allocated for debt reduction, including special fund loan repayments and a partial settle-up of Proposition 98 underfunding, the budget projected a surplus in the General Fund for the fourth consecutive year. The General Fund is projected to end the 2015-16 fiscal year with $4.6 billion in total reserves—$3.5 billion in the Budget Stabilization Account and $1.1 billion reserved for economic uncertainties.

The budget's projected increases in General Fund revenue triggered higher education spending through the Proposition 98 minimum funding guarantees for fiscal year 2015-16. The spending plan included $7.6 billion in both ongoing and one-time Proposition 98 funding increases. The largest ongoing augmentation of $6.0 billion is for the implementation of the Local Control Funding Formula. The budget package also provided one-time augmentations of $3.8 billion for paying down the education mandate claims backlog and $992 million for eliminating the remaining school and community college payment deferrals. The spending plan also increased funding for child care and preschool programs by $423 million (18%) and for the California State University and the University of California by a combined $495 million (8%) over the 2014-15 funding levels.

The 2015-16 spending plan included the adoption of the California Earned Income Tax Credit (EITC), a personal income tax credit that is intended to reduce poverty among California's poorest working families by increasing their after-tax income. For tax year 2015, the first year that the California EITC will be available, an estimated two million individuals will qualify (approximately 825,000 tax returns) with an average credit amount of $460 per return, reducing revenues available to the General Fund by an estimated $380 million in the 2015-16 fiscal year.

The spending plan for the 2015-16 fiscal year included $20.2 billion in General Fund money for health programs, an increase of $715 million (3.7%) over the 2014-15 funding level. This increase primarily addressed increases in both caseload and utilization of services, as well as partially restored funding for In-Home Supportive Services and extended Medi-Cal coverage to previously ineligible residents. The budget also included $125 million in General Fund spending to address the State's aging infrastructure; these funds help address the backlog of deferred-maintenance projects and help state departments reduce the need for costlier new infrastructure.

Since the passage of the Budget Act, General Fund revenues have exceeded estimates used in preparing the budget. As of January 1, 2016, revenues were $884.6 million more than forecasted, while total disbursements were $307 million below estimates. As a result, the General Fund's temporary borrowing was $1.4 billion less than projected, leaving a balance at December 31, 2015, of $11.1 billion in outstanding loans—which for the first time in 15 years is comprised entirely of internal borrowing from special funds rather than external loans such as revenue anticipation notes.

California's 2016-17 Budget

The Governor released his proposed 2016-17 budget on January 7, 2016. The budget restores some previous budget cuts and expands services, but continues to place strong emphasis on building reserves, paying down existing obligations, and restoring and upgrading the State's infrastructure. Although a strengthening economy continues to push revenues higher, the Governor's budget includes provisions for the next recession, as history has shown that the General Fund's major revenue source, personal income taxes, drops precipitously during economic downturns. The budget allocates a significant portion of discretionary resources to increasing total reserves beyond constitutional funding requirements such as those required by Proposition 2 and Proposition 98. The budget projects total reserves of $10.2 billion by the end of the 2016-17 fiscal year—$6.0 billion in the Budget Stabilization Account as required under Proposition 2, $2.2 billion in the General Fund's reserve for economic uncertainties, and an additional optional reserve of $2.0 billion. In addition to the required transfer to the Budget Stabilization Account, Proposition 2 requires that an equivalent amount be used to pay down existing debts and reduce unfunded liabilities in excess of current base amounts. During the 2016-17 fiscal year, the Governor proposes to spend a total of $1.6 billion to repay some of the General Fund's loans from special funds and transportation projects, to partially settle-up previous Proposition 98 underfunding, and to reduce some of the University of California employee pension liabilities.

The 2016-17 Governor's Budget projects that General Fund revenues and transfers will be $120.6 billion and expenditures will be $122.6 billion, leaving an estimated $3.2 billion year-end balance that includes the $2.2 billion reserve for economic uncertainties. In the proposed budget, the General Fund began fiscal year 2015-16 with a surplus balance of $3.7 billion; it is projected to begin fiscal year 2016-17 with a surplus of approximately $5.2 billion. Estimated General Fund revenues and transfers are 2.6% more than the revised 2015-16 estimate of $117.5 billion, while the 2016-17 expenditures are 5.6% greater than the revised 2015-16 estimate of $116.1 billion.

Personal income tax is projected to increase by $2.5 billion (3.1%) over the prior-year revised estimate. This represents a major component of the $3.8 billion General Fund revenue increase. Sales and use taxes are also projected to increase by $0.7 billion (2.8%) and corporation tax by $0.7 billion (6.3%). The budget's projected increases in General Fund revenue trigger higher education spending through the Proposition 98 minimum funding guarantees for both fiscal year 2015-16 and 2016-17. The Governor's budget includes $4.3 billion in additional Proposition 98 spending, with a large portion of the new funding ($2.8 billion) dedicated to augmenting the Local Control Funding Formula. The Governor's budget package also provides $1.4 billion to pay down the backlog of education mandate claims, thereby reducing the State's outstanding Proposition 98 obligations.

The Governor's budget also includes various proposals to improve public infrastructure and reflects many of the proposals that the Governor outlined last summer in his transportation funding package. In the transportation package, the Governor proposed spending $36.0 billion over the next decade to improve the maintenance of the State's highways and roads, expand public transit, and improve critical trade routes. The fiscal year 2016-17 budget commits spending on infrastructure using both General Fund and special fund sources, including $1.5 billion to replace and renovate state office buildings and a $250 million grant program to replace or renovate county jails. The budget also proposes a one-time allocation of $807 million for statewide maintenance projects to address some of the State's $77.0 billion infrastructure deferred-maintenance backlog.

The Governor's budget for the 2016-17 fiscal year includes increased spending for health and human services of $2.1 billion (6.6%), mainly within the Medi-Cal program, for continued implementation of federal health care reform, which has enabled millions of Californians to obtain health care coverage. The 2016-17 budget also proposes a $3.1 billion cap-and-trade expenditure plan to reduce greenhouse gas emissions, sets aside

$350 million for potential increases in employee compensation as a result of the 2016 collective bargaining process, and provides funding for drought-related activities.

According to the Legislative Analyst's Office, California's nonpartisan fiscal and policy advisor, the State may be reaching the peak of its long economic expansion. Planning for the next downturn, which includes setting aside budget reserves, is an important priority. The Governor's emphasis on reserves is prudent, as a large budget reserve is the key to weathering the next recession with minimal disruption to public programs. Additionally, the budget's focus on renovating, adapting, or improving the State's infrastructure to meet current and future needs is appropriate, as much of the State's infrastructure is aging.

Requests for Information

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

Basic Financial Statements

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Government-wide Financial Statements

Statement of Net Position

June 30, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 29,824,636	$ 5,359,824	$ 35,184,460	$ 2,625,369
Amount on deposit with U.S. Treasury	—	11,643	11,643	—
Investments	298,514	2,711,621	3,010,135	7,812,541
Restricted assets:				
Cash and pooled investments	2,356,430	789,320	3,145,750	219,958
Investments	—	—	—	3,304
Due from other governments	—	20,584	20,584	—
Net investment in direct financing leases	97,802	13,915	111,717	—
Receivables (net)	16,894,083	2,128,019	19,022,102	4,098,133
Internal balances	(230,203)	230,203	—	—
Due from primary government	—	—	—	168,660
Due from other governments	17,780,085	289,152	18,069,237	92,938
Prepaid items	115,818	49,767	165,585	1,357
Inventories	78,689	18,385	97,074	207,457
Recoverable power costs (net)	—	108,000	108,000	—
Other current assets	64,849	5,378	70,227	336,872
Total current assets	67,280,703	11,735,811	79,016,514	15,566,589
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	288,505	694,460	982,965	29,185
Investments	—	372,496	372,496	4,700
Loans receivable	—	284,213	284,213	—
Investments	—	1,450,600	1,450,600	25,986,785
Net investment in direct financing leases	929,070	350,760	1,279,830	—
Receivables (net)	1,739,297	348,503	2,087,800	2,521,842
Loans receivable	4,286,114	4,057,580	8,343,694	3,590,232
Recoverable power costs (net)	—	3,770,000	3,770,000	—
Long-term prepaid charges	6,610	1,452,689	1,459,299	—
Capital assets:				
Land	19,130,659	237,295	19,367,954	1,125,463
State highway infrastructure	70,685,662	—	70,685,662	—
Collections – nondepreciable	22,630	11,088	33,718	394,180
Buildings and other depreciable property	28,310,554	12,274,972	40,585,526	46,455,921
Intangible assets – amortizable	1,215,226	337,629	1,552,855	863,343
Less: accumulated depreciation/amortization	(12,667,983)	(4,939,363)	(17,607,346)	(21,852,228)
Construction/development in progress	16,085,342	1,182,567	17,267,909	2,859,030
Intangible assets – nonamortizable	419,274	115,761	535,035	5,098
Other noncurrent assets	—	21,251	21,251	294,902
Total noncurrent assets	130,450,960	22,022,501	152,473,461	62,278,453
Total assets	**197,731,663**	**33,758,312**	**231,489,975**	**77,845,042**
DEFERRED OUTFLOWS OF RESOURCES	**6,127,476**	**1,050,366**	**7,177,842**	**5,706,742**
Total assets and deferred outflows of resources	**$ 203,859,139**	**$ 34,808,678**	**$ 238,667,817**	**$ 83,551,784**

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

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Current liabilities:				
Accounts payable	$ 21,753,559	$ 317,610	$ 22,071,169	$ 2,440,495
Due to component units	168,660	—	168,660	—
Due to other governments	11,437,475	125,000	11,562,475	2
Revenues received in advance	1,452,360	312,303	1,764,663	1,140,375
Tax overpayments	4,385,298	—	4,385,298	—
Deposits	472,920	—	472,920	863,825
Contracts and notes payable	105	—	105	26,518
Unclaimed property liability	773,487	—	773,487	—
Interest payable	1,203,862	67,119	1,270,981	49,787
Securities lending obligations	—	—	—	812,088
Benefits payable	—	474,410	474,410	—
Current portion of long-term obligations	5,070,767	2,077,542	7,148,309	4,137,025
Other current liabilities	672,168	466,770	1,138,938	1,768,877
Total current liabilities	47,390,661	3,840,754	51,231,415	11,238,992
Noncurrent liabilities:				
Loans payable	—	5,670,653	5,670,653	—
Lottery prizes and annuities	—	742,955	742,955	—
Compensated absences payable	3,680,640	188,390	3,869,030	286,796
Workers compensation benefits payable	3,447,670	2,976	3,450,646	410,329
Certificates of participation, commercial paper, and other borrowings	481,885	89,001	570,886	2,424
Capital lease obligations	214,930	1,135,691	1,350,621	463,503
General obligation bonds payable	77,527,575	579,318	78,106,893	—
Revenue bonds payable	17,738,950	11,669,577	29,408,527	19,461,720
Mandated cost claims payable	2,376,998	—	2,376,998	—
Net other postemployment benefits obligation	21,593,644	735,176	22,328,820	9,524,839
Net pension liability	57,456,241	6,248,976	63,705,217	10,814,302
Revenues received in advance	—	13,213	13,213	—
Other noncurrent liabilities	2,378,587	435,137	2,813,724	1,845,620
Total noncurrent liabilities	186,897,120	27,511,063	214,408,183	42,809,533
Total liabilities	**234,287,781**	**31,351,817**	**265,639,598**	**54,048,525**
DEFERRED INFLOWS OF RESOURCES	**11,989,171**	**2,002,482**	**13,991,653**	**5,368,446**
Total liabilities and deferred inflows of resources	**$ 246,276,952**	**$ 33,354,299**	**$ 279,631,251**	**$ 59,416,971**

(continued)

Statement of Net Position (continued)

June 30, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 100,694,652	$ 2,278,252	$ 102,972,904	$ 12,669,964
Restricted:				
Nonexpendable – endowments	—	13,448	13,448	5,537,668
Expendable:				
Endowments and gifts	—	—	—	10,421,237
Business and transportation	11,258,588	6,700	11,265,288	—
Resources	4,349,837	446,898	4,796,735	—
Health and human services	3,565,865	153,730	3,719,595	—
Education	919,856	59,068	978,924	1,757,383
General government	4,165,287	229,275	4,394,562	—
Unemployment programs	—	3,601,837	3,601,837	—
State and consumer services	765,710	22,749	788,459	—
Correctional programs	937	3,239	4,176	—
Indenture	—	—	—	531,976
Statute	—	—	—	1,266,685
Other purposes	1,606,422	—	1,606,422	16,092
Total expendable	26,632,502	4,523,496	31,155,998	13,993,373
Unrestricted	(169,744,967)	(5,360,817)	(175,105,784)	(8,066,192)
Total net position (deficit)	**(42,417,813)**	**1,454,379**	**(40,963,434)**	**24,134,813**
Total liabilities, deferred inflows of resources, and net position	**$ 203,859,139**	**$ 34,808,678**	**$ 238,667,817**	**$ 83,551,784**

(concluded)

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

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Statement of Activities

Year Ended June 30, 2015
(amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 15,804,281	$ 6,502,363	$ 1,016,290	$ —
Education	59,521,018	53,498	7,061,401	—
Health and human services	122,063,805	8,259,696	73,854,732	—
Resources	6,419,591	4,546,413	337,573	—
State and consumer services	903,782	626,960	5,602	—
Business and transportation	12,897,591	4,382,901	2,544,713	1,319,430
Correctional programs	11,483,573	18,557	75,926	—
Interest on long-term debt	4,880,625	—	—	—
Total governmental activities	233,974,266	24,390,388	84,896,237	1,319,430
Business-type activities:				
Electric Power	799,000	799,000	—	—
Water Resources	1,019,378	1,019,378	—	—
State Lottery	5,560,299	5,553,418	—	—
Unemployment Programs	11,390,227	13,402,902	—	—
California State University	6,847,789	3,113,988	1,666,292	—
State Water Pollution Control Revolving	9,082	65,959	—	107,746
Housing Loan	58,280	57,742	—	—
Other enterprise programs	77,475	78,625	—	—
Total business-type activities	25,761,530	24,091,012	1,666,292	107,746
Total primary government	**$ 259,735,796**	**$ 48,481,400**	**$ 86,562,529**	**$ 1,427,176**
Component Units				
University of California	30,859,351	18,629,708	8,695,729	186,836
California Housing Finance Agency	206,703	52,796	—	—
Nonmajor component units	1,963,502	1,009,482	546,288	39,320
Total component units	**$ 33,029,556**	**$ 19,691,986**	**$ 9,242,017**	**$ 226,156**
General revenues:				
Personal income taxes				
Sales and use taxes				
Corporation taxes				
Motor vehicle excise tax				
Insurance taxes				
Other taxes				
Investment and interest				
Escheat				
Other				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position (deficit) – beginning, restated				
Net position (deficit) – ending				

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

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (8,285,628)		$ (8,285,628)	
(52,406,119)		(52,406,119)	
(39,949,377)		(39,949,377)	
(1,535,605)		(1,535,605)	
(271,220)		(271,220)	
(4,650,547)		(4,650,547)	
(11,389,090)		(11,389,090)	
(4,880,625)		(4,880,625)	
(123,368,211)		(123,368,211)	
	$ —	—	
	—	—	
	(6,881)	(6,881)	
	2,012,675	2,012,675	
	(2,067,509)	(2,067,509)	
	164,623	164,623	
	(538)	(538)	
	1,150	1,150	
	103,520	103,520	
$ (123,368,211)	**$ 103,520**	**$ (123,264,691)**	
			$ (3,347,078)
			(153,907)
			(368,412)
			$ (3,869,397)
$ 78,098,865	$ —	$ 78,098,865	$ —
38,224,080	—	38,224,080	—
10,720,647	—	10,720,647	—
5,393,994	—	5,393,994	—
3,926,319	—	3,926,319	—
2,235,498	—	2,235,498	—
58,016	—	58,016	1,464,303
400,807	—	400,807	—
—	—	—	3,069,190
(2,554,970)	2,554,970	—	—
136,503,256	**2,554,970**	**139,058,226**	**4,533,493**
13,135,045	2,658,490	15,793,535	664,096
(55,552,858)	**(1,204,111)**	**(56,756,969)**	**23,470,717**
$ (42,417,813)	**$ 1,454,379**	**$ (40,963,434)**	**$ 24,134,813**

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, 2015
(amounts in thousands)

	General	Federal
ASSETS		
Cash and pooled investments	$ 5,841,755	$ 356,429
Investments	—	—
Receivables (net)	14,395,822	13,474
Due from other funds	1,601,534	—
Due from other governments	239,905	16,977,663
Interfund receivables	46,526	—
Loans receivable	50,058	210,255
Other assets	8,094	—
Total assets	**$ 22,183,694**	**$ 17,557,821**
LIABILITIES		
Accounts payable	$ 1,717,420	$ 1,270,482
Due to other funds	3,941,117	13,662,231
Due to component units	134,328	—
Due to other governments	5,821,371	2,261,320
Interfund payables	5,281,728	—
Revenues received in advance	653,076	114,710
Tax overpayments	4,385,298	—
Deposits	1,299	—
Interest payable	—	1,010
Unclaimed property liability	773,487	—
General obligation bonds payable	—	—
Other liabilities	376,789	17,067
Total liabilities	**23,085,913**	**17,326,820**
DEFERRED INFLOWS OF RESOURCES	**1,326,413**	**13,121**
Total liabilities and deferred inflows of resources	**24,412,326**	**17,339,941**
FUND BALANCES		
Nonspendable	53,431	—
Restricted	2,266,635	217,880
Committed	102,793	—
Assigned	—	—
Unassigned	(4,651,491)	—
Total fund balances (deficit)	**(2,228,632)**	**217,880**
Total liabilites, deferred inflows of resources, and fund balances	**$ 22,183,694**	**$ 17,557,821**

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ 4,411,190	$ 6,570,692	$ 11,403,104	$ 28,583,170
—	—	298,514	298,514
1,053,857	475,990	2,600,372	18,539,515
1,190,006	85,124	900,066	3,776,730
7,860	56,003	485,135	17,766,566
2,952,261	623,097	1,138,895	4,760,779
—	1,330,521	2,695,280	4,286,114
47,840	—	8,914	64,848
$ 9,663,014	**$ 9,141,427**	**$ 19,530,280**	**$ 78,076,236**
$ 354,471	$ 396,527	$ 686,547	$ 4,425,447
146,689	99,142	2,803,333	20,652,512
95	148	34,089	168,660
303,878	50,514	3,474,868	11,911,951
11,096	40,000	8,574	5,341,398
20,600	136,613	172,853	1,097,852
—	—	—	4,385,298
2,920	942	467,074	472,235
—	—	23,246	24,256
—	—	—	773,487
—	—	14,550	14,550
516,524	6,968	120,232	1,037,580
1,356,273	**730,854**	**7,805,366**	**50,305,226**
89,678	**36,726**	**203,043**	**1,668,981**
1,445,951	**767,580**	**8,008,409**	**51,974,207**
—	—	5,620	59,051
8,161,754	5,884,242	9,960,291	26,490,802
55,538	2,491,685	1,543,340	4,193,356
—	—	16,767	16,767
(229)	(2,080)	(4,147)	(4,657,947)
8,217,063	**8,373,847**	**11,521,871**	**26,102,029**
$ 9,663,014	**$ 9,141,427**	**$ 19,530,280**	**$ 78,076,236**

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 Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 26,102,029**

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

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

Land	19,128,347	
State highway infrastructure	70,685,662	
Collections – nondepreciable	22,630	
Buildings and other depreciable property	27,631,704	
Intangible assets – amortizable	1,146,654	
Less: accumulated depreciation/amortization	(12,097,288)	
Construction/development in progress	14,776,655	
Intangible assets – nonamortizable	419,274	
		121,713,638

- State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds. 1,668,981

- Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds. (6,563,306)

- Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position. (3,840,801)

- Deferred inflows and outflows of resources related to pension transactions are not reported in the funds. (6,350,068)

- Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds. 561,539

- General obligation bonds and related accrued interest totaling $77,964,771, revenue bonds totaling $7,023,904, and certificates of participation and commercial paper totaling $493,770 are not due and payable in the current period and are not reported in the funds. (85,482,445)

- The following liabilities are not due and payable in the current period and are not reported in the funds:

Compensated absences	(3,527,945)	
Capital leases	(274,760)	
Net pension liability	(56,753,085)	
Net other postemployment benefits obligation	(21,075,900)	
Mandated cost claims	(2,787,639)	
Workers' compensation	(3,401,590)	
Proposition 98 funding guarantee	(1,256,469)	
Pollution remediation obligations	(1,133,606)	
Other noncurrent liabilities	(16,386)	
		(90,227,380)

Net position of governmental activities	**$ (42,417,813)**

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

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Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2015

(amounts in thousands)

	General	Federal
REVENUES		
Personal income taxes	$ 76,879,115	$ —
Sales and use taxes	23,639,933	—
Corporation taxes	10,780,647	—
Motor vehicle excise taxes	—	—
Insurance taxes	2,456,208	—
Other taxes	690,901	—
Intergovernmental	—	86,202,193
Licenses and permits	8,025	—
Charges for services	298,709	—
Fees	257,260	—
Penalties	590,604	27
Investment and interest	25,412	—
Escheat	400,768	—
Other	749,792	—
Total revenues	**116,777,374**	**86,202,220**
EXPENDITURES		
Current:		
General government	5,225,800	1,015,259
Education	55,130,065	7,048,306
Health and human services	29,547,182	73,303,228
Resources	1,322,656	143,225
State and consumer services	15,781	5,602
Business and transportation	10,728	3,772,675
Correctional programs	9,748,977	56,625
Capital outlay	625,282	—
Debt service:		
Bond and commercial paper retirement	2,390,345	78,090
Interest and fiscal charges	3,146,751	6,199
Total expenditures	**107,163,567**	**85,429,209**
Excess (deficiency) of revenues over (under) expenditures	9,613,807	773,011
OTHER FINANCING SOURCES (USES)		
General obligation bonds and commercial paper issued	—	—
Refunding debt issued	—	—
Payment to refund long-term debt	—	—
Premium on bonds issued	268,740	—
Remarketing bonds issued	—	—
Payment to remarketing agent	—	—
Capital leases	625,282	—
Transfers in	734,875	—
Transfers out	(6,026,740)	(766,705)
Total other financing sources (uses)	**(4,397,843)**	**(766,705)**
Net change in fund balances	5,215,964	6,306
Fund balances (deficit) – beginning	**(7,444,596)**	**211,574**
Fund balances (deficit) – ending	**$ (2,228,632)**	**$ 217,880**

* Restated

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

Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
$ —	$ —	$ 1,366,501	$ 78,245,616
610,124	—	14,139,915	38,389,972
—	—	—	10,780,647
5,393,994	—	—	5,393,994
—	—	1,470,111	3,926,319
5,487	168,474	1,448,013	2,312,875
—	—	1,538,474	87,740,667
4,198,242	380,364	2,684,363	7,270,994
138,981	129,702	282,503	849,895
19,551	2,376,714	6,347,816	9,001,341
44,078	30,185	844,492	1,509,386
19,124	46,398	28,756	119,690
—	—	6,131	406,899
74,042	1,844,862	1,306,448	3,975,144
10,503,623	**4,976,699**	**31,463,523**	**249,923,439**
162,522	106,964	9,691,850	16,202,395
2,919	2,011	769,320	62,952,621
2,759	31,562	19,374,305	122,259,036
185,988	4,093,296	261,281	6,006,446
105,911	74,692	468,788	670,774
10,836,105	265,871	251,838	15,137,217
—	—	1,377,324	11,182,926
—	282,964	111,089	1,019,335
1,063,171	326,213	4,624,561	8,482,380
4,460	15,910	1,300,479	4,473,799
12,363,835	**5,199,483**	**38,230,835**	**248,386,929**
(1,860,212)	(222,784)	(6,767,312)	1,536,510
3,274,250	337,720	731,195	4,343,165
182,295	802,055	4,001,750	4,986,100
(46,070)	(612,325)	(3,106,698)	(3,765,093)
172,522	118,146	557,403	1,116,811
—	—	100,000	100,000
—	—	(100,000)	(100,000)
—	—	—	625,282
28	243,712	4,365,519	5,344,134
(971,974)	(8,660)	(160,675)	(7,934,754)
2,611,051	**880,648**	**6,388,494**	**4,715,645**
750,839	657,864	(378,818)	6,252,155
7,466,224	**7,715,983** *	**11,900,689** *	**19,849,874**
$ 8,217,063	**$ 8,373,847**	**$ 11,521,871**	**$ 26,102,029**

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

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

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ 6,252,155**

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

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

Purchase of assets	5,669,440	
Disposal of assets	(2,264,015)	
Depreciation expense, net of asset disposal	(723,675)	
		2,681,750

- Some revenues in the Statement of Activities do not provide current financial resources, and therefore are unavailable in governmental funds. (325,032)

- Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 120,404

- The issuance of long-term debt instruments provides current financial resources to governmental funds, while the repayment of the principal of long-term debt is an expenditure of governmental funds. Neither transaction, however, has any effect on the Statement of Activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following shows the effect of these differences in the treatment of long-term debt and related items:

	General Obligation Bonds	Revenue Bonds	COPs and Commercial Paper	Total	
Debt issued	(6,713,070)	(1,692,050)	(1,024,145)	(9,429,265)	
Premium on debt issued	(890,443)	(226,368)	—	(1,116,811)	
Accreted interest	—	(42,891)	—	(42,891)	
Principal repayments	7,111,215	242,651	1,128,515	8,482,381	
Payments to refund/remarket long-term debt	1,856,369	2,008,724	—	3,865,093	
Related expenses not reported in governmental funds:					
Premium/discount amortization	208,498	24,335	(46)	232,787	
Deferred gain/loss on refunding	(15,191)	(74,141)	(68)	(89,400)	
Prepaid insurance	—	(11,927)	—	(11,927)	
Accrued interest	899	(80)	—	819	
	1,558,277	228,253	104,256		1,890,786

(continued)

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

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized as expenditures in governmental funds. Once the use of current financal resources is required, expenditures are recognized in governmental funds but are eliminated from the Statement of Activities. In the current period, the net adjustment consist of:

Compensated absences	60,365	
Capital leases	(14,672)	
Net pension liability	382,933	
Net other postemployment benefits obligation	(2,903,353)	
Mandated cost claims	4,927,540	
Workers' compensation	(153,729)	
Proposition 98 funding guarantee	262,999	
Pollution remediation obligations	(51,640)	
Other noncurrent liabilities	4,539	
		2,514,982
Change in net position of governmental activities		**$ 13,135,045**

(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2015

(amounts in thousands)

	Electric Power	Water Resources
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 509,569
Amount on deposit with U.S. Treasury	—	—
Investments	—	—
Restricted assets:		
Cash and pooled investments	752,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	79,935
Due from other funds	4,000	996
Due from other governments	—	37,406
Prepaid items	—	—
Inventories	—	5,160
Recoverable power costs (net)	108,000	—
Other current assets	—	—
Total current assets	864,000	633,066
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	611,000	83,361
Investments	300,000	72,496
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	—
Interfund receivables	—	93,047
Loans receivable	—	14,061
Recoverable power costs (net)	3,770,000	—
Long-term prepaid charges	—	1,440,309
Capital assets:		
Land	—	139,847
Collections – nondepreciable	—	—
Buildings and other depreciable property	—	4,772,373
Intangible assets – amortizable	—	36,808
Less: accumulated depreciation/amortization	—	(2,074,899)
Construction/development in progress	—	626,600
Intangible assets – nonamortizable	—	115,075
Other noncurrent assets	—	—
Total noncurrent assets	4,681,000	5,319,078
Total assets	**5,545,000**	**5,952,144**
DEFERRED OUTFLOWS OF RESOURCES	**144,000**	**219,326**
Total assets and deferred outflows of resources	**$ 5,689,000**	**$ 6,171,470**

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 292,480	$ 3,556,385	$ 343,434	$ 657,956	$ 5,359,824	$ 1,241,466
—	11,643	—	—	11,643	—
93,165	—	2,618,456	—	2,711,621	—
—	—	—	37,320	789,320	2,356,430
—	—	—	20,584	20,584	—
—	—	13,915	—	13,915	466,796
510,582	1,325,458	180,377	31,667	2,128,019	23,549
339	4,356	1,012	1,601	12,304	494,789
—	39,586	—	212,160	289,152	13,519
—	5,223	44,530	14	49,767	115,818
9,941	—	—	3,284	18,385	78,689
—	—	—	—	108,000	—
5,378	—	—	—	5,378	—
911,885	4,942,651	3,201,724	964,586	11,517,912	4,791,056
—	—	99	—	694,460	288,505
—	—	—	—	372,496	—
—	—	—	284,213	284,213	—
846,514	—	586,117	17,969	1,450,600	—
—	—	350,760	—	350,760	6,914,647
—	79,904	268,599	—	348,503	—
—	611,690	—	1,600	706,337	13,955
—	—	85,389	3,958,130	4,057,580	—
—	—	—	—	3,770,000	—
12,380	—	—	—	1,452,689	4,981
9,743	—	86,433	1,272	237,295	2,312
—	—	11,088	—	11,088	—
193,721	22,150	7,268,137	18,591	12,274,972	678,850
—	166,966	132,355	1,500	337,629	68,572
(73,878)	(24,412)	(2,748,541)	(17,633)	(4,939,363)	(570,695)
—	86,302	469,404	261	1,182,567	1,308,687
—	—	686	—	115,761	—
—	—	17,719	3,532	21,251	—
988,480	942,600	6,528,245	4,269,435	22,728,838	8,709,814
1,900,365	**5,885,251**	**9,729,969**	**5,234,021**	**34,246,750**	**13,500,870**
9,648	**24,377**	**648,757**	**4,258**	**1,050,366**	**139,957**
$ 1,910,013	**$ 5,909,628**	**$ 10,378,726**	**$ 5,238,279**	**$ 35,297,116**	**$ 13,640,827**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2015
(amounts in thousands)

	Electric Power	Water Resources
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,344	$ 67,132
Due to other funds	656	45,508
Due to other governments	—	86,900
Revenues received in advance	—	—
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	43,000	11,900
Benefits payable	—	—
Current portion of long-term obligations	750,000	209,386
Other current liabilities	—	939
Total current liabilities	795,000	421,765
Noncurrent liabilities:		
Interfund payables	—	—
Loans payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	854	29,392
Workers' compensation benefits payable	—	—
Certificates of participation, commercial paper, and other borrowings	—	87,901
Capital lease obligations	—	—
General obligation bonds payable	—	135,045
Revenue bonds payable	4,881,000	2,588,108
Net other postemployment benefits obligation	6,146	203,219
Net pension liability	5,000	426,935
Revenues received in advance	—	—
Other noncurrent liabilities	—	218,486
Total noncurrent liabilities	4,893,000	3,689,086
Total liabilities	**5,688,000**	**4,110,851**
DEFERRED INFLOWS OF RESOURCES	**1,000**	**855,191**
Total liabilities and deferred inflows of resources	**5,689,000**	**4,966,042**
NET POSITION		
Net investment in capital assets	—	1,105,692
Restricted:		
Nonexpendable – endowments	—	—
Expendable:		
Construction	—	99,736
Debt service	—	—
Security for revenue bonds	—	—
Lottery	—	—
Unemployment programs	—	—
Other purposes	—	—
Total expendable	—	99,736
Unrestricted	—	—
Total net position (deficit)	**—**	**1,205,428**
Total liabilities, deferred inflows of resources, and net position	**$ 5,689,000**	**$ 6,171,470**

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 52,237	$ 3,679	$ 189,077	$ 4,127	$ 317,596	$ 338,324
359,587	80,840	133	1,728	488,452	132,661
—	38,063	—	37	125,000	451
2,923	25,798	283,549	33	312,303	354,508
—	—	—	—	—	685
—	—	—	—	—	13,986
—	—	—	12,219	67,119	123,108
—	474,410	—	—	474,410	—
600,064	—	473,682	44,410	2,077,542	549,798
205	50,122	415,453	51	466,770	29,176
1,015,016	672,912	1,361,894	62,605	4,329,192	1,542,697
—	—	—	—	—	139,673
—	5,670,653	—	—	5,670,653	—
742,955	—	—	—	742,955	—
—	46,058	103,475	8,611	188,390	157,202
2,396	—	—	580	2,976	46,080
—	—	1,100	—	89,001	—
—	—	1,135,691	—	1,135,691	—
—	—	—	444,273	579,318	—
—	—	3,809,849	390,620	11,669,577	10,583,876
49,146	149,904	313,360	13,401	735,176	517,744
80,716	202,113	5,513,655	20,557	6,248,976	703,156
—	—	13,213	—	13,213	—
—	—	154,370	62,281	435,137	16,327
875,213	6,068,728	11,044,713	940,323	27,511,063	12,164,058
1,890,229	**6,741,640**	**12,406,607**	**1,002,928**	**31,840,255**	**13,706,755**
15,766	**39,875**	**1,086,748**	**3,902**	**2,002,482**	**142,807**
1,905,995	**6,781,515**	**13,493,355**	**1,006,830**	**33,842,737**	**13,849,562**
129,585	251,006	787,972	3,997	2,278,252	291,868
—	—	13,448	—	13,448	—
—	—	7,623	—	107,359	140,534
—	—	6,102	37,320	43,422	1,166
—	—	—	304,797	304,797	—
94,229	—	—	—	94,229	—
—	3,601,837	—	—	3,601,837	—
—	—	45,343	326,509	371,852	—
94,229	3,601,837	59,068	668,626	4,523,496	141,700
(219,796)	(4,724,730)	(3,975,117)	3,558,826	(5,360,817)	(642,303)
4,018	**(871,887)**	**(3,114,629)**	**4,231,449**	**1,454,379**	**(208,735)**
$ 1,910,013	**$ 5,909,628**	**$ 10,378,726**	**$ 5,238,279**	**$ 35,297,116**	**$ 13,640,827**

(concluded)

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

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

Proprietary Funds

Year Ended June 30, 2015

(amounts in thousands)

	Electric Power	Water Resources
OPERATING REVENUES		
Unemployment and disability insurance	$ —	$ —
Lottery ticket sales	—	—
Power sales	(132,000)	91,780
Student tuition and fees	—	—
Services and sales	—	927,598
Investment and interest	—	—
Rent	—	—
Grants and contracts	—	—
Other	—	—
Total operating revenues	**(132,000)**	**1,019,378**
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	(144,000)	202,780
Personal services	—	320,684
Supplies	—	—
Services and charges	12,000	83,943
Depreciation	—	81,495
Scholarships and fellowships	—	—
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization (recovery) of long-term prepaid charges	—	—
Other	—	—
Total operating expenses	**(132,000)**	**688,902**
Operating income (loss)	—	330,476
NONOPERATING REVENUES (EXPENSES)		
Donations and grants	—	—
Private gifts	—	—
Investment and interest income	931,000	—
Interest expense and fiscal charges	(931,000)	(96,082)
Lottery payments for education	—	—
Other	—	(234,394)
Total nonoperating revenues (expenses)	**—**	**(330,476)**
Income (loss) before capital contributions and transfers	—	—
Capital contributions	—	—
Transfers in	—	—
Transfers out	—	—
Change in net position	—	—
Total net position (deficit) – beginning	**—**	**1,205,428**
Total net position (deficit) – ending	**$ —**	**$ 1,205,428**

*Restated

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ —	$ 13,394,669	$ —	$ —	$ 13,394,669	$ —
5,524,851	—	—	—	5,524,851	—
—	—	—	—	(40,220)	—
—	—	2,149,786	—	2,149,786	—
—	—	493,790	87,486	1,508,874	2,927,077
—	—	—	107,946	107,946	8,343
—	—	—	176	176	454,488
—	—	99,546	—	99,546	—
—	—	194,216	5,437	199,653	—
5,524,851	**13,394,669**	**2,937,338**	**201,045**	**22,945,281**	**3,389,908**
3,501,746	—	—	—	3,501,746	—
—	—	—	—	58,780	—
70,482	166,147	4,201,095	43,154	4,801,562	753,850
16,435	—	1,261,999	32,968	1,311,402	11,926
563,997	83,463	—	33,107	776,510	1,967,059
8,950	7,936	279,039	342	377,762	52,623
—	—	888,558	—	888,558	—
—	11,132,681	—	—	11,132,681	—
—	—	—	33,726	33,726	493,209
—	—	—	—	—	3,347
—	—	—	752	752	23,429
4,161,610	**11,390,227**	**6,630,691**	**144,049**	**22,883,479**	**3,305,443**
1,363,241	2,004,442	(3,693,353)	56,996	61,802	84,465
—	—	1,666,292	—	1,666,292	—
—	—	48,060	—	48,060	—
28,514	8,233	42,851	1,281	1,011,879	905
(34,147)	—	(217,098)	(293)	(1,278,620)	(18)
(1,364,542)	—	—	—	(1,364,542)	—
53	—	85,739	(495)	(149,097)	(598)
(1,370,122)	**8,233**	**1,625,844**	**493**	**(66,028)**	**289**
(6,881)	2,012,675	(2,067,509)	57,489	(4,226)	84,754
—	—	—	107,746	107,746	—
—	—	2,564,182	—	2,564,182	100,102
—	—	—	(9,212)	(9,212)	(64,452)
(6,881)	2,012,675	496,673	156,023	2,658,490	120,404
10,899 *	**(2,884,562)** *	**(3,611,302)** *	**4,075,426** *	**(1,204,111)**	**(329,139)** *
$ 4,018	**$ (871,887)**	**$ (3,114,629)**	**$ 4,231,449**	**$ 1,454,379**	**$ (208,735)**

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

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2015

(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ (133,000)	$ 949,100
Receipts from interfund services provided	—	—
Payments to suppliers	(19,000)	(283,286)
Payments to employees	(2,000)	(320,684)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	227,000	2,647
Net cash provided by (used in) operating activities	**73,000**	**347,777**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in interfund payables and loans payable	—	—
Receipt of bond charges	905,000	—
Proceeds from general obligation bonds	—	—
Proceeds from revenue bonds	1,000	—
Retirement of general obligation bonds	—	—
Retirement of revenue bonds	(618,000)	—
Payment to advance refund escrow agent	(29,000)	—
Interest paid	(268,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Lottery payments for education	—	—
Other	—	1,170
Net cash provided by (used in) noncapital financing activities	**(9,000)**	**1,170**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	—	(227,636)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	191,229
Principal paid on notes payable and commercial paper	—	(139,465)
Proceeds from capital leases	—	—
Payment on capital debt and leases	—	—
Retirement of general obligation bonds	—	(56,875)
Proceeds from revenue bonds	—	246,873
Retirement of revenue bonds	—	(115,580)
Interest paid	—	(210,661)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**(312,115)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(100,866)
Proceeds from maturity and sale of investments	—	100,866
Earnings on investments	19,000	6,392
Net cash provided by (used in) investing activities	**19,000**	**6,392**
Net increase (decrease) in cash and pooled investments	83,000	43,224
Cash and pooled investments – beginning	**1,280,000**	**549,706**
Cash and pooled investments – ending	**$ 1,363,000**	**$ 592,930**

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 5,438,883	$ 13,291,997	$ 2,663,953	$ 343,050	$ 22,553,983	$ 31,908
—	—	—	1,409	1,409	3,805,178
(212,083)	(83,465)	(1,349,332)	(53,850)	(2,001,016)	(1,680,718)
(56,155)	(160,179)	(4,307,055)	(36,620)	(4,882,693)	(652,097)
(17,933)	(22,463)	—	(425)	(40,821)	—
(3,653,071)	—	—	—	(3,653,071)	—
(380,341)	(11,140,667)	—	—	(11,521,008)	(363,352)
244,862	73,216	(681,633)	(362,234)	(496,142)	(538,546)
1,364,162	**1,958,439**	**(3,674,067)**	**(108,670)**	**(39,359)**	**602,373**
—	(1,962,738)	2,332	—	(1,960,406)	1,124
—	—	—	—	905,000	—
—	—	—	110,000	110,000	—
—	—	96,341	—	97,341	—
—	—	—	(77,455)	(77,455)	—
—	—	(91,496)	(25,960)	(735,456)	—
—	—	—	—	(29,000)	—
—	—	(15,607)	(1,717)	(285,324)	(18)
—	—	2,564,182	—	2,564,182	100,102
—	—	—	(9,212)	(9,212)	(64,452)
—	—	1,857,365	106,889	1,964,254	—
(1,347,102)	—	—	—	(1,347,102)	—
—	—	53,753	4,000	58,923	1,819
(1,347,102)	**(1,962,738)**	**4,466,870**	**106,545**	**1,255,745**	**38,575**
(43,206)	(2,047)	(458,210)	(495)	(731,594)	(1,351,051)
39	—	2,363	—	2,402	780
—	—	—	—	191,229	—
—	—	—	—	(139,465)	—
—	—	3,994	—	3,994	—
—	—	(491,404)	—	(491,404)	—
—	—	—	—	(56,875)	—
—	—	911,531	—	1,158,404	840,614
—	—	(468,954)	—	(584,534)	(982,847)
—	—	—	—	(210,661)	—
—	—	15,046	—	15,046	—
(43,167)	**(2,047)**	**(485,634)**	**(495)**	**(843,458)**	**(1,492,504)**
(134,891)	—	(9,189,606)	(3,000)	(9,428,363)	—
115,983	13,572	8,757,747	10,233	8,998,401	—
21,234	8,233	22,163	1,272	78,294	885
2,326	**21,805**	**(409,696)**	**8,505**	**(351,668)**	**885**
(23,781)	15,459	(102,527)	5,885	21,260	(850,671)
316,261	**3,540,926**	**446,060**	**689,391**	**6,822,344**	**4,737,072**
$ 292,480	**$ 3,556,385**	**$ 343,533**	**$ 695,276**	**$ 6,843,604**	**$ 3,886,401**

(continued)

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

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2015

(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ —	$ 330,476
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	—	81,495
Provisions and allowances	—	—
Amortization of premiums and discounts	—	—
Amortization of long-term prepaid charges and credits	—	(469,142)
Other	—	2,647
Change in account balances:		
Receivables	—	(44,866)
Due from other funds	—	—
Due from other governments	—	2,023
Prepaid items	—	—
Inventories	—	43
Net investment in direct financing leases	—	—
Recoverable power costs (net)	75,000	—
Other current assets	—	—
Loans receivable	—	—
Deferred outflow of resources	1,000	—
Accounts payable	(4,000)	446,542
Due to other funds	—	(2,616)
Due to component units	—	—
Due to other governments	—	1,175
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	—	—
Revenues received in advance	—	—
Other current liabilities	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	1,000	—
Other noncurrent liabilities	—	—
Deferred inflow of resources	—	—
Total adjustments	73,000	17,301
Net cash provided by (used in) operating activities	**$ 73,000**	**$ 347,777**
Noncash investing, capital, and financing activities:		
Interest accreted on annuitized prizes	$ —	$ —
Interest accreted on zero coupon bonds	—	—
Unclaimed lottery prizes directly allocated to another entity	—	—
Long-term debt retirement from bond issuance	—	689,780
Contributed capital assets	—	—
Change in accrued capital asset purchases	—	—
Amortization of bond premium and discount	80,000	15,614
Amortization of deferred loss on refundings	22,000	10,000
Bond proceeds paid directly to advance refund escrow agent	917,000	—
Accrued interest on refunded revenue bonds	20,000	—
Other miscellaneous noncash transactions	2,000	—

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 1,363,241	$ 2,004,442	$ (3,693,353)	$ 56,996	$ 61,802	$ 84,465
8,950	7,936	279,039	342	377,762	52,623
1,013	—	—	(46)	967	—
—	—	—	280	280	(61,129)
—	—	—	—	(469,142)	820
14	—	(89,941)	(16,582)	(103,862)	30,412
(108,055)	(65,453)	(27,696)	127	(245,943)	84,360
—	27,026	1,012	116	28,154	41,320
—	477	—	1,866	4,366	7,430
3,802	—	(5,528)	3,299	1,573	(8,098)
(2,455)	—	—	(160)	(2,572)	(1,989)
—	—	—	—	—	417,111
—	—	—	—	75,000	—
(74)	—	—	181	107	—
—	—	—	(154,220)	(154,220)	—
(2,304)	(6,062)	(94,812)	(572)	(102,750)	(3,694)
(1,205)	(2)	(6,657)	906	435,584	(64,093)
(8,839)	31,740	—	461	20,746	(58,957)
—	—	—	—	—	87
—	(5,365)	—	30	(4,160)	(544)
—	—	84	—	84	256
—	—	—	—	—	(1,216)
—	—	—	856	856	4,164
(56)	(37,219)	29,766	4	(7,505)	39,486
37	(3,125)	(4,434)	(2,425)	(9,947)	(10,726)
—	(7,986)	27,136	666	19,816	3,215
93,485	—	—	—	93,485	—
—	(5,370)	12,934	5,823	14,387	(9,514)
842	(22,475)	(1,188,361)	(10,311)	(1,220,305)	(86,223)
15,766	39,875	1,086,744	3,693	1,146,078	142,807
921	(46,003)	19,286	(165,666)	(101,161)	517,908
$ 1,364,162	**$ 1,958,439**	**$ (3,674,067)**	**$ (108,670)**	**$ (39,359)**	**$ 602,373**
					(concluded)
$ 34,147	$ —	$ —	$ —	$ 34,147	$ —
15,425	—	—	—	15,425	—
27,177	—	—	—	27,177	—
—	—	—	—	689,780	—
—	—	36,232	—	36,232	—
—	—	10,605	—	10,605	—
—	—	17,545	—	113,159	—
—	—	5,699	—	37,699	—
—	—	—	—	917,000	—
—	—	—	—	20,000	—
(7,490)	—	8,363	3,977	6,850	—

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

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2015

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust: Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 101,928	$ 2,940,340	$ 21,504,127	$ 4,827,693
Investments, at fair value:				
Short-term	—	12,707,656	—	—
Equity securities	3,349,734	268,578,798	—	—
Debt securities	2,031,408	115,764,947	—	—
Real estate	198,961	57,568,471	—	—
Other	849,852	57,427,128	—	—
Securities lending collateral	—	28,888,660	—	—
Total investments	6,429,955	540,935,660	—	—
Receivables (net)	10,477	5,926,837	—	1,926,646
Due from other funds	9,849	608,354	—	16,371,599
Due from other governments	—	3,129	—	33,856
Prepaid items	—	—	—	26,492
Loans receivable	—	35,558	—	6,459
Other assets	155,984	932,630	—	89
Total assets	**6,708,193**	**551,382,508**	**21,504,127**	**$ 23,192,834**
DEFERRED OUTFLOWS OF RESOURCES	**—**	**16,501**	**—**	
Total assets and deferred outflows of resources	**6,708,193**	**551,399,009**	**21,504,127**	
LIABILITIES				
Accounts payable	39,809	3,801,498	29	$ 14,886,579
Due to other governments	—	1,184	14,950	5,628,542
Tax overpayments	—	—	—	1,100
Benefits payable	—	2,821,114	—	—
Revenues received in advance	—	—	—	27,336
Deposits	155,984	—	—	1,151,203
Securities lending obligations	—	28,897,720	—	—
Loans payable	—	1,447,405	—	—
Other liabilities	8,737	919,688	—	1,498,074
Total liabilities	**204,530**	**37,888,609**	**14,979**	**$ 23,192,834**
DEFERRED INFLOWS OF RESOURCES	**—**	**27,234**	**—**	
Total liabilities and deferred inflows of resources	**204,530**	**37,915,843**	**14,979**	
NET POSITION				
Restricted for pension benefits, pool participants, and other employee benefits	**$ 6,503,663**	**$ 513,483,166**	**$ 21,489,148**	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2015

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 14,750,955	$ —
Plan member	—	7,365,689	—
Non-employer	—	1,425,796	—
Total contributions	—	23,542,440	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	(155,564)	9,012,090	—
Interest, dividends, and other investment income	319,385	7,079,959	54,171
Less: investment expense	(3,832)	(1,399,844)	—
Net investment income	159,989	14,692,205	54,171
Receipts from depositors	3,254,403	—	21,814,940
Other	—	46,129	—
Total additions	**3,414,392**	**38,280,774**	**21,869,111**
DEDUCTIONS			
Distributions paid and payable to participants	—	32,818,765	52,505
Refunds of contributions	—	337,913	—
Administrative expense	—	520,134	1,666
Payments to and for depositors	3,051,624	1,182,770	21,445,867
Total deductions	**3,051,624**	**34,859,582**	**21,500,038**
Change in net position	362,768	3,421,192	369,073
Net position – beginning	**6,140,895**	**510,061,974 ***	**21,120,075**
Net position – ending	**$ 6,503,663**	**$ 513,483,166**	**$ 21,489,148**

* Restated

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Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2015

(amounts in thousands)

	University of California	California Housing Finance Agency
ASSETS		
Current assets:		
Cash and pooled investments	$ 357,200	$ 1,118,938
Investments	7,328,527	61,762
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Receivables (net)	3,496,109	177,151
Due from primary government	167,349	—
Due from other governments	92,938	—
Prepaid items	—	429
Inventories	207,457	—
Other current assets	243,475	34,582
Total current assets	11,893,055	1,392,862
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	—	—
Investments	—	—
Investments	23,800,070	288,083
Receivables (net)	2,301,059	—
Loans receivable	—	3,292,045
Long-term prepaid charges	—	—
Capital assets:		
Land	972,954	—
Collections – nondepreciable	384,221	—
Buildings and other depreciable property	44,441,009	1,546
Intangible assets – amortizable	853,032	—
Less: accumulated depreciation/amortization	(20,835,110)	(792)
Construction in progress	2,826,673	—
Intangible assets – nonamortizable	—	—
Other noncurrent assets	233,814	14,954
Total noncurrent assets	54,977,722	3,595,836
Total assets	**66,870,777**	**4,988,698**
DEFERRED OUTFLOWS OF RESOURCES	**5,651,870**	**28,302**
Total assets and deferred outflows of resources	**$ 72,522,647**	**$ 5,017,000**

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

Nonmajor Component Units	Total
$ 1,149,231	$ 2,625,369
422,252	7,812,541
219,958	219,958
3,304	3,304
424,873	4,098,133
1,311	168,660
—	92,938
928	1,357
—	207,457
58,815	336,872
2,280,672	15,566,589
29,185	29,185
4,700	4,700
1,898,632	25,986,785
220,783	2,521,842
298,187	3,590,232
—	—
152,509	1,125,463
9,959	394,180
2,013,366	46,455,921
10,311	863,343
(1,016,326)	(21,852,228)
32,357	2,859,030
5,098	5,098
46,134	294,902
3,704,895	62,278,453
5,985,567	**77,845,042**
26,570	**5,706,742**
$ 6,012,137	**$ 83,551,784**

(continued)

Statement of Net Position (continued)

Discretely Presented Component Units – Enterprise Activity

June 30, 2015

(amounts in thousands)

	University of California	California Housing Finance Agency
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,670,011	$ 74,183
Due to other governments	—	—
Revenues received in advance	1,065,978	—
Deposits	640,955	221,569
Contracts and notes payable	—	—
Interest payable	—	48,180
Securities lending obligations	812,088	—
Current portion of long-term obligations	3,788,795	59,596
Other current liabilities	1,649,966	218
Total current liabilities	9,627,793	403,746
Noncurrent liabilities:		
Compensated absences payable	274,373	—
Workers' compensation benefits payable	353,138	—
Certificates of participation, commercial paper, and other borrowings	—	—
Capital lease obligations	109,596	—
Revenue bonds payable	16,300,896	2,860,893
Net other postemployment benefits obligation	9,390,079	25,756
Net pension liability	10,670,953	43,722
Other noncurrent liabilities	1,183,147	225,358
Total noncurrent liabilities	38,282,182	3,155,729
Total liabilities	**47,909,975**	**3,559,475**
DEFERRED INFLOWS OF RESOURCES	**5,329,276**	**8,230**
Total liabilities and deferred inflows of resources	**53,239,251**	**3,567,705**
NET POSITION		
Net investment in capital assets	12,138,049	754
Restricted:		
Nonexpendable – endowments	4,533,644	—
Expendable:		
Endowments and gifts	10,411,034	—
Education	824,786	—
Indenture	—	531,976
Employee benefits	—	—
Workers' compensation liability	—	—
Statute	—	984,897
Other purposes	—	—
Total expendable	11,235,820	1,516,873
Unrestricted	(8,624,117)	(68,332)
Total net position	**19,283,396**	**1,449,295**
Total liabilities, deferred inflows of resources, and net position	**$ 72,522,647**	**$ 5,017,000**

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

Nonmajor Component Units	Total
$ 696,301	$ 2,440,495
2	2
74,397	1,140,375
1,301	863,825
26,518	26,518
1,607	49,787
—	812,088
288,634	4,137,025
118,693	1,768,877
1,207,453	11,238,992
12,423	286,796
57,191	410,329
2,424	2,424
353,907	463,503
299,931	19,461,720
109,004	9,524,839
99,627	10,814,302
437,115	1,845,620
1,371,622	42,809,533
2,579,075	**54,048,525**
30,940	**5,368,446**
2,610,015	**59,416,971**
531,161	12,669,964
1,004,024	5,537,668
10,203	10,421,237
932,597	1,757,383
—	531,976
—	—
—	—
281,788	1,266,685
16,092	16,092
1,240,680	13,993,373
626,257	(8,066,192)
3,402,122	**24,134,813**
$ 6,012,137	**$ 83,551,784**

(concluded)

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

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2015

(amounts in thousands)

	University of California	California Housing Finance Agency
OPERATING EXPENSES		
Personal services	$ 18,565,392	$ 28,868
Scholarships and fellowships	547,072	—
Supplies	2,876,444	—
Services and charges	273,042	18,329
Department of Energy laboratories	1,228,125	—
Depreciation	1,697,915	243
Interest expense and fiscal charges	662,514	89,960
Grants provided	827,466	—
Other	4,181,381	69,303
Total operating expenses	**30,859,351**	**206,703**
PROGRAM REVENUES		
Charges for services	18,629,708	52,796
Operating grants and contributions	8,695,729	—
Capital grants and contributions	186,836	—
Total program revenues	**27,512,273**	**52,796**
Net revenues (expenses)	(3,347,078)	(153,907)
GENERAL REVENUES		
Investment and interest income	1,191,968	239,262
Other	2,630,580	15,299
Total general revenues	**3,822,548**	**254,561**
Change in net position	475,470	100,654
Net position – beginning	**18,807,926**	**1,348,641** *
Net position – ending	**$ 19,283,396**	**$ 1,449,295**

* Restated

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

Nonmajor Component Units		Total
$ 505,912		$ 19,100,172
52,270		599,342
11,221		2,887,665
1,205,843		1,497,214
—		1,228,125
72,173		1,770,331
31,840		784,314
—		827,466
84,243		4,334,927
1,963,502		**33,029,556**
1,009,482		19,691,986
546,288		9,242,017
39,320		226,156
1,595,090		**29,160,159**
(368,412)		(3,869,397)
33,073		1,464,303
423,311		3,069,190
456,384		**4,533,493**
87,972		664,096
3,314,150	*	**23,470,717**
$ 3,402,122		**$ 24,134,813**

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Notes to the Financial Statements – Index

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Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the year ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68,* both effective for the fiscal year ended June 30, 2015. The primary objective of these statements is to improve accounting and financial reporting by state and local governments for pensions. These statements establish standards for measuring and recognizing net pension liability, deferred outflows of resources, deferred inflows of resources, and expenses related to the State's defined benefit pension plans administered by the California Public Employees' Retirement System. These statements also address the circumstances in which the State, as a non-employer entity, has a legal requirement to make contributions directly to the California State Teachers' Retirement System's pension plans in accordance with provisions of the California Education Code. In addition, these statements necessitate new note disclosures and required supplementary information related to pension plans.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the fiscal year ended June 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement provides guidance for the following government combinations: (a) mergers of legally separate entities in which no significant consideration is exchanged, (b) acquisitions in which a government acquires another entity or the operations of another entity in exchange for significant consideration, and (c) transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. In addition, this statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

A. Reporting Entity

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

1. Blended Component Units

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

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

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. The GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. The GSTSC's financial activity is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 95814.

2. Fiduciary Component Units

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

The *California Public Employees' Retirement System (CalPERS)* administers pension plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee 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 Plan, and the public employee Supplemental Contributions Program Fund. CalPERS' separately issued financial statements may be found on its website at www.CalPERS.ca.gov.

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

3. Discretely Presented Component Units

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

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

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to finance 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 the executive director, who administers the day-to-day operations. CalHFA's financial statements may be found on its website at www.CalHFA.ca.gov.

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

The nonmajor consolidated component units segments are:

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

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

- The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;

- The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements; and

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

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the State (the district agricultural association's financial report is as of and for the year ended December 31, 2014).

Other component units, which include the following entities:

- The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;

- The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

- The *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

4. Joint Venture

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

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city, and is administered by a board of five members—two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2015, CADA had total assets and deferred outflows of resources of $32.6 million, total liabilities and deferred inflows of resources of $22.9 million, and total net position of $9.7 million. Total revenues for the fiscal year were $10.5 million and expenses were $9.2 million, resulting in an increase in net position of $1.3 million. As the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained from the Capitol Area Development Authority, 1522 14th Street, Sacramento, California 95814-5958 or on its website at www.cadanet.org.

5. Related Organizations

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

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

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

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

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

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

The *California Health Facilities Financing Authority (CHFFA)* was established by the State through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CHFFA, the

financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, contact the State Treasurer's Office, 915 Capitol Mall, Suite 590, Sacramento, California 95814 or go to its website at www.treasurer.ca.gov/chffa.

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

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board of state officials governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, contact the State Treasurer's Office, 300 South Spring Street, Suite 8500, Los Angeles, California 90013 or go to its website at www.treasurer.ca.gov/csfa.

B. Government-wide and Fund Financial Statements

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

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

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

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

The State reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

The State reports the following major enterprise funds:

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

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

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

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

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

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

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

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

The State has the following four fiduciary fund types:

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

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

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

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

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

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

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds,

typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

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

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

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

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

2. Fund Financial Statements

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

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

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

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

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

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

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

D. Cash and Investments

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

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments can be found in Note 3, Deposits and Investments. For fiduciary funds and similar component units, pension investments are reported at fair market value.

E. Receivables

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

F. Inventories

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

G. Net Investment in Direct Financing Leases

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

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

H. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges are recognized when billed in the future years under the terms of water supply contracts. The long-term prepaid charges for the Public Buildings Construction Fund include prepaid insurance costs on revenue bonds issued. Long-term prepaid charges are also included in the State Lottery Fund and nonmajor enterprise funds. These prepaid charges are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts. In the government-wide financial statements, the prepaid charges for governmental activities include prepaid insurance costs on revenue bonds issued.

I. Capital Assets

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

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

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

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

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

annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

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

J. Long-term Obligations

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

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. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

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

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

K. Compensated Absences

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

proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

L. Deferred Outflows and Deferred Inflows of Resources

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

1. Deferred Outflows of Resources

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

Deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.
- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for component units.
- *Net Pension Liability*: Increases in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred outflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and increases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized in pension expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period. Employer contributions, and state contributions in the case of CalSTRS' special funding situation, made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and reduce net pension liability in the following year. Deferred outflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

2. Deferred Inflows of Resources

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

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

- *Unavailable Revenues*: Governmental funds report deferred inflows of resources for earned and measurable revenue from long-term receivables that is not available within 12 months of the end of the reporting period. These deferred amounts are recognized as revenue in the periods that they become available.

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- *Service Concession Arrangements*: The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.

- *Net Pension Liability*: Reductions in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred inflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and decreases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized against pension expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on pension plan investments exceed projected earnings, with the net difference amortized against pension expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position.

M. Abnormal Account Balances

In the 2014-15 fiscal year, the Water Resources Electric Power Fund had a net refund of $132 million in power charges revenue. The refund resulted from lower power sales, return of prior year over-collection, and return of reserves as lower levels of reserve were required. During the 2014-15 fiscal year, the fund returned $183 million through adjustments to power charges and through separate monthly payments to its ratepayers.

N. Nonmajor Enterprise Segment Information

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

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

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

O. Net Position and Fund Balance

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

1. Net Position

The government-wide financial statements include the following categories of net position:

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

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2015, the government-wide financial statements show restricted net position for the primary government of $31.2 billion, of which $7.2 billion is due to enabling legislation.

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

2. Fund Balance

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

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

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

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by state law as adopted by the California State Legislature. The state law that commits fund balance to a specific purpose must have been adopted 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 incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

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

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

3. Budget Stabilization Account

In accordance with Article 16, Section 20 of the California State Constitution, the State maintains the Budget Stabilization Account. The Budget Stabilization Account is reported in the General Fund. By October 1 of each fiscal year, a transfer must be made from the General Fund to the Budget Stabilization Account in an amount equal to one-half of (a) 1.5% of the estimated General Fund revenues for that fiscal year and (b) personal capital gains tax revenues in excess of 8% of estimated General Fund taxes for that fiscal year less amounts that must be spent on Proposition 98. The remaining half of the calculated amount is used as appropriated by the State Legislature to pay down (1) interfund loans, (2) specified debts to local governments, and (3) debts for pension and retiree health benefits.

The State Legislature may suspend or reduce the transfer to or withdraw funds from the Budget Stabilization Account if the Governor declares a budget emergency. For this purpose, budget emergency means either (1) a natural disaster or other event that creates a condition of extreme peril to the safety of persons or property, or (2) there is not enough money to keep General Fund spending at the highest level of the past three fiscal years (adjusted for changes in state population and cost of living). The amount of the withdrawal from the Budget Stabilization Account is limited to the actual amount needed for the natural disaster or to keep General Fund spending at the highest level of the past three years. In addition, if there was no budget emergency in the prior fiscal year, no more than one-half of the Budget Stabilization Account balance may be withdrawn; the entire remaining balance could be withdrawn in the second straight year of a budget emergency.

When the balance of the Budget Stabilization Account reaches 10% of the estimated General Fund revenues for that fiscal year, the amount that would have been transferred to the Budget Stabilization Account would instead be used to build and maintain infrastructure. At June 30, 2015, the Budget Stabilization Account had restricted fund balance of $1.6 billion.

P. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* increased by a net total of $85 million for understated loans receivable in the *Environmental and Natural Resources Fund* and a small overstatement of rental income by a *building authority.*

The beginning net position of the *internal service funds* decreased by $877 million. This decrease is comprised of $791 million due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71 and $86 million in the *Public Buildings Construction Fund* for prior-period corrections for deferred amounts on

debt refundings, construction work in progress, and the liability for interest earned on cash received for lease payments.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
Public Buildings Construction	$ 287,401	$ —	$ (85,519)	$ 201,882
Architecture Revolving	(26,660)	(3,156)	—	(29,816)
Service Revolving	(172,160)	(497,510)	—	(669,670)
Prison Industries	162,953	(30,387)	—	132,566
Financial Information Systems	60,919	(26,339)	—	34,580
Technology Services Revolving	46,834	(182,898)	—	(136,064)
Other internal service programs	239,502	(50,729)	—	188,773
	$ 598,789	**$ (791,019)**	**$ (85,519)**	**$ (277,749)**

The beginning net position of the *enterprise funds* decreased by $6.5 billion due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
State Lottery	$ 101,109	$ (90,210)	$ —	$ 10,899
Unemployment Programs	(2,657,890)	(226,672)	—	(2,884,562)
California State University	2,570,368	(6,181,670)	—	(3,611,302)
State Water Pollution Control Revolving	3,664,859	(1,251)	—	3,663,608
Housing Loan	150,908	(14,589)	—	136,319
Other enterprise programs	282,609	(7,110)	—	275,499
	$ 4,111,963	**$ (6,521,502)**	**$ —**	**$ (2,409,539)**

The beginning net position of the *fiduciary funds and similar component units* decreased by $163 million due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
State Teachers' Retirement	$ 190,474,016	$ (161,907)	$ —	$ 190,312,109
Deferred Compensation	12,345,396	(561)	—	12,344,835
Other pension and other employee benefit trust	4,442,461	(362)	—	4,442,099
	$ 207,261,873	**$ (162,830)**	**$ —**	**$ 207,099,043**

The beginning net position of the *discretely presented component units* decreased by $137 million mainly due to the recognition of net pension liability and deferred outflows of resources in all applicable funds resulting from the implementation of GASB Statements No. 68 and No. 71.

(amounts in thousands)	Net Position June 30, 2014 (previously reported)	GASB Statements No. 68 and No. 71 Implementation	Other Restatements	Net Position Beginning of Year (restated)
California Housing Finance Agency	$ 1,397,469	$ (48,828)	$ —	$ 1,348,641
Financing authorities	286,096	(4,785)	—	281,311
California State University Auxiliary Organizations	2,621,256	(51,463)	2,717	2,572,510
Other component units	160,627	(34,859)	—	125,768
	$ 4,465,448	**$ (139,935)**	**$ 2,717**	**$ 4,328,230**

2. Government-wide Financial Statements

The beginning net position of the *governmental activities* decreased by $57.6 billion. In addition to the amounts described in the previous section for governmental funds and internal service funds, the restatement comprises a $3.5 billion increase for understated capital assets, a $60.2 billion decrease due to the recognition of net pension liability and deferred outflows of resources resulting from the implementation of GASB Statements No. 68 and No. 71, and a $67 million decrease for prior-period corrections to deferred amounts on debt refunding.

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

Q. Guaranty Deposits

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

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

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

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the year ended June 30, 2015, increased spending authority for the budgetary/legal basis-reported

General Fund and Transportation Funds, and decreased spending authority for the Environmental and Natural Resources Funds.

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

B. Legal Compliance

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

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

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

NOTE 3: DEPOSITS AND INVESTMENTS

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

A. Primary Government

1. Control of State Funds

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in United States government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper,

corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units and related organizations participate in the State Treasurer's Office pooled investment program. As of June 30, 2015, the discretely presented component units and related organizations account for approximately 3.8% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

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

Demand and time deposits held by financial institutions as of June 30, 2015, totaling approximately $7.4 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, 2015, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $21 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

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

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are assigned to the State's General Fund. Most of the $21 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2014-15 was earned on balances in these funds.

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

2. Valuation of State Investments

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

As of June 30, 2015, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 250 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

3. Oversight of Investing Activities

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

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2015, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

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

As of June 30, 2015, medium-term asset-backed securities comprised approximately 1.1% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs), and are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 1.21% of the pooled investments.

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

Table 1

Authorized Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency 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	270 days	30%	10 % of issuer's outstanding Commercial Paper	A-3/P-3/F-3
Corporate bonds/notes	5 years	N/A	N/A	A-/A3/A-
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

4. Risk of Investments

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

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

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

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

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

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

a. Interest Rate Risk

Table 2 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include $5.4 billion of time deposits and $442 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2015, only $94 million, or 0.2% of the total pooled investments, was invested in mortgage-backed securities.

Table 2

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2015
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes	$ 33,070,932	1.00
U.S. Agency bonds and discount notes	8,298,919	0.63
Supranational debentures and discount notes (IBRD)	450,788	1.16
Small Business Administration loans	581,898	0.25
Mortgage-backed securities	94,369	2.53
Certificates of deposit	14,642,626	0.24
Bank notes	699,897	0.17
Commercial paper	5,922,245	0.14
Total pooled investments	**63,761,674**	
Other primary government investments		
U.S. Treasuries and agencies	2,443,607	3.28
Guaranteed investment contracts	201,327	7.78
Corporate debt securities	927,517	1.12
Repurchase agreements	8,137	0.00
Other	1,252,643	2.36
Total other primary government investments	**4,833,231**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	21,475,804	
Less: other trust and agency funds	4,492,741	
Less: discretely presented component units and related organizations	2,396,850	
Total primary government investments	**$ 40,229,510**	

b. Credit Risk

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

Table 3

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2015
(amounts in thousands)

Credit Rating as of Year End			
Short-term	**Long-term**		**Fair Value**
Pooled investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	7,545,968
A-1/P-1/F-1	AA/Aa/AA		21,968,549
A-2/P-2/F-2	A/A/A		499,958
Not rated			94,369
Not applicable			33,652,830
Total pooled investments		**$**	**63,761,674**
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	820,431
A-1/P-1/F-1	AA/Aa/AA		1,800,911
A-2/P-2/F-2	A/A/A		843,945
A-3/P-3/F-3	BBB/Baa/BBB		26,163
Not rated			627,455
Not applicable			714,326
Total other primary government investments		**$**	**4,833,231**

c. Custodial Credit Risk

The State 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, 2015, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

d. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2015, the State had investments in the Federal National Mortgage Association totaling 6.2% of the total pooled investments.

B. Fiduciary Funds

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

Additional disclosure for CalPERS' investments and derivative instruments is included in CalPERS' separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosure for CalSTRS' investments and derivative instruments is included in CalSTRS' separately issued financial statements, which may be found on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

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

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

NOTE 4: ACCOUNTS RECEIVABLE

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

Table 4

Schedule of Accounts Receivable
June 30, 2015
(amounts in thousands)

	Taxes	Licenses, Permits and Fees	Lottery Retailers
Current governmental activities			
General Fund	$ 13,033,171	$ —	$ —
Federal Fund	—	—	—
Transportation Fund	565,456	405,690	—
Environmental and Natural Resources Fund	—	363,142	—
Nonmajor governmental funds	415,952	1,710,651	—
Internal service funds	—	—	—
Adjustment:			
Unavailable revenue [1]	(1,158,019)	(70,224)	—
Total current governmental activities	**$ 12,856,560**	**$ 2,409,259**	**$ —**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 1,158,019**	**$ 70,224**	**$ —**
Current business-type activities			
Water Resources Fund	$ —	$ —	$ —
State Lottery Fund	—	—	510,582
Unemployment Programs Fund	—	—	—
California State University	—	—	—
Nonmajor enterprise programs	—	—	—
Total current business-type activities	**$ —**	**$ —**	**$ 510,582**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**

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

[2] Amount includes noncurrent receivables for service concession arrangements of $70 million that were not included in the governmental fund financial statements.

Unemployment Programs	California State University	Other	Total
$ —	$ —	$ 1,362,651	$ 14,395,822
—	—	13,474	13,474
—	—	82,711	1,053,857
—	—	112,848	475,990
—	—	473,769	2,600,372
—	—	23,549	23,549
—	—	(440,738)	(1,668,981)
$ —	**$ —**	**$ 1,628,264**	**$ 16,894,083**
$ —	**$ —**	**$ 511,054** [2]	**$ 1,739,297**
$ —	$ —	$ 79,935	$ 79,935
—	—	—	510,582
1,325,458	—	—	1,325,458
—	180,377	—	180,377
—	—	31,667	31,667
$ 1,325,458	**$ 180,377**	**$ 111,602**	**$ 2,128,019**
$ 79,904	**$ 268,599**	**$ —**	**$ 348,503**

NOTE 5: RESTRICTED ASSETS

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

Table 5

Schedule of Restricted Assets
June 30, 2015
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,594,193	$ 372,496	$ 20,584	$ 284,213	$ 2,271,486
Construction	2,306,240	—	—	—	2,306,240
Operations	223,000	—	—	—	223,000
Other	5,282	—	—	—	5,282
Total primary government	**4,128,715**	**372,496**	**20,584**	**284,213**	**4,806,008**
Discretely presented component units					
Debt service	243,530	8,004	—	—	251,534
Other	5,613	—	—	—	5,613
Total discretely presented component units	**249,143**	**8,004**	**—**	**—**	**257,147**
Total restricted assets	**$ 4,377,858**	**$ 380,500**	**$ 20,584**	**$ 284,213**	**$ 5,063,155**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of $6.4 billion from governmental funds and the corresponding lease obligation were eliminated within the governmental activities column of the government-wide Statement of Net Position.

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

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

Table 6

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

	State Public Works Board			
Year Ending June 30	**Primary Government Agencies**	**Local Agencies**	**Total**	**California State University**
2016	$ 108,038	$ 53,050	$ 161,088	$ 31,497
2017	106,188	39,986	146,174	27,285
2018	93,035	32,698	125,733	27,351
2019	83,396	26,183	109,579	27,355
2020	71,356	13,369	84,725	50,207
2021-2025	325,682	63,603	389,285	149,273
2026-2030	290,097	61,453	351,550	132,368
2031-2035	229,931	15,557	245,488	90,394
2036-2040	26,895	—	26,895	26,028
2041-2045	—	—	—	20,219
Total minimum lease payments	**1,334,618**	**305,899**	**1,640,517**	**581,977**
Less: unearned income	541,238	72,407	613,645	217,302
Net investment in direct financing leases	793,380	233,492	1,026,872	364,675
Less: current portion	56,225	41,577	97,802	13,915
Noncurrent net investment in direct financing leases	**$ 737,155**	**$ 191,915**	**$ 929,070**	**$ 350,760**

NOTE 7: CAPITAL ASSETS

Table 7 summarizes the capital activity for the primary government.

Table 7

Schedule of Changes in Capital Assets – Primary Government
June 30, 2015
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 18,774,012 *	$ 399,907	$ 43,260	$ 19,130,659
State highway infrastructure	68,914,148 *	1,773,783	2,269	70,685,662
Collections	22,630	—	—	22,630
Construction/development in progress	15,209,323 *	3,638,256	2,762,237	16,085,342
Intangible assets	408,792 *	10,503	21	419,274
Total capital assets not being depreciated/amortized	**103,328,905**	**5,822,449**	**2,807,787**	**106,343,567**
Capital assets being depreciated/amortized				
Buildings and improvements	21,924,881 *	862,187	111,647	22,675,421
Infrastructure	735,712	609	165	736,156
Equipment and other assets	4,759,897 *	319,768	180,688	4,898,977
Intangible assets	1,091,014 *	134,356	10,144	1,215,226
Total capital assets being depreciated/amortized	**28,511,504**	**1,316,920**	**302,644**	**29,525,780**
Less accumulated depreciation/amortization for:				
Buildings and improvements	7,198,655 *	562,163	52,386	7,708,432
Infrastructure	342,602	17,921	113	360,410
Equipment and other assets	3,904,064 *	314,763	177,150	4,041,677
Intangible assets	474,141 *	92,608	9,285	557,464
Total accumulated depreciation/amortization	**11,919,462**	**987,455**	**238,934**	**12,667,983**
Total capital assets being depreciated/amortized, net	**16,592,042**	**329,465**	**63,710**	**16,857,797**
Governmental activities, capital assets, net	**$ 119,920,947**	**$ 6,151,914**	**$ 2,871,497**	**$ 123,201,364**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 222,138	$ 15,157	$ —	$ 237,295
Collections	7,711	3,571	194	11,088
Construction/development in progress	896,686 *	606,540	320,659	1,182,567
Intangible assets	116,009 *	3,862	4,110	115,761
Total capital assets not being depreciated/amortized	**1,242,544**	**629,130**	**324,963**	**1,546,711**
Capital assets being depreciated/amortized				
Buildings and improvements	10,826,885 *	407,696	5,690	11,228,891
Infrastructure	261,997	44,672	1,120	305,549
Equipment and other assets	650,858 *	106,124	16,450	740,532
Intangible assets	336,051	6,288	4,710	337,629
Total capital assets being depreciated/amortized	**12,075,791**	**564,780**	**27,970**	**12,612,601**
Less accumulated depreciation/amortization for:				
Buildings and improvements	3,981,523 *	285,981	1,832	4,265,672
Infrastructure	71,654	13,048	282	84,420
Equipment and other assets	390,350 *	60,264	13,322	437,292
Intangible assets	137,841 *	18,469	4,331	151,979
Total accumulated depreciation/amortization	**4,581,368**	**377,762**	**19,767**	**4,939,363**
Total capital assets being depreciated/amortized, net	**7,494,423**	**187,018**	**8,203**	**7,673,238**
Business-type activities, capital assets, net	**$ 8,736,967**	**$ 816,148**	**$ 333,166**	**$ 9,219,949**

* Restated

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

Table 8

Schedule of Depreciation Expense – Primary Government
June 30, 2015
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 131,670
Education	167,972
Health and human services	81,264
Resources	53,004
State and consumer services	82,140
Business and transportation	176,774
Correctional programs	242,008
Internal service funds (charged to the activities that utilize the fund)	52,623
Total governmental activities	**987,455**
Business-type activities	**377,762**
Total primary government	**$ 1,365,217**

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

Table 9

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2015
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,002,521	$ 128,756	$ 5,814	$ 1,125,463
Collections	390,678	5,459	1,957	394,180
Construction/development in progress	3,661,522	48,073	850,565	2,859,030
Intangible assets	5,082	16	—	5,098
Total capital assets not being depreciated/amortized	**5,059,803**	**182,304**	**858,336**	**4,383,771**
Capital assets being depreciated/amortized				
Buildings and improvements	32,783,672	2,648,548	156,131	35,276,089
Infrastructure	685,086	49,411	210	734,287
Equipment and other depreciable assets	10,031,132	772,271	357,858	10,445,545
Intangible assets	835,971	76,082	48,710	863,343
Total capital assets being depreciated/amortized	**44,335,861**	**3,546,312**	**562,909**	**47,319,264**
Less accumulated depreciation/amortization for:				
Buildings and improvements	12,860,339	1,045,662	99,692	13,806,309
Infrastructure	329,097	23,574	222	352,449
Equipment and other depreciable assets	7,061,557	597,315	326,366	7,332,506
Intangible assets	291,763	103,780	34,579	360,964
Total accumulated depreciation/amortization	**20,542,756**	**1,770,331**	**460,859**	**21,852,228**
Total capital assets being depreciated/amortized, net	**23,793,105**	**1,775,981**	**102,050**	**25,467,036**
Capital assets, net	**$ 28,852,908**	**$ 1,958,285**	**$ 960,386**	**$ 29,850,807**

NOTE 8: ACCOUNTS PAYABLE

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

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

Table 10

Schedule of Accounts Payable
June 30, 2015
(amounts in thousands)

	Education	Health and Human Services	Resources
Governmental activities			
General Fund	$ 312,814	$ 733,355	$ 233,825
Federal Fund	403,593	412,169	60,427
Transportation Fund	95	4	2,795
Environmental and Natural Resources Fund	221	407	347,232
Nonmajor governmental funds	18,356	205,826	5,985
Internal service funds	—	—	16,955
Adjustment:			
Fiduciary funds	925,940	15,409,090	—
Total governmental activities	**$ 1,661,019**	**$ 16,760,851**	**$ 667,219**
Business-type activities			
Electric Power Fund	$ —	$ —	$ 1,344
Water Resources Fund	—	—	67,132
State Lottery Fund	—	—	—
Unemployment Programs Fund	—	—	—
California State University	189,077	—	—
Nonmajor enterprise funds	—	168	51
Adjustment:			
Fiduciary funds	—	—	—
Total business-type activities	**$ 189,077**	**$ 168**	**$ 68,527**

Business and Transportation	General Government and Others	Total
$ 269	$ 437,157	$ 1,717,420
286,519	107,774	1,270,482
318,705	32,872	354,471
45,004	3,663	396,527
22,935	433,445	686,547
—	321,369	338,324
83,216	571,542	16,989,788
$ 756,648	**$ 1,907,822**	**$ 21,753,559**
$ —	$ —	$ 1,344
—	—	67,132
—	52,237	52,237
—	3,679	3,679
—	—	189,077
—	3,908	4,127
—	14	14
$ —	**$ 59,838**	**$ 317,610**

NOTE 9: SHORT-TERM FINANCING

As part of its cash management program, the State regularly issues short-term obligations to meet cash flow needs. The State issues revenue anticipation notes (RANs) to partially fund timing differences between revenues and expenditures, because General Fund revenues and disbursements do not occur evenly throughout the fiscal year. If additional external cash flow borrowing is required, the State issues revenue anticipation warrants. There were no outstanding RANs at the beginning of the fiscal year. To fund cash flow needs for the 2014-15 fiscal year, the State issued $2.8 billion in RANs on September 10, 2014. The RANs were repaid in June 2015.

NOTE 10: LONG-TERM OBLIGATIONS

As of June 30, 2015, the primary government had long-term obligations totaling $221.6 billion. Of that amount, $7.2 billion is due within one year. For governmental activities, the largest change is attributed to the implementation of GASB Statements No. 68 and No. 71, which caused a $65.9 billion restatement of the beginning net pension liability after incorporating the existing net pension obligation balance of $3.2 billion. During the fiscal year, the net pension liability decreased by $11.6 billion, resulting in an ending balance of $57.5 billion. Other notable changes in governmental activities' long-term obligations include decreases of $4.8 billion in mandated cost claims payable and $2.8 billion in general obligation bonds payable.

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

As of June 30, 2015, the pollution remediation obligations increased by $52 million to $1.1 billion. Under federal Superfund law, responsibility for pollution remediation is placed upon current and previous owners or operators of polluted sites. Currently, the State's most significant superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2015, the State estimates that remediation costs at Stringfellow will total $426 million. At two other sites, Leviathan Mine and BKK Landfill, obligating events have occurred that may result in significant liability to the State, but reasonable estimates of the remediation costs cannot be made at this time. The State has reached a settlement for ongoing remediation costs at Leviathan Mine; the related natural resource damages claims are expected to result in Federal Court litigation in the next five years. The State's activities at the site relate to water pollution remediation. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup, as required by state law.

The other long-term obligations for governmental activities consist of $21 million owed to the University of California, and the Technology Services Revolving Fund notes payable of $30 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 liabilities, the Proposition 98 funding guarantee, lawsuits, and reimbursement of costs incurred by local agencies and school districts for costs mandated by the State.

For business-type activities, the largest change in long-term obligations is attributed to the implementation of GASB Statements No. 68 and No. 71, which caused a $7.6 billion restatement of the beginning net pension liability. During the fiscal year, the net pension liability decreased by $1.3 billion, resulting in an ending balance of $6.3 billion. There was also a decrease of $2.0 billion in loans payable to the U.S. Department of Labor to cover shortfalls in the Unemployment Programs Fund.

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Table 11 summarizes the changes in long-term obligations during the year ended June 30, 2015.

Table 11

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

	Balance July 1, 2014	Additions
Governmental activities		
Compensated absences payable	$ 3,755,889	$ 1,364,970
Workers' compensation benefits payable	3,701,432	565,614
Certificates of participation and commercial paper outstanding	598,170	1,024,145
Discounts	(76)	—
Total certificates of participation and commercial paper payable	598,094	1,024,145
Capital lease obligations	260,088	89,899
General obligation bonds outstanding	80,295,870	6,613,070
Premiums	2,980,477	890,443
Total general obligation bonds payable	83,276,347	7,503,513
Revenue bonds outstanding	17,938,261	2,420,135
Accreted interest	424,426	42,891
Premiums	556,468	338,897
Discounts	(1,712)	—
Total revenue bonds payable	18,917,443	2,801,923
Mandated cost claims payable	7,850,652	401,836
Net other postemployment benefits obligation	18,616,859	4,907,194
Net pension liability	69,080,083 *	—
Other long-term obligations:		
Proposition 98 funding guarantee	1,929,082	—
Pollution remediation obligations	1,081,966	108,839
Other	102,899	10,934
Total other long-term obligations	3,113,947	119,773
Total governmental activities	**$ 209,170,834**	**$ 18,778,867**
Business-type activities		
Loans payable	$ 7,633,391	$ —
Lottery prizes and annuities	1,234,440	3,780,704
Compensated absences payable	321,346	116,784
Workers' compensation benefits payable	2,538	580
Certificates of participation and commercial paper outstanding	204,647	325,640
Capital lease obligations	1,250,274	33,410
General obligation bonds outstanding	675,480	110,000
Discounts	(1,086) *	—
Total general obligation bonds payable	674,394	110,000
Revenue bonds outstanding	12,334,333	2,308,780
Premiums	657,710	391,958
Discounts	(216) *	—
Total revenue bonds payable	12,991,827	2,700,738
Net other postemployment benefits obligation	628,422	176,739
Net pension liability	7,566,667 *	—
Other long-term obligations	498,193	25,097
Total business-type activities	**$ 33,006,139**	**$ 7,269,692**

* Restated

Deductions	Balance June 30, 2015	Due Within One Year	Noncurrent Liabilities
$ 1,434,849	$ 3,686,010	$ 5,370	$ 3,680,640
426,855	3,840,191	392,521	3,447,670
1,128,515	493,800	11,915	481,885
(46)	(30)	(30)	—
1,128,469	493,770	11,885	481,885
75,227	274,760	59,830	214,930
9,959,600	76,949,340	2,807,950	74,141,390
310,458	3,560,462	174,277	3,386,185
10,270,058	80,509,802	2,982,227	77,527,575
3,170,901	17,187,495	591,296	16,596,199
—	467,317	—	467,317
138,786	756,579	80,008	676,571
(292)	(1,420)	(283)	(1,137)
3,309,395	18,409,971	671,021	17,738,950
5,245,922	3,006,566	629,568	2,376,998
1,930,409	21,593,644	—	21,593,644
11,623,842	57,456,241	—	57,456,241
416,613	1,512,469	256,000	1,256,469
57,199	1,133,606	45,206	1,088,400
62,976	50,857	17,139	33,718
536,788	2,696,932	318,345	2,378,587
$ 35,981,814	**$ 191,967,887**	**$ 5,070,767**	**$ 186,897,120**
$ 1,962,738	$ 5,670,653	$ —	$ 5,670,653
3,680,249	1,334,895	591,940	742,955
100,569	337,561	149,171	188,390
142	2,976	—	2,976
293,101	237,186	148,185	89,001
73,275	1,210,409	74,718	1,135,691
134,330	651,150	70,815	580,335
(69)	(1,017)	—	(1,017)
134,261	650,133	70,815	579,318
2,829,595	11,813,518	919,050	10,894,468
192,373	857,295	81,992	775,303
(22)	(194)	—	(194)
3,021,946	12,670,619	1,001,042	11,669,577
69,985	735,176	—	735,176
1,317,691	6,248,976	—	6,248,976
33,269	490,021	41,671	448,350
$ 10,687,226	**$ 29,588,605**	**$ 2,077,542**	**$ 27,511,063**

NOTE 11: CERTIFICATES OF PARTICIPATION

Table 12 shows debt service requirements for certificates of participation, which are financed by lease payments from governmental activities. The certificates of participation were used to finance the acquisition and construction of a state office building and will be fully redeemed by June 30, 2016.

Table 12

Schedule of Debt Service Requirements for Certificates of Participation – Primary Government
(amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2016	$ 11,915	$ 626	$ 12,541
Total	**$ 11,915**	**$ 626**	**$ 12,541**

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" or "Note Purchase" agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed $2.2 billion. As of June 30, 2015, the general obligation commercial paper program had $482 million in outstanding commercial paper notes for governmental activities. The current agreement for the enterprise fund commercial paper program authorizes the issuance of notes in an aggregate principal amount not to exceed $140 million. As of June 30, 2015, the enterprise fund commercial paper program had $88 million in outstanding notes.

The primary government has a bond anticipation note (BAN) program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2015, $149 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. At June 30, 2015, outstanding taxable commercial paper totaled $1.1 billion. The University has other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. Outstanding borrowings under these uncollateralized financing agreements total $262 million for general corporate purposes for the period ending June 30, 2015. For more information regarding the commercial paper program and other long-term borrowings of the University, refer to its separately issued financial report for fiscal year 2014-15 on its website at www.ucop.edu.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2015, was approximately $3.0 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. Operating lease expenditures for the year ended June 30, 2015, amounted to approximately $268 million for governmental activities and $29 million for business-type activities. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of net minimum capital lease payments for the primary government is $1.5 billion. Note 10, Long-term Obligations, reports current additions and deductions for these capital lease obligations. Included in the capital lease commitments are lease-purchase agreements, amounting to a present value of net minimum lease payments of $1.1 billion that the California State University, reported as an enterprise fund, has entered into with the State Public Works Board (SPWB), reported as an internal service fund. This amount represents 72.3% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of $254 million for governmental activities and $913 million for business-type activities.

The capital lease commitments do not include $6.4 billion in lease-purchase agreements with the SPWB and $228 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds and certificates of participation are reported as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University's lease obligations is included in its separately issued financial statements that may be found on its website at www.ucop.edu.

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

Table 13

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

	Governmental Activities		Business-type Activities		
Year Ending June 30	**Operating Leases**	**Capital Leases**	**Operating Leases**	**Capital Leases**	**Total**
2016	$ 230,627	$ 58,448	$ 22,666	$ 135,130	$ 446,871
2017	164,390	52,674	20,207	130,853	368,124
2018	113,330	41,421	16,874	130,122	301,747
2019	71,186	36,490	12,656	105,569	225,901
2020	47,706	15,793	18,552	99,841	181,892
2021-2025	50,311	55,031	24,011	430,212	559,565
2026-2030	9,488	19,283	17,333	397,082	443,186
2031-2035	5,750	16,600	8,214	336,380	366,944
2036-2040	104	7,971	3,980	96,677	108,732
2041-2045	104	891	441	2,387	3,823
2046-2050	104	—	397	—	501
2051-2055	104	—	33	—	137
2056-2060	59	—	33	—	92
2061-2065	—	—	32	—	32
2066-2070	—	—	32	—	32
2071-2075	—	—	31	—	31
2076-2080	—	—	31	—	31
2081-2085	—	—	31	—	31
2086-2090	—	—	31	—	31
2091-2095	—	—	31	—	31
2096-2100	—	—	31	—	31
Total minimum lease payments	**$ 693,263**	**304,602**	**$ 145,647**	**1,864,253**	**$ 3,007,765**
Less: amount representing interest		29,842		653,844	
Present value of net minimum lease payments		**274,760**		**1,210,409**	
Less: current portion		59,830		74,718	
Capital lease obligation, net of current portion		**$ 214,930**		**$ 1,135,691**	

NOTE 14: COMMITMENTS

As of June 30, 2015, the primary government had commitments of $7.3 billion for certain highway construction and high-speed rail projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with $1.1 billion from local governments and $6.2 billion from proceeds of approved federal grants. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $579 million for various education programs, $315 million for terrorism prevention and disaster-preparedness response projects, $288 million for services under the workforce development program, $158 million for services provided under various public health programs, $136 million for community service programs, $53 million for services provided under the welfare program, $50 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 $9.0 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $9.0 billion in commitments includes grant agreements totaling approximately $5.3 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $9.0 billion in commitments includes $311 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need and $1.5 billion for undisbursed loan commitments to qualified agencies for clean water projects.

The $9.0 billion in commitments also includes contracts of $1.1 billion for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. The primary government had commitments of $353 million for CSU construction projects. CSU participates in forward-purchase contracts of natural gas and electricity. As of June 30, 2015, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $41 million in electricity through December 2019 and $14 million in natural gas through June 2017. The primary government also had commitments of $47 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $346 million for gaming and telecommunication systems and services. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2015, the primary government encumbered expenditures of $928 million for the General Fund, $2.4 billion for the Transportation Fund, $919 million for the Environmental and Natural Resources Fund, and $720 million for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2015, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which may be found on its website at www.ucop.edu. Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which may be found on its website at www.CalHFA.ca.gov. Additional disclosure for the California Public Employees' Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosure for the California State Teachers' Retirement System's (CalSTRS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalSTRS.com.

NOTE 15: GENERAL OBLIGATION BONDS

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

As of June 30, 2015, the State had $76.9 billion in outstanding general obligation bonds related to governmental activities and $651 million related to business-type activities. In addition, $30.1 billion in long-term general obligation bonds had been authorized but not issued, of which $29.5 billion is related to governmental activities and $596 million is related to business-type activities. The total amount authorized but not issued includes $15.4 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $482 million in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2015, the State had $3.0 billion in variable-rate general obligation bonds outstanding, consisting of $814 million in daily-rate bonds with credit enhancement and $1.7 billion in weekly-rate bonds with credit enhancement, and $498 million in weekly- or monthly-rate bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced Index Floating Rate Bonds are determined by the Securities Industry and Financial Markets Association (SIFMA) Index rate or percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on all variable-rate bonds is paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks for each series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments or the commitment amounts to the bondholders; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the bank commitment amounts. The bondholders have the right to tender the bonds daily if the bonds are in a daily-rate mode and weekly if the bonds are in a weekly-rate mode. Upon a tender, the remarketing agent will attempt to remarket the bonds to a new investor. If the remarketing of the bonds is unsuccessful, the bonds will enter into a bank bond period and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed or redeemed. If the bonds cannot be remarketed and remain in a bank bond period ranging from 45 days to 180 days, the bonds will be subject to term loan payment in 12 equal quarterly installments under the terms stated in the credit agreements. The term loan period may exceed the expiration dates of the credit agreements. The bonds may be remarketed at any time during the bank bond or term loan period. There were no bank bonds during fiscal year 2014-15.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of October 16, 2015; November 10, 2016; December 16, 2016; and April 12, 2017. The letters of credit for the Series 2004

variable-rate bonds have expiration dates of October 15, 2015; November 10, 2016; and April 5, 2018. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of November 4, 2016; November 10, 2016; December 16, 2016; February 17, 2017; and April 11, 2017. The Series 2012A and 2013 C, D, and E Index Floating Rate Bonds have mandatory purchase dates on December 1, 2016; December 1, 2017; May 1, 2018; or December 3, 2018. The Series 2012B SIFMA Index Floating Rate Bonds have final maturities from 2017 to 2020.

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

B. Economic Recovery Bonds

In 2004, voters approved the one-time issuance of Economic Recovery Bonds. The debt service for these bonds is payable from and secured by amounts available in the Economic Recovery Bond Sinking Fund, a debt service fund that consists primarily of revenues from a dedicated sales tax. However, the General Fund may be liable for the payment of any principal and interest on the bonds that cannot be paid from the Economic Recovery Bond Sinking Fund. As of June 30, 2015, the State had $944 million in Economic Recovery Bonds outstanding.

C. Mandatory Tender Bonds

As of June 30, 2015, the State had $1.1 billion in outstanding general obligation mandatory tender bonds, including $650 million with a fixed interest rate and $400 million with an index floating rate (discussed in Section A). On their respective mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption on or prior to that day. These bonds have mandatory tender dates on December 1, 2016; December 1, 2017; May 1, 2018; December 3, 2018; and December 1, 2019. In the event of an unsuccessful remarketing of all the outstanding bonds on the scheduled mandatory tender dates, the bonds will enter into a delayed remarketing period and accrue interest at a higher effective interest rate, gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Current state laws limit interest rates to 11% per annum. With respect to $100 million of the Index Floating Rate Bonds, beginning six months after the scheduled mandatory tender date, the bonds will be subject to special mandatory redemption in 20 equal quarterly installments until they are remarketed or refunded.

D. Build America Bonds

As of June 30, 2015, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as “Build America Bonds” under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to ARRA, the State receives a cash subsidy payment from the United States Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. Subsequent federal legislation reduced the Build America Bonds subsidy by 7.2% for the federal fiscal year ending September 30, 2014, and by 7.3% for the federal fiscal year ending September 30, 2015. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the United States Treasury under ARRA. The subsidy payments are deposited into the state treasury.

E. Debt Service Requirements

Table 14 shows the debt service requirements for all general obligation bonds as of June 30, 2015. The estimated debt service requirements for the $3.0 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2015. For mandatory tender bonds, the debt service requirements shown in Table 14 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. The amounts do not reflect any interest subsidy under the Build America Bonds program or any other offsets to general fund costs of debt service.

Table 14

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

	Governmental Activities			Business-type Activities		
Year Ending June 30	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2016	$ 2,807,950	$ 3,951,620	$ 6,759,570	$ 70,815	$ 25,326	$ 96,141
2017	2,852,670	3,842,390	6,695,060	69,685	22,689	92,374
2018	2,896,470	3,726,218	6,622,688	56,490	20,414	76,904
2019	2,898,845	3,601,053	6,499,898	43,015	18,798	61,813
2020	2,935,925	3,449,752	6,385,677	26,935	17,623	44,558
2021 - 2025	12,724,245	15,331,329	28,055,574	61,725	75,484	137,209
2026 - 2030	13,995,495	12,282,231	26,277,726	67,410	65,694	133,104
2031 - 2035	15,231,320	8,865,256	24,096,576	143,535	39,304	182,839
2036 - 2040	14,346,095	4,343,223	18,689,318	93,950	13,926	107,876
2041 - 2045	6,260,325	651,281	6,911,606	17,590	405	17,995
Total	**$ 76,949,340**	**$ 60,044,353**	**$ 136,993,693**	**$ 651,150**	**$ 299,663**	**$ 950,813**

F. General Obligation Bond Defeasances

1. Current Year

On October 7, 2014, the primary government issued $988 million in general obligation bonds to current and advance refund $1.1 billion in outstanding general obligation bonds maturing in 2015 to 2035. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $253 million and resulted in an economic gain of $172 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.87% per year over the life of the new bonds.

On November 25, 2014, the primary government issued $306 million in general obligation bonds to advance refund $337 million in outstanding general obligation bonds maturing in 2021 to 2035. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $65 million and resulted in an economic gain of $46 million, discounted at 2.92% per year over the life of the new bonds.

On March 18, 2015, the primary government issued $1.0 billion in general obligation bonds to current refund $1.1 billion in outstanding general obligation bonds maturing in 2016 to 2030. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $198 million and resulted in an economic gain of $164 million, discounted at 2.56% per year over the life of the new bonds.

On April 29, 2015, the primary government issued $987 million in general obligation bonds to current and advance refund $1.1 billion in outstanding general obligation bonds maturing in 2016 to 2036. As a result, the refunded bonds are defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $180 million and resulted in an economic gain of $131 million, discounted at 2.62% per year over the life of the new bonds.

2. Prior Years

In prior years, the primary government placed the proceeds of the refunding bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2015, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.2 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 $57 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the State. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds. The Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next fiscal year. However, the use of the appropriated monies has never been required. In 2013 and 2015, bonds were issued to partially refund the 2005 bonds. Total principal and interest remaining on all asset-backed bonds is $17.0 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $426 million, while Tobacco Settlement Revenue and interest earned totaled $415 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, the State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and certain building authorities may issue revenue bonds. These bonds are issued for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the Public Buildings Construction Fund and building authorities. The General Fund has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $16.8 billion, payable through 2040. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

For the specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

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. For specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

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

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2014-15, which may be found on its website at www.ucop.edu.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2014-15, which may be found on its website at www.CalHFA.ca.gov.

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

Table 15

Schedule of Revenue Bonds Payable
June 30, 2015
(amounts in thousands)

Primary government		
Governmental activities		
Transportation Fund	$	53,723
Public Buildings Construction Fund		11,130,616
Nonmajor governmental funds:		
Golden State Tobacco Securitization Corporation Fund		6,967,374
Building authorities		258,258
Total governmental activities		**18,409,971**
Business-type activities		
Electric Power Fund		5,631,000
Water Resources Fund		2,724,008
California State University		3,910,999
Nonmajor enterprise funds		404,612
Total business-type activities		**12,670,619**
Total primary government		**31,080,590**
Discretely presented component units		
University of California		17,467,386
California Housing Finance Agency		2,914,626
Nonmajor component units		309,756
Total discretely presented component units		**20,691,768**
Total revenue bonds payable	**$**	**51,772,358**

Table 16 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 15.

Table 16

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

	Primary Government				Discretely Presented	
	Governmental Activities		Business-type Activities		Component Units	
Year Ending June 30	Principal	Interest	Principal	Interest	Principal	Interest *
2016	$ 591,296	$ 858,208	$ 919,050	$ 555,988	$ 386,998	$ 925,202
2017	625,556	831,513	954,065	514,121	434,681	886,121
2018	678,501	800,147	989,480	469,303	415,335	865,604
2019	658,931	762,017	1,019,565	422,559	427,014	845,899
2020	665,426	789,235	1,063,263	374,653	734,588	822,541
2021-2025	3,114,090	3,343,161	3,207,625	1,192,117	2,718,705	3,698,495
2026-2030	3,279,722	2,513,758	1,565,880	695,558	3,163,040	2,919,168
2031-2035	3,146,085	1,677,003	1,172,825	368,348	3,468,190	2,144,417
2036-2040	2,203,805	985,318	689,850	133,932	3,374,673	1,352,821
2041-2045	1,643,505	700,592	231,915	21,045	2,416,771	719,407
2046-2050	1,047,895	3,310,986	—	—	950,695	405,613
2051-2115	—	—	—	—	1,360,000	4,139,561
Total	**$ 17,654,812**	**$ 16,571,938**	**$ 11,813,518**	**$ 4,747,624**	**$ 19,850,690**	**$ 19,724,849**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2015.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In April 2015, the GSTSC issued $1.7 billion in Enhanced Tobacco Settlement Asset-Backed bonds to refund $2.0 billion in outstanding bonds with maturities in June of 2035, 2038, and 2045. The net proceeds of the refunding bonds 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 the bonds has been removed from the financial statements. The refunding will decrease debt service payments by $268 million and will result in an economic gain of $9 million.

During the 2014-15 fiscal year, the State Public Works Board issued $469 million in lease revenue refunding bonds. The bond proceeds were used to refund $538 million in outstanding lease revenue bonds. The net proceeds of the refunding bonds 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 $73 million and will result in an economic gain of $62 million for the refunded bonds. The lease revenue bonds are reported in the Public Buildings Construction Fund, an internal service fund.

2. Current Year – Business-type Activities

In August 2014, the California State University issued $748 million in systemwide revenue refunding bonds to defease certain outstanding systemwide revenue bonds. A portion of the proceeds was deposited into an escrow account to provide for all future debt service payments on the refunded bonds. As a result, the bonds are considered defeased and the liability for these bonds has been removed from the financial statements. This refunding will decrease debt service payments by $74 million over the life of the bonds and will result in an economic gain of $52 million for the refunded bonds.

On October 30, 2014, the Department of Water Resources issued $646 million in refunding water system revenue bonds to advance refund $690 million in outstanding water system revenue bonds. The net proceeds of the refunding bonds, along with funds on-hand, 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 the bonds has been removed from the financial statements. This refunding will decrease debt service payments by $70 million and will result in an economic gain of $56 million.

On April 1, 2015, the Department of Water Resources issued $766 million in refunding electric power revenue bonds to advance refund $813 million in outstanding electric power revenue bonds. The net 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 over the next seven years by $52 million and will result in an economic gain of $46 million. The electric power revenue bonds are reported in the Electric Power Fund.

3. Prior Years

In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2015, the outstanding balance of revenue bonds defeased in prior years was $186 million for governmental activities and $2.8 billion for business-type activities.

NOTE 17: SERVICE CONCESSION ARRANGEMENTS

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

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

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

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

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

Table 17

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2015
(amounts in thousands)

	Due To				
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Nonmajor Governmental Funds**	**Electric Power Fund**
Governmental funds					
General Fund	$ —	$ —	$ —	$ 358,219	$ —
Federal Fund	497,312	995,284	68,265	99,064	—
Transportation Fund	—	—	—	43,696	—
Environmental and Natural Resources Fund	60,275	19,512	—	88	—
Nonmajor governmental funds	948,876	171,839	12,259	18,246	—
Total governmental funds	**1,506,463**	**1,186,635**	**80,524**	**519,313**	**—**
Enterprise funds					
Electric Power	123	—	—	—	—
Water Resources Fund	428	36	12	—	—
State Lottery Fund	331	—	—	359,237	—
Unemployment Programs Fund	80,840	—	—	—	—
California State University Fund	70	—	—	1	—
Nonmajor enterprise funds	1,091	—	379	225	—
Total enterprise funds	**82,883**	**36**	**391**	**359,463**	**—**
Internal service funds	**12,188**	**3,335**	**4,209**	**21,290**	**4,000**
Total due from other funds	**$ 1,601,534**	**$ 1,190,006**	**$ 85,124**	**$ 900,066**	**$ 4,000**

Due To							
Water Resources Fund	**State Lottery Fund**	**Unemployment Programs Fund**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Fiduciary Funds**	**Total Due to Other Funds**
$ —	$ —	$ —	$ 11	$ —	$ 276,237	$ 3,306,650	$ 3,941,117
—	—	2,000	—	1,019	18,568	11,980,719	13,662,231
—	—	—	—	—	21,771	81,222	146,689
—	—	—	—	—	18,754	513	99,142
—	—	—	543	58	34,376	1,617,136	2,803,333
—	**—**	**2,000**	**554**	**1,077**	**369,706**	**16,986,240**	**20,652,512**
—	—	—	—	—	533	—	656
—	—	—	—	—	45,032	—	45,508
—	—	—	—	—	19	—	359,587
—	—	—	—	—	—	—	80,840
—	—	—	—	—	62	—	133
—	—	—	—	—	19	14	1,728
—	**—**	**—**	**—**	**—**	**45,665**	**14**	**488,452**
996	**339**	**2,356**	**458**	**524**	**79,418**	**3,548**	**132,661**
$ 996	**$ 339**	**$ 4,356**	**$ 1,012**	**$ 1,601**	**$ 494,789**	**$ 16,989,802**	**$ 21,273,625**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 17, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $2.9 billion in Transportation Fund loans payable from the General Fund also includes $932 million in deferred Proposition 42 transfers for traffic congestion relief and other direct loans from the Traffic Congestion Relief Program.

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

Table 18

Schedule of Interfund Receivables and Payables
June 30, 2015
(amounts in thousands)

	Interfund Payables		
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**
Governmental funds			
General Fund	$ —	$ 2,909,563	$ 623,097
Transportation Fund	—	—	—
Environmental and Natural Resources Fund	—	40,000	—
Nonmajor governmental funds	5,876	2,698	—
Total governmental funds	**5,876**	**2,952,261**	**623,097**
Internal service funds	**40,650**	**—**	**—**
Total primary government	**$ 46,526**	**$ 2,952,261**	**$ 623,097**

Interfund Payables

Nonmajor Governmental Funds	Water Resources Fund	Unemployment Programs Fund	Nonmajor Enterprise Funds	Internal Service Funds	Total
$ 1,128,780	$ —	$ 611,690	$ 1,600	$ 6,998	$ 5,281,728
10,000	—	—	—	1,096	11,096
—	—	—	—	—	40,000
—	—	—	—	—	8,574
1,138,780	**—**	**611,690**	**1,600**	**8,094**	**5,341,398**
115	**93,047**	**—**	**—**	**5,861**	**139,673**
$ 1,138,895	**$ 93,047**	**$ 611,690**	**$ 1,600**	**$ 13,955**	**$ 5,481,071**

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

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

Table 19

Schedule of Due from Primary Government and Due to Component Units
June 30, 2015
(amounts in thousands)

	Due To Component Units		
Due From	**University of California**	**Nonmajor Component Units**	**Total**
Governmental funds			
General Fund	$ 133,017	$ 1,311	$ 134,328
Transportation Fund	95	—	95
Environmental and Natural Resources Fund	148	—	148
Nonmajor governmental funds	34,089	—	34,089
Total governmental funds	**167,349**	**1,311**	**168,660**
Total primary government	**$ 167,349**	**$ 1,311**	**$ 168,660**

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B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $3.3 billion to nonmajor governmental funds, mainly for support of trial courts and for the retirement of Economic Recovery Bonds. The General Fund also transferred $2.6 billion to the California State University, an enterprise fund. The Transportation Fund transferred $836 million in weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for reimbursement of debt service costs. The Federal Fund transferred $568 million to the General Fund for administration of the Unemployment Insurance Program.

Table 20 shows interfund transfers of the primary government.

Table 20

Schedule of Interfund Transfers
June 30, 2015
(amounts in thousands)

	Transferred To		
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**
Governmental funds			
General Fund	$ —	$ —	$ 28,853
Federal Fund	567,500	—	169,154
Transportation Fund	76,110	—	17,405
Environmental and Natural Resources Fund	853	—	—
Nonmajor governmental funds	58,675	28	28,300
Total governmental funds	**703,138**	**28**	**243,712**
Nonmajor enterprise funds	**9,212**	**—**	**—**
Internal service funds	**22,525**	**—**	**—**
Total primary government	**$ 734,875**	**$ 28**	**$ 243,712**

Transferred To			
Nonmajor Governmental Funds	**California State University Fund**	**Internal Service Funds**	**Total**
$ 3,336,603	$ 2,564,182	$ 97,102	$ 6,026,740
30,051	—	—	766,705
878,459	—	—	971,974
7,807	—	—	8,660
73,672	—	—	160,675
4,326,592	**2,564,182**	**97,102**	**7,934,754**
—	**—**	**—**	**9,212**
38,927	**—**	**3,000**	**64,452**
$ 4,365,519	**$ 2,564,182**	**$ 100,102**	**$ 8,008,418**

NOTE 19: FUND BALANCES, FUND AND NET POSITION DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 21 shows the composition of the governmental fund balances.

Table 21

Schedule of Fund Balances by Function
June 30, 2015
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Nonmajor Governmental Funds
Nonspendable					
Long-term interfund receivables	$ 46,526	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—
Other	—	—	—	—	5,620
Total nonspendable	**53,431**	**—**	**—**	**—**	**5,620**
Restricted					
General government	5,645	—	—	6,821	4,011,121
Education	453,172	1,434	1,175	—	464,075
Health and human services	195,293	257	—	1,551,919	1,818,396
Resources	672	10,709	—	4,225,446	113,010
State and consumer services	5,431	—	225,310	44,847	490,122
Business and transportation	—	205,480	7,935,269	55,209	3,062,630
Correctional programs	—	—	—	—	937
Budget stabilization	1,606,422	—	—	—	—
Total restricted	**2,266,635**	**217,880**	**8,161,754**	**5,884,242**	**9,960,291**
Committed					
General government	16,468	—	—	19,506	319,269
Education	2,946	—	—	—	38,842
Health and human services	4,280	—	1,341	—	332,183
Resources	1,323	—	6	2,442,998	694,807
State and consumer services	—	—	—	29,181	62,006
Business and transportation	—	—	54,191	—	91,907
Correctional programs	77,776	—	—	—	4,326
Total committed	**102,793**	**—**	**55,538**	**2,491,685**	**1,543,340**
Assigned – general government	**—**	**—**	**—**	**—**	**16,767**
Unassigned	**(4,651,491)**	**—**	**(229)**	**(2,080)**	**(4,147)**
Total fund balances (deficit)	**$ (2,228,632)**	**$ 217,880**	**$ 8,217,063**	**$ 8,373,847**	**$ 11,521,871**

B. Fund and Net Position Deficits

Table 22 shows the fund and net position deficit balances.

Table 22

Schedule of Fund and Net Position Deficits
June 30, 2015
(amounts in thousands)

	Governmental Funds	Internal Service Funds	Enterprise Funds
General Fund	$ 2,228,632	$ —	$ —
Architecture Revolving Fund	—	28,461	—
Service Revolving Fund	—	677,510	—
Technology Services Revolving Fund	—	138,957	—
Water Resources Revolving Fund	—	612	—
Unemployment Programs Fund	—	—	871,887
California State University Fund	—	—	3,114,629
Total fund balance and net position deficits	**$ 2,228,632**	**$ 845,540**	**$ 3,986,516**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2015, the value of restricted endowments and gifts totaled $14.9 billion, and unrestricted endowments and gifts totaled $2.5 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $2.3 billion at June 30, 2015. 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 $1.0 billion and $10 million, respectively.

NOTE 20: RISK MANAGEMENT

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

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be $3.8 billion as of June 30, 2015. This estimate is primarily based on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $5.4 billion is discounted to $3.8 billion using a 3.5% interest rate. Of the total discounted liability, $392 million is a current liability, of which $263 million is included in the General Fund, $127 million in the special revenue funds, and $2 million in the internal service funds. The remaining $3.4 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company for medical malpractice, workers' compensation, employee and student 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 present value of the anticipated future payments, discounted at rates of either 2% or 5%. Claims for employee and student health care are not discounted.

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

Table 23

Schedule of Changes in Self-Insurance Claims
Year Ended June 30
(amounts in thousands)

	Primary Government		Discretely Presented Component Unit University of California	
	2015	**2014**	**2015**	**2014**
Unpaid claims, beginning	$ 3,703,970	$ 3,509,555	$ 644,578	$ 631,798
Incurred claims	566,194	639,704	736,443	467,191
Claim payments	(426,997)	(445,289)	(688,879)	(454,411)
Unpaid claims, ending	**$ 3,843,167 ***	**$ 3,703,970**	**$ 692,142**	**$ 644,578**

* Includes $2,976 for business-type activities.

NOTE 21: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $1.6 billion as this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 24 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position. For descriptions of the deferred outflows and deferred inflows of resources transactions, see Note 1.L.

Table 24

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2015
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 792,380	$ 366,612	$ 1,158,992	$ 391,207
Decrease in fair value of hedging derivatives	—	—	—	114,637
Net pension liability	5,335,096	683,754	6,018,850	5,200,898
Total deferred outflows of resources	**6,127,476**	**1,050,366**	**7,177,842**	**5,706,742**
Deferred inflows of resources:				
Gain on refunding of debt	163,702	—	163,702	272
Service concession arrangements	70,316	—	70,316	72,024
Net pension liability	11,755,153	1,226,857	12,982,010	5,295,580
Other deferred inflows	—	775,625	775,625	570
Total deferred inflows of resources	**$ 11,989,171**	**$ 2,002,482**	**$ 13,991,653**	**$ 5,368,446**

NOTE 22: NO COMMITMENT DEBT

The California Housing Finance Agency (CalHFA), a major component unit, issued conduit debt to provide financial assistance for the acquisition, construction, and development of multifamily rental housing. As of June 30, 2015, the CalHFA had $372 million of conduit debt obligations outstanding, which is not debt of the State.

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2015, these component units had approximately $3.9 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 are not unusual for governmental operations. To the extent they existed, the following legal proceedings were accrued as a liability in the government-wide financial statements: those decided against the primary government before June 30, 2015; those in progress as of June 30, 2015, and settled or decided against the primary government as of March 11, 2016; and those having a high probability of resulting in a decision against the primary government as of March 11, 2016, 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 in the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

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

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

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

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

The primary government is a defendant in a case, *Harley-Davidson, Inc. and Subsidiaries v. Franchise Tax Board* regarding the constitutionality of Revenue and Taxation Code section 25101.15 allowing intrastate unitary businesses the option of reporting the income of various entities within the unitary business on either a separate or combined basis. The plaintiff claims, among other things, that section 25101.15 unlawfully discriminates against them because it allows intrastate unitary businesses the option to report on either a

separate or combined basis, and that they should be allowed to report the income of their business entities on a separate basis. The Franchise Tax Board prevailed in the trial court, but the Court of Appeal reversed the decision and sent the case back to the trial court for a further determination of the merits of the taxpayer's case. Trial is currently scheduled for August 2016. If section 25101.15 were invalidated, the dollar amount of potential refunds for past years is impossible to estimate, but could be substantial. The potential loss of future revenue is also impossible to estimate, but could be mitigated by legislative action.

The primary government is a defendant in another case, *Abercrombie & Fitch Co. & Subsidiaries v. Franchise Tax Board*, regarding constitutionality of Revenue and Taxation Code section 25101.15. The parties' cross-motions for summary judgment were heard on January 8, 2015. After that hearing, the superior court stayed further proceedings pending an appellate decision in the *Harley-Davidson* case. A hearing on the motions was heard on November 24, 2015. An estimate of potential loss is not possible.

A writ petition, *Bekkerman et al v. California Board of Equalization*, has been filed against the primary government challenging the validity of a Board of Equalization (the Board) sales tax regulation (Cal. Code of Regulations, Title 18, section 1585) that requires the sales tax charged on a mobile telephone be based on the full "unbundled" price of the phone, rather than any discounted price that is contingent on a service plan commitment. A companion class action has been filed, but not yet served, pending resolution of the writ. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the Board to refund up to $1 billion of sales tax collections. The superior court will hold a hearing on the merits of the writ on October 21, 2016.

The primary government was a defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.*; *Molina Family Health Plan v. DHCS*; *and Health Net of California v. DHCS* regarding application of budget reduction factors to managed-care capitated rates. These cases have been settled on a contingent basis based on the plans' profitability. The estimated combined total potential loss is more than $400 million based on three separate settlement agreements that were entered into in 2013 and 2014. The primary government is involved in similar disputes with LA Care and other local initiatives regarding application of budget reduction factors to managed-care capitation rates; these disputes are still pending in administrative hearings. The combined total potential loss is more than $900 million.

B. Federal Audit Exceptions

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

NOTE 24: PENSION TRUSTS

The California Public Employees' Retirement System (CalPERS) provides retirement and health benefits to eligible employees of the State, public agencies, and public schools through single-employer, agent multiple-employer, and cost-sharing plans. The California State Teachers' Retirement System (CalSTRS) provides pension benefits to full-time and part-time employees of the State's public school system. Both are fiduciary component units of the State, and their financial activity is included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements of this report.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (Judges'), the Judges' Retirement Fund II (Judges' II), and the Legislators' Retirement Fund (Legislators'). CalPERS previously administered three defined contribution plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Employees' Deferred Compensation Fund, and the Supplemental Contribution Program Fund. However, effective June 1, 2014, the SPOFF plan was termininated and, as directed by state statute, the remaining funds were transferred to the Supplemental Contribution Program Fund in March 2015.

The PERF accounts for the majority of assets and liabilities reported for CalPERS' plans. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. The report may be found on CalPERS' website at www.CalPERS.ca.gov.

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

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefit Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be found on its website at www.CalSTRS.com.

Member contributions to CalSTRS' pension plans are recognized in the period in which the contributions are earned. Employer and state contributions are recognized when earned and when the employer or the State 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.

For the purpose of measuring net pension liability, deferred ouflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of CalPERS' and CalSTRS' plans and changes to the plans' fiduciary net positions has been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retirement System (UCRS), which consists of two defined benefit plans funded with University and employee contributions, and four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions. The State does not directly contribute to the UCRS. Additional information on the UCRS can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. California Public Employees' Retirement System

1. Public Employees' Retirement Fund (PERF)

***Plan Description*:** The PERF is comprised of and reported as three separate entities for financial reporting purposes, of which the State reports only PERF A. PERF A is comprised of agent multiple-employer plans, which include the State of California and most public agencies' rate plans that have more than 100 active members. PERF B is a cost-sharing multiple-employer plan comprised of school employers and consisting of non-teaching and non-certified employee members. PERF C is a cost-sharing multiple-employer plan comprised of public agencies' plans that generally have fewer than 100 active members. Employers participating in the PERF as of June 30, 2014, included the primary government and certain discretely presented component units; 1,517 school employers, including charter schools; and 1,746 public agencies. As the State is not an employer in PERF B or PERF C, the term "PERF" is used hereafter to refer exclusively to the agent multiple-employer plans that include employees of the primary government and certain discretely presented component units.

CalPERS acts as the common investment and administrative agent for participating employers. State employees served by the PERF include first- and second-tier miscellaneous and industrial employees, California Highway Patrol (CHP) employees, peace officers and firefighters, and other safety members.

***Benefits Provided*:** All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides retirement, death, disability, and survivor benefits. Vesting occurs after five years, or after ten years for second-tier employees. The benefit provisions are established by the Public Employees' Retirement Law (PERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA), and are summarized in Appendix B of the State's June 30, 2013 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2013-state-valuation.pdf. In general, for the PERF plans, retirement benefits are based on a formula using on a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g., miscellaneous, safety, industrial, CHP, or peace officers and firefighters);
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees' contracts.

The four basic types of retirement are:

- Service Retirement – The "normal" retirement is a lifetime benefit. In most cases, employees become eligible for service retirement as early as age 50 with five years of service credit. If the employee became a member on or after January 1, 2013, he or she must be at least 52 year old with at least five years of service to retire. Second-tier employees (miscellaneous and industrial) become eligible at age 55 with at least ten years of service credit.
- Vested Deferred Retirement – Vested members who leave employment but keep their contribution balances on deposit with CalPERS are eligible for this benefit.
- Disability Retirement – Vested members who can no longer perform the usual duties of their current position due to illness or injury may receive this benefit.
- Industrial Disability Retirement – This benefit is available for eligible safety members, industrial employees, CHP employees, and peace officers and firefighters, who are unable to perform the usual duties of their current position due to job-related illness or injury.

***Employees Covered by Benefit Terms*:** The State's June 30, 2014 Actuarial Valuation Report provides information about the number of employees by type covered within the various PERF plans. Table 25 shows the number of employees covered by the benefit terms of each of the PERF plans as of the most recent valuation.

Table 25

Number of Employees by Type Covered by Benefit Terms – PERF Plans
June 30, 2014

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	177,825	12,065	21,547	32,925	8,523	**252,885**
Inactive employees entitled to but not yet receiving benefits	49,717	3,137	5,601	6,390	355	**65,200**
Active employees	195,561	19,376	30,665	45,320	7,465	**298,387**
Total	**423,103**	**34,578**	**57,813**	**84,635**	**16,343**	**616,472**

***Contributions*:** Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. These rates reflect section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer toward the unfunded liability.

Table 26 shows the average active employee and the employer contribution rates for each of the PERF plans as a percentage of annual pay for the measurement period ended June 30, 2014.

Table 26

Contribution Rates – PERF Plans
June 30, 2014

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.525 %	7.571 %	10.421 %	11.252 %	10.319 %
Employer rate of annual payroll	21.137 %	16.446 %	17.905 %	31.320 %	35.897 %
Total	**27.662 %**	**24.017 %**	**28.326 %**	**42.572 %**	**46.216 %**

***Actuarial Methods and Assumptions*:** The total pension liability for PERF plans was measured as of June 30, 2014 (measurement date), by rolling forward the total pension liability determined by the June 30, 2013 actuarial valuation (valuation date), based on the actuarial methods and assumptions shown in Table 27.

Table 27

Actuarial Methods and Assumptions – PERF Plans

Valuation date:	June 30, 2013
Actuarial cost method:	Entry age normal
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65% net of pension plan investment expense but without reduction for administrative expenses; includes inflation
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Contract COLA up to 2.75% until the Purchasing Power Protection Allowance floor on purchasing power applies.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.65% for the PERF. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. Results of the testing showed that none of the tested plans would exhaust assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% was applied to all plans in the PERF. The stress test results are presented in the "GASB Crossover Testing Report," which may be found on CalPERS' website at www.CalPERS.ca.gov/docs/gasb-crossover-testing-2013.pdf.

CalPERS is scheduled to review all actuarial assumptions as part of its regular asset liability management review cycle, scheduled to be completed in February 2018. Any changes to the discount rate will require action on the part of CalPERS' Board of Administration and proper stakeholder outreach.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense but without reduction for administrative expenses; includes inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short- and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, CalPERS calculated expected compound (geometric) returns over the short-term (first 10 years) and the long-term (11 – 60 years) using a building-block approach. Using the expected nominal returns for both short- and long-term, the present value of benefits

was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short- and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Table 28 shows long-term expected geometric real rate of return by asset class for all plans in the PERF.

Table 28

Long-term Expected Real Rate of Return by Asset Class – PERF Plans

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	47.0 %	5.25 %	5.71 %
Global fixed income	19.0	0.99	2.43
Inflation sensitive	6.0	0.45	3.36
Private equity	12.0	6.83	6.95
Real estate	11.0	4.50	5.13
Infrastructure and forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.

[2] An expected inflation rate of 3.0% used for this period.

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***Changes in Net Pension Liability*:** Table 29 shows changes in net pension liability recognized over the measurement period for the PERF plans.

Table 29

Changes in Net Pension Liability – PERF Plans
(amounts in thousands)

	State Miscellaneous			State Industrial		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balance at June 30, 2013 (Valuation Date)	$ 88,885,115	$ 60,017,620	$ 28,867,495	$ 3,181,282	$ 2,420,958	$ 760,324
Changes recognized for the measurement period:						
Service cost	1,477,762	—	1,477,762	92,324	—	92,324
Interest on total pension liability	6,670,928	—	6,670,928	241,278	—	241,278
Employer contributions	—	2,156,312	(2,156,312)	—	88,516	(88,516)
Employee contributions	—	766,896	(766,896)	—	44,459	(44,459)
Investment income	—	10,370,838	(10,370,838)	—	423,076	(423,076)
Benefit payments, including refunds	(4,844,631)	(4,844,631)	—	(146,977)	(146,977)	—
Administrative expense	—	(86,473)	86,473	—	(3,583)	3,583
Net changes	**3,304,059**	**8,362,942**	**(5,058,883)**	**186,625**	**405,491**	**(218,866)**
Balance at June 30, 2014 (Measurement Date)	**$ 92,189,174**	**$ 68,380,562**	**$ 23,808,612**	**$ 3,367,907**	**$ 2,826,449**	**$ 541,458**

State Safety			State Peace Officers and Firefighters		
Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability**
$ 8,682,750	$ 6,583,260	$ 2,099,490	$ 34,655,771	$ 22,713,610	$ 11,942,161
402,902	—	402,902	816,836	—	816,836
663,219	—	663,219	2,622,406	—	2,622,406
—	339,232	(339,232)	—	959,741	(959,741)
—	196,148	(196,148)	—	331,956	(331,956)
—	1,162,050	(1,162,050)	—	3,964,754	(3,964,754)
(429,353)	(429,353)	—	(1,568,738)	(1,568,738)	—
—	(9,945)	9,945	—	(33,334)	33,334
636,768	**1,258,132**	**(621,364)**	**1,870,504**	**3,654,379**	**(1,783,875)**
$ 9,319,518	**$ 7,841,392**	**$ 1,478,126**	**$ 36,526,275**	**$ 26,367,989**	**$ 10,158,286**

(continued)

Table 29 (continued)

Changes in Net Pension Liability – PERF Plans (continued)
(amounts in thousands)

	California Highway Patrol			Total PERF Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2013 (Valuation Date)	$ 9,604,872	$ 5,759,985	$ 3,844,887	$ 145,009,790	$ 97,495,433	$ 47,514,357
Changes recognized for the measurement period:						
Service cost	191,730	—	191,730	2,981,554	—	2,981,554
Interest on total pension liability	724,474	—	724,474	10,922,305	—	10,922,305
Employer contributions	—	277,702	(277,702)	—	3,821,503	(3,821,503)
Employee contributions	—	83,161	(83,161)	—	1,422,620	(1,422,620)
Investment income	—	1,005,007	(1,005,007)	—	16,925,725	(16,925,725)
Benefit payments, including refunds	(460,991)	(460,991)	—	(7,450,690)	(7,450,690)	—
Administrative expense	—	(8,417)	8,417	—	(141,752)	141,752
Net changes	**455,213**	**896,462**	**(441,249)**	**6,453,169**	**14,577,406**	**(8,124,237)**
Balance at June 30, 2014 (Measurement Date)	**$ 10,060,085**	**$ 6,656,447**	**$ 3,403,638**	**$ 151,462,959**	**$ 112,072,839**	**$ 39,390,120**

Reported in governmental activities	$ 32,215,408
Reported in business-type activities	6,248,976
Reported by discretely presented component units	48,009
Not reported in government-wide Statement of Net Position [1]	877,727
Total net pension liability – PERF plans	**$ 39,390,120**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds. Additionally, this amount includes the net pension liability for discretely presented component units with a reporting period ended December 31, 2014, that have not yet implemented GASB Statements No. 68 and No. 71. Also includes adjustments for net pension liability understatements or overstatements included in the separately issued financial statements of proprietary funds and component units.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Table 30 shows the net pension liability of the State, with regard to the PERF plans, calculated using the discount rate of 7.65%, as well as what the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate.

Table 30

Net Pension Liability Sensitivity – PERF Plans
June 30, 2015
(amounts in thousands)

	Current Rate -1%	Current Rate 7.65%	Current Rate +1%
State Miscellaneous	$ 35,024,779	$ 23,808,612	$ 14,184,286
State Industrial	998,904	541,458	153,711
State Safety	2,750,450	1,478,126	397,559
State Peace Officers and Firefighters	15,304,428	10,158,286	5,835,514
California Highway Patrol	4,813,585	3,403,638	2,218,532
Total PERF plans	**$ 58,892,146**	**$ 39,390,120**	**$ 22,789,602**

***Pension Plans Fiduciary Net Position*:** Detailed information about the PERF plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the PERF plans, for the year ended June 30, 2015, the State recognized pension expense of $3.4 billion. At June 30, 2015, the State reported deferred outflows of resources from contributions made by the State to the PERF plans subsequent to the measurement date of June 30, 2014, but prior to the year ended June 30, 2015, and deferred inflows of resources for the net difference between projected and actual earnings on plan investments. Deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year.

Table 31 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each PERF plan.

Table 31

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – PERF Plans
June 30, 2015
(amounts in thousands)

	Pension Expense	Deferred Outflows of Resources: Employer Contributions Subsequent to the Measurement Date	Deferred Inflows of Resources: Difference Between Projected and Actual Earnings on Investments
State Miscellaneous	$ 1,799,177	$ 2,583,400	$ (4,701,748)
State Industrial	61,241	104,769	(191,591)
State Safety	243,403	387,508	(525,536)
State Peace Officers and Firefighters	973,488	1,148,597	(1,797,622)
California Highway Patrol	292,287	352,139	(455,834)
Total PERF plans	**$ 3,369,596**	**$ 4,576,413**	**$ (7,672,331)**

Table 32 shows amounts reported as deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the PERF plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 32

Recognition of Deferred Inflows of Resources – PERF Plans
(amounts in thousands)

Year Ending June 30	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	PERF Total
2016	$ (1,175,437)	$ (47,898)	$ (131,384)	$ (449,406)	$ (113,959)	$ (1,918,084)
2017	(1,175,437)	(47,898)	(131,384)	(449,406)	(113,959)	(1,918,084)
2018	(1,175,437)	(47,898)	(131,384)	(449,405)	(113,958)	(1,918,082)
2019	(1,175,437)	(47,897)	(131,384)	(449,405)	(113,958)	(1,918,081)

***Payable to the Pension Plans*:** At June 30, 2015, the State reported a payable of $608 million for the outstanding amount of contributions to the PERF pension plans required for the year ended June 30, 2015.

2. Single-employer Plans

***Plan Description*:** CalPERS administers three single-employer defined benefit retirement plans.

Judges' – Judges' membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts who were appointed or elected prior to November 9, 1994. Judges' is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a General Fund augmentation are used to provide funding for benefit payments.

Judges' II – Judges' II membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts, who were appointed or elected on or after November 9, 1994. There are two types of service retirement available for plan members: the Defined Benefit Plan and the Monetary Credit Plan, in which members can choose a single lump sum payment or annuity at retirement.

Legislators' – Legislators' was established in 1947 and its members consist of state legislators, constitutional offices, and legislative statutory officers. The PEPRA closed Legislators' to new participants effective January 1, 2013.

***Benefits Provided*:** All employees in a covered class of employment who work on a half-time basis or more are eligible to participate. The benefits for the defined benefit plans are based on a member's years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service. Benefits are established in accordance with the provisions of the Judges' Retirement Law, Judges' Retirement System II Law, and Legislators' Retirement Law. Additional information is available in the Actuarial Valuation Report for each plan, which may be found on CalPERS' website at www.CalPERS.ca.gov.

Judges' – The four basic types of retirement are:

- Service Retirement – Members must be at least age 60 with 20 years of service or age 70 with at least 10 years of service.
- Deferred Retirement – Vested members are eligible for deferred retirement at any age.
- Disability Retirement – The service requirement is four years. The retirement allowance is 65% of a judge's final salary, or 75% of his or her final salary if the judge has 20 or more years of service.
- Death Benefits – Beneficiaries may receive 25% of a current active judge's salary for life if the judge was not eligible for retirement. Beneficiaries receive one-half of what the retirement allowance would have been if the judge had retired on the date of death.

Judges' II – The four basic types of retirement are:

- Service Retirement – Judges must be at least age 65 with 20 years of service or age 70 with a minimum of five years of service to receive the defined benefit plan. Judges must have at least five years of service to receive the monetary credit plan.
- Disability Retirement (non-work related) – Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission on Judicial Performance for disability retirement.
- Disability Retirement (work related) – Judges receive 65% of their average monthly salary earned during the 12 months preceding their retirement date, regardless of age or length of service.
- Death Benefits – Beneficiaries receive the judge's monetary credits or three times the annual salary at the time of death, whichever is greater, if the judge was not eligible for retirement. Beneficiaries receive one-half of the retirement pension for life if the judge was retired on the date of death.

Legislators' – The three basic types of retirement are:

- Service Retirement – Members must be age 60, with four or more years of service credit, or any age with 20 or more years. The retirement age for legislative statutory officers is 55, or any age with 20 years or more of service credit.
- Disability Retirement – Disability retirement uses the same formula as service retirement. There is no reduction for members of the Legislature if retirement is before age 60.
- Death Benefits – Beneficiaries have multiple options depending on whether the member was eligible for retirement or was retired at the time of death.

***Employees Covered by Benefit Terms*:** The June 30, 2014 actuarial valuation reports for each single-employer plan provide information about the number of employees by type covered within the plans. Table 33 shows the number of employees covered by the benefit terms of each of the single-employer plans as of the most recent valuation.

Table 33

Number of Employees by Type Covered by Benefit Terms – Single-employer Plans
June 30, 2014

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,912	71	248	**2,231**
Inactive employees entitled to but not yet receiving benefits	25	3	16	**44**
Active employees	279	1,392	11	**1,682**
Total	**2,216**	**1,466**	**275**	**3,957**

***Contributions*:** As Judges' is funded on a "pay-as-you-go" basis, the actuarially determined contribution requirements are the estimated amount of benefit payouts during the year. Currently, Judges' member contributions are 8% of pay. In certain situations, employers make member contributions.

Judges' II contribution rates are determined through the CalPERS' annual actuarial valuation process as required by section 75600.5 of the PERL.

For Legislators', the State's contribution is determined annually by an actuary in accordance with section 20814 of the PERL. For the measurement period ended June 30, 2014, the Legislators' actuarially determined employer contribution rate was 1.554% of annual payroll. However, because the minimum employer contribution rate under PEPRA is the greater of the actuarially determined employer rate or the employer normal cost, the required contribution rate was 38.381%.

Table 34 shows the average active employee and the employer contribution rates for each of the single-employer plans as a percentage of annual pay for the measurement period ended June 30, 2014.

Table 34

Contribution Rates – Single-employer Plans
June 30, 2014

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.150 %	7.532 %
Employer rate of annual payroll	as-you-	22.687 %	38.381 %
Total	go"	**30.837 %**	**45.913 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2014 (measurement date), by rolling forward the total pension liability determined by the June 30, 2013 actuarial valuations (valuation date), based on the actuarial methods and assumptions shown in Table 35.

Table 35

Actuarial Methods and Assumptions – Single-employer Plans

Valuation date:	June 30, 2013
Actuarial cost method:	Entry age normal
Actuarial assumptions:	
Discount rate	Judges' 4.25%, Judges' II 7.00%, Legislators' 5.75%
Inflation	All single-employer plans – 2.75%
Salary increases	All single-employer plans – 3.00%
Investment rate of return	Judges' 4.25%, Judges' II 7.00%, Legislators' 5.75%, net of pension plan investment and administrative expenses; includes inflation.
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and include 20 years of mortality improvements using Scale BB published by the Society of Actuaries.
Post-retirement benefit adjustments (COLAs)	Judges' – 3.00% Judges' II – 2.75% Legislators' – 2.75%

***Discount Rate*:** To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. For the single-employer plans, the following rates were used:

Judges' – 4.25%, reflecting the short-term nature of the assets. As the plan is insufficiently funded, CalPERS uses a discount rate of 4.25%, which falls within a reasonable range of yields on 20-year tax-exempt general obligation municipal bonds with an average rating of AA.

Judges' II – 7.00%

Legislators' – 5.75%

With the exception of Judges', which uses a lower rate of return, the information regarding the discount rate and the long-term expected real rate of return described previously for the PERF plans is also applicable to the single-employer plans. GAAP requires that the long-term discount rate should be determined without reduction for pension plan administrative expense. For Judges' II and Legislators', the discount rates are net of administrative expenses, resulting in a lower rate and, consequently, a slightly lower net pension asset for each plan.

Table 36 shows long-term expected geometric real rates of return by asset class for Judges' II and Legislators'.

Table 36

Long-term Expected Real Rate of Return by Asset Class – Judges' II and Legislators' Plans

Asset Class	Judges' II New Strategic Allocation	Legislators' New Strategic Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	50.0 %	24.0 %	5.25 %	5.71 %
Global fixed income	34.0	39.0	1.79	2.40
Treasury inflation protected securities	5.0	26.0	1.00	2.25
Commodities	3.0	3.0	1.66	4.95
Real estate	8.0	8.0	3.25	7.88
Total	**100.0 %**	**100.0 %**		

[1] An expected inflation rate of 2.5% used for this period.
[2] An expected inflation rate of 3.0% used for this period.

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***Changes in Net Pension Liability*:** Table 37 shows the changes in net pension liability recognized over the measurement period for the single-employer plans.

Table 37

Changes in Net Pension Liability – Single-employer Plans
(amounts in thousands)

	Judges'			Judges' II		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2013 (Valuation Date)	**$ 3,383,310**	**$ 53,820**	**$ 3,329,490**	**$ 837,198**	**$ 795,967**	**$ 41,231**
Changes recognized for the measurement period:						
Service cost	27,581	—	27,581	78,670	—	78,670
Interest on total pension liability	140,256	—	140,256	61,044	—	61,044
Employer contributions	—	191,148	(191,148)	—	57,027	(57,027)
Employee contributions	—	7,248 *	(7,248) *	—	20,413	(20,413)
Investment income	—	59	(59)	—	150,168	(150,168)
Benefit payments, including refunds	(193,935)	(193,935)	—	(8,950)	(8,950)	—
Administrative expense	—	(1,141)	1,141	—	(785)	785
Net changes	**(26,098)**	**3,379**	**(29,477)**	**130,764**	**217,873**	**(87,109)**
Balance at June 30, 2014 (Measurement Date)	**$ 3,357,212**	**$ 57,199**	**$ 3,300,013**	**$ 967,962**	**$ 1,013,840**	**$ (45,878)**

* Includes other income and other investment income.

	Legislators'			Total Single-employer Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	$ 115,806	**$ 122,148**	**$ (6,342)**	**$ 4,336,314**	**$ 971,935**	**$ 3,364,379**
	732	—	732	106,983	—	106,983
	6,465	—	6,465	207,765	—	207,765
	—	565	(565)	—	248,740	(248,740)
	—	113	(113)	—	27,774	(27,774)
	—	15,372	(15,372)	—	165,599	(165,599)
	(7,482)	(7,482)	—	(210,367)	(210,367)	—
	—	(362)	362	—	(2,288)	2,288
	(285)	**8,206**	**(8,491)**	**104,381**	**229,458**	**(125,077)**
	$ 115,521	**$ 130,354**	**$ (14,833)**	**$ 4,440,695**	**$ 1,201,393**	**$ 3,239,302**
					Reported in governmental activities	**$ 3,239,302**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 4.25%; Judges' II used 7%; and Legislators' used 5.75%. Table 38 shows the net pension liability for each single-employer plan, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Table 38

Net Pension Liability Sensitivity – Single-employer Plans
June 30, 2015
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (4.25%)	$ 3,690,642	$ 3,300,013	$ 2,972,824
Judges' II (7.0%)	86,070	(45,878)	(150,976)
Legislators' (5.75%)	(1,163)	(14,833)	(26,009)
Total Single-employer Plans	**$ 3,775,549**	**$ 3,239,302**	**$ 2,795,839**

***Pension Plans Fiduciary Net Position*:** Detailed information about the single-employer plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the single-employer plans, for the year ended June 30, 2015, the State recognized pension expense of $200 million. At June 30, 2015, the State reported deferred outflows of resources from contributions made by the State to the single-employer plans subsequent to the measurement date of June 30, 2014, but prior to the year ended June 30, 2015, which will be recognized as a reduction of the net pension liability in the subsequent year. Table 39 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each single-employer plan.

Table 39

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – Single-employer Plans
June 30, 2015
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension expense	$ 158,900	$ 42,932	$ (1,381)	**$ 200,451**
Deferred outflows of resources due to employer contributions subsequent to the measurement date	3,598	59,982	544	**64,124**
Deferred outflows of resources related to net difference between projected and actual earnings on pension plan investments	2,771	—	—	**2,771**
Deferred inflows of resources related to net difference between projected and actual earnings on pension plan investments	—	(73,014)	(6,545)	**(79,559)**

Table 40 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the single-employer plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 40

Recognition of Deferred Outflows and Deferred Inflows of Resources – Single-employer Plans
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources		
Year Ending June 30	**Judges'**	**Judges' II**	**Legislators'**	**Total**
2016	$ 693	$ (18,254)	$ (1,636)	$ **(19,197)**
2017	693	(18,254)	(1,636)	**(19,197)**
2018	693	(18,254)	(1,636)	**(19,197)**
2019	692	(18,253)	(1,637)	**(19,198)**

B. California State Teachers' Retirement System

The State reports a net pension liability, deferred outflows and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to the State Teachers' Retirement Fund as a non-employer contributing entity.

***Plan Description*:** CalSTRS administers the State Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and survivor benefits to teachers and certain other employees of the California public school system. 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. CalSTRS issues a publicly available financial report, which may be found on CalSTRS' website at www.CalSTRS.com.

***Benefits Provided*:** Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. The DB Program had 1,687 contributing employers, 420,887 active and 182,815 inactive program members, and 275,627 benefit recipients as of June 30, 2014. The payroll for employees covered by the DB Program for the year ended June 30, 2014, was approximately $27.1 billion.

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

***Contributions*:** The DB Program contribution rates for members and employers are 8.00% and 8.25% of creditable compensation, respectively. The General Fund contribution is 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 rate of 0.524% of creditable earnings of

the fiscal year ending in the immediately preceding calendar year when there is an unfunded actuarial obligation or a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded actuarial obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation of the immediately preceding calendar year. The normal cost deficit is the difference between the actuarially determined normal cost rate and the member and employer contributions. Based on CalSTRS' June 30, 2013 Defined Benefit Actuarial Valuation Report, which may be found on CalSTRS' website at http://www.CalSTRS.com/sites/main/files/file-attachments/2013_db_valuation_report.pdf, there is no normal cost deficit, but there is an unfunded obligation for benefits in place as of July 1, 1990.

Assembly Bill (AB) 1469, signed into law on June 24, 2014, was designed to address the long-term funding gap of the DB Program. It creates a plan to fully fund the DB Program by 2046 through increases in employer, state, and employee contributions. The portion of the state appropriation under Education Code section 22955(b) that is in addition to the 2.017% has been replaced by section 22955.1(b) in order to fully fund by 2046 the benefits in effect as of 1990. As a result of AB 1469, the State increased its contributions beginning in the fourth quarter of fiscal year 2013-14. The State contributed a total of $1.5 billion for fiscal year 2014-15.

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, then each eligible employee will automatically be covered by the CB Benefit Program, unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2014, the CB Benefit Program had 32 contributing school districts and 35,066 contributing participants.

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

***Actuarial Methods and Assumptions*:** The total pension liability in the June 30, 2013 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 41, applied to the measurement period ended June 30, 2014.

Table 41

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2013
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Investment rate of return	7.60 %
Consumer price inflation	3.00 %
Projected wage growth	3.75 %
Post-retirement benefit increases (COLAs)	2.00 % simple

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience. RP2000 series tables are an industry standard set of mortality rates published by the Society of Actuaries.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.60%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases created by AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. Based on the model from CalSTRS' consulting actuary's investment practice, a best estimate range was determined by assuming that the portfolio is re-balanced annually and that annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date on which current experience study was approved by the CalSTRS board.

Table 42 shows the assumed allocation and best estimates of 10-year geometric real rate of return for each major asset class.

Table 42

Long-term Expected Real Rate of Return by Asset Class – CalSTRS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47 %	4.50 %
Private equity	12	6.20
Real estate	15	4.35
Inflation sensitive	5	3.20
Fixed income	20	0.20
Cash/liquidity	1	0.00
Total	**100 %**	

***Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** CalSTRS' net pension liability was measured as of June 30, 2014 (measurement date) by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2013 (valuation date). The State's proportion of the net pension liability was based on CalSTRS' calculated non-employer contributions to the pension plan relative to the total contributions of the State and all participating school districts. Per CalSTRS' revenue recognition policy, CalSTRS recognizes state contributions for the entire fiscal year at the beginning of each fiscal year. Contributions excluded from the proportionate share per CalSTRS' policy include employer contributions for retirement incentives, additional service credit, and unused sick leave. As of June 30, 2014, the State's proportionate share of the CalSTRS' net pension liability was 37.65%, or $22.0 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2015.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $1.9 billion for the year ended June 30, 2015 and reported deferred outflows and deferred inflows of resources as shown in Table 43.

Table 43

Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – CalSTRS
June 30, 2015
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ —	$ 5,417,835
State contributions subsequent to the measurement date	1,486,004	—
Total	**$ 1,486,004**	**$ 5,417,835**

The $1.5 billion reported as deferred outflows of resources resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

Table 44 shows amounts reported as deferred inflows of resources related to pensions that will be recognized in pension expense in futures years as a result of the State's requirement to contribute to CalSTRS. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 44

Recognition of Deferred Inflows of Resources – CalSTRS
(amounts in thousands)

Year Ending June 30	Amount
2016	$ (1,354,459)
2017	(1,354,459)
2018	(1,354,459)
2019	(1,354,458)

***Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*:** Table 45 shows the State's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.60%) than the current rate.

Table 45

Net Pension Liability Sensitivity – CalSTRS
June 30, 2015
(amounts in thousands)

	Current Rate –1%	Current Rate 7.60%	Current Rate +1%
State's proportionate share of net pension liability	$ 34,294,632	$ 22,001,531	$ 11,751,318

***Pension Plan Fiduciary Net Position*:** Detailed information about CalSTRS' pension plans' fiduciary net position is available in the separately issued CalSTRS financial report.

NOTE 25: POSTEMPLOYMENT HEALTH CARE BENEFITS

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

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

To be eligible for these benefits, primary government first-tier plan annuitants must retire on or after age 50 with at least five years of service, and second-tier plan annuitants must retire on or after 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 2014-15 fiscal year, approximately 177,870 annuitants were enrolled to receive health benefits and approximately 144,660 annuitants were enrolled to receive dental benefits. As of July 1, 2013, the most recent actuarial valuation date, the trial courts had approximately 4,200 enrolled retirees and spouses.

***Funding Policy*:** The contribution requirements of plan members and the State are established and may be amended by the Legislature. In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for annuitants, plus 90% of the additional premium required for the enrollment of family members of annuitants. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending upon the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a pay-as-you-go basis, with a modest amount of prefunding for members of Bargaining Units 5, 12, and 16. The maximum 2015 monthly State contribution was $655 for one-party coverage, $1,246 for two-party coverage, and $1,605 for family coverage.

Each of the trial courts determines its respective retirees' benefits and benefit levels as well as the funding policy for its respective plan. Twenty-one trial courts fund retirees' benefits on a strictly pay-as-you-go basis. The fiscal year 2014-15 monthly contribution rate for the trial courts with single-employer defined benefit plans, the latest year for which contribution information is available, ranged from $0 to $1,059,640, with the average being $84,523. One trial court (Yolo) continuously contributes at least the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. Sonoma and Marin are on a pay-as-you-go plus 50% of direct-subsidy benefits

funding policy (after initial contribution) until their plans are fully funded. Orange contributed the larger of the ARC, or 3.5% of payroll, with at least the ARC contributed for 2014, with no commitment to future contributions. San Diego, a cost-sharing multiple-employer defined benefit plan, had a contribution rate of 1.94% of annual covered pension payroll. Seventeen other trial courts made contributions only in 2014, with five other trial courts contributing in other years (Placer in 2013 and 2014; San Mateo in 2013, 2014, and 2015; Nevada in 2012 and 2013; Santa Cruz in 2013; and Butte in 2014 and prior years, which fully funded the plan), but none of these 22 trial courts are committing to future trust contributions. Lassen is fully funded with no future contributions expected, Imperial has committed to $20,000 per year for future contributions, and Santa Clara funding policy is set by the County and will increase to 70% of the ARC long term. For the year ended June 30, 2015, the State contributed $2.0 billion toward annuitants' health and dental benefits. Of this amount, the trial courts represent $52 million and certain discretely presented component units represent $4 million.

***Annual OPEB Cost and Net OPEB Obligation*:** The State's annual OPEB cost (expense) is calculated based on the ARC. Table 46 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, 2015, and the two preceding years, including trial courts.

Table 46

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, 2013	$ 4,992,924	35.33 %	$ 16,267,964
June 30, 2014	5,129,284	37.20	19,489,030
June 30, 2015	5,156,787	39.33	22,617,653

Table 47 presents the components of the State's net OPEB obligation to the OPEB plan, including trial courts.

Table 47

Schedule of Net OPEB Obligation
June 30, 2015
(amounts in thousands)

	Amount
Annual required contribution	$ 5,100,227
Interest on net OPEB obligation	833,117
Adjustment to annual required contribution	(776,557)
Annual OPEB cost	**5,156,787**
Contributions made	(2,028,164)
Increase in net OPEB obligation	**3,128,623**
Net OPEB obligation – beginning of year	**19,489,030**
Net OPEB obligation – end of year	**$ 22,617,653**

***Funded Status and Funding Progress*:** As of June 30, 2015—the most recent actuarial valuation date for the State substantive plan—the actuarial accrued liability (AAL) for benefits was $74.2 billion, and the actuarial value of assets was $86 million, resulting in an unfunded actuarial accrued liability (UAAL) of $74.1 billion. The covered payroll (annual payroll of active employees covered by the plan) was $20.2 billion, and the ratio of the UAAL to the covered payroll was 367%.

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

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

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

In the June 30, 2015 State substantive plan actuarial valuation, the individual entry age normal cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of actual increases for 2016 and 8.00% in 2017 initially, reduced to an ultimate rate of 4.50% in 2022. Both rates included a 2.75% annual inflation assumption. Annual wage inflation is assumed to be 3.00%. The UAAL is being amortized as a level percentage of active member payroll on an open basis over 30 years.

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

NOTE 26: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2015, but prior to the date of the auditor's report.

A. Debt Issuances

In August 2015, the California State University issued $1.1 billion in revenue bonds to refund certain maturities of Systemwide Revenue Bonds series 2005A, 2005B, 2005C, and 2007A; repay bond anticipation

notes; refund other outstanding bond indebtedness by auxiliary organizations; fund new capital projects; and pay related issuance costs.

In September 2015, the Department of Water Resources issued $109 million in water system revenue bonds to redeem certain outstanding commercial paper notes, to fund deposits to the debt service reserve account, to fund capitalized interest, and to pay related issuance costs.

In September and November 2015, the primary government issued $1.9 billion and $972 million, respectively, in general obligation bonds to finance or refinance capital facilities or other voter-approved costs for public purposes, including parks, clean water and clean air; reading and literacy improvement and public libraries; safe drinking water; children's hospitals; earthquake safety and public building rehabilitation; public primary, secondary, community college and university education facilities; highway safety, traffic reduction, air quality, and port security; transportation; safe and clean drinking water; clean water, watershed protection and flood protection; water security, water quality, water supply and river, coastal and beach protection; water conservation; seismic retrofit; wildlife, coastal and parkland conservation; veterans' homes; medical research; and housing and emergency shelter.

In October 2015, the primary government issued $446 million in veterans' general obligation bonds to finance or refinance obligations that were issued to finance contracts for the purchase of homes and farms for military veterans who reside in California.

In October 2015 and November 2015, the State Public Works Board issued a combined total of $772 million in lease revenue bonds to refund and defease outstanding lease revenue bond series 2002A, 2002C, 2003D, 2005A, 2005B, and 2005K; finance and refinance the cost of design and/or construction of various projects for the benefit of the Department of Corrections and Rehabilitation; and pay related issuance costs.

In November 2015, two of the State's building authorities issued $163 million in lease revenue bonds to refinance all of their outstanding bonds for two state office buildings, to fund a debt service reserve account, and to pay related issuance costs.

B. Other

In July 2015, Standard and Poor's Rating Services raised the State's general obligation rating to "AA-" from "A+", citing the enactment of the State's fiscal year 2015-2016 budget, marking improved fiscal sustainability.

In July 2015, the Electric Power Fund received $23 million in energy settlements to resolve claims arising from events and transactions in Western Energy Markets during the period of January 1, 2000, through June 20, 2001.

In August 2015, the primary government defeased the remaining $930 million outstanding balance of the Economic Recovery Bonds by placing $988 million into a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on the defeased bonds. The bonds will be fully redeemed in 2018.

California's demand for unemployment insurance benefits required the State to continue borrowing from the U.S. Department of Labor during the 2015-16 fiscal year. As of June 30, 2015, the State had $5.7 billion in outstanding loans with the U.S. Department of Labor which were used to cover deficits in the Unemployment Programs Fund. As of March 11, 2016, the State had an outstanding loan balance of $6.7 billion. While the State continued to request additional loans during 2016, it estimates that these loans will be fully repaid in 2018.

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Required Supplementary Information

Schedule of Changes in Net Pension Liability and Related Ratios

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE MISCELLANEOUS [2]	
Total pension liability	
Service cost	$ 1,477,762
Interest	6,670,928
Benefit payments, including refunds of employee contributions	(4,844,631)
Net change in total pension liability	3,304,059
Total pension liability – beginning	**88,885,115**
Total pension liability – ending (a)	**$ 92,189,174**
Plan fiduciary net position	
Contributions – employer	2,156,312
Contributions – employee	766,896
Net investment income	10,370,838
Benefit payments, including refunds of employee contributions	(4,844,631)
Administrative expense	(86,473)
Net change in plan fiduciary net position	8,362,942
Plan fiduciary net position – beginning	**60,017,620**
Plan fiduciary net position – ending (b)	**$ 68,380,562**
State's net pension liability – ending (a) – (b)	**$ 23,808,612**
Plan fiduciary net position as a percentage of the total pension liability	74.17%
Covered-employee payroll	$ 10,019,739
State's net pension liability as a percentage of covered-employee payroll	237.62%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.

[2] This schedule includes amounts attributable to fiduciary funds, related organizations, and discretely presented component units, which are not part of the primary government.

[3] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE INDUSTRIAL [2]	
Total pension liability	
Service cost	$ 92,324
Interest	241,278
Benefit payments, including refunds of employee contributions	(146,977)
Net change in total pension liability	186,625
Total pension liability – beginning	**3,181,282**
Total pension liability – ending (a)	**$ 3,367,907**
Plan fiduciary net position	
Contributions – employer	88,516
Contributions – employee	44,459
Net investment income	423,076
Benefit payments, including refunds of employee contributions	(146,977)
Administrative expense	(3,583)
Net change in plan fiduciary net position	405,491
Plan fiduciary net position – beginning	**2,420,958**
Plan fiduciary net position – ending (b)	**$ 2,826,449**
State's net pension liability – ending (a) – (b)	**$ 541,458**
Plan fiduciary net position as a percentage of the total pension liability	83.92%
Covered-employee payroll	$ 532,490
State's net pension liability as a percentage of covered-employee payroll	101.68%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE SAFETY [2]	
Total pension liability	
Service cost	$ 402,902
Interest	663,219
Benefit payments, including refunds of employee contributions	(429,353)
Net change in total pension liability	636,768
Total pension liability – beginning	**8,682,750**
Total pension liability – ending (a)	**$ 9,319,518**
Plan fiduciary net position	
Contributions – employer	339,232
Contributions – employee	196,148
Net investment income	1,162,050
Benefit payments, including refunds of employee contributions	(429,353)
Administrative expense	(9,945)
Net change in plan fiduciary net position	1,258,132
Plan fiduciary net position – beginning	**6,583,260**
Plan fiduciary net position – ending (b)	**$ 7,841,392**
State's net pension liability – ending (a) – (b)	**$ 1,478,126**
Plan fiduciary net position as a percentage of the total pension liability	84.14%
Covered-employee payroll	$ 1,901,235
State's net pension liability as a percentage of covered-employee payroll	77.75%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE PEACE OFFICERS AND FIREFIGHTERS [2]	
Total pension liability	
Service cost	$ 816,836
Interest	2,622,406
Benefit payments, including refunds of employee contributions	(1,568,738)
Net change in total pension liability	1,870,504
Total pension liability – beginning	**34,655,771**
Total pension liability – ending (a)	**$ 36,526,275**
Plan fiduciary net position	
Contributions – employer	959,741
Contributions – employee	331,956
Net investment income	3,964,754
Benefit payments, including refunds of employee contributions	(1,568,738)
Administrative expense	(33,334)
Net change in plan fiduciary net position	3,654,379
Plan fiduciary net position – beginning	**22,713,610**
Plan fiduciary net position – ending (b)	**$ 26,367,989**
State's net pension liability – ending (a) – (b)	**$ 10,158,286**
Plan fiduciary net position as a percentage of the total pension liability	72.19%
Covered-employee payroll	$ 3,030,525
State's net pension liability as a percentage of covered-employee payroll	335.20%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
CALIFORNIA HIGHWAY PATROL	
Total pension liability	
Service cost	$ 191,730
Interest	724,474
Benefit payments, including refunds of employee contributions	(460,991)
Net change in total pension liability	455,213
Total pension liability – beginning	**9,604,872**
Total pension liability – ending (a)	**$ 10,060,085**
Plan fiduciary net position	
Contributions – employer	277,702
Contributions – employee	83,161
Net investment income	1,005,007
Benefit payments, including refunds of employee contributions	(460,991)
Administrative expense	(8,417)
Net change in plan fiduciary net position	896,462
Plan fiduciary net position – beginning	**5,759,985**
Plan fiduciary net position – ending (b)	**$ 6,656,447**
State's net pension liability – ending (a) – (b)	**$ 3,403,638**
Plan fiduciary net position as a percentage of the total pension liability	66.17%
Covered-employee payroll	$ 765,283
State's net pension liability as a percentage of covered-employee payroll	444.76%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [3]
SINGLE-EMPLOYER PLANS	
JUDGES'	
Total pension liability	
Service cost	$ 27,581
Interest	140,256
Benefit payments, including refunds of employee contributions	(193,935)
Net change in total pension liability	(26,098)
Total pension liability – beginning	**3,383,310**
Total pension liability – ending (a)	**$ 3,357,212**
Plan fiduciary net position	
Contributions – employer	191,148
Contributions – employee	7,248
Net investment income	59
Benefit payments, including refunds of employee contributions	(193,935)
Administrative expense	(1,141)
Net change in plan fiduciary net position	3,379
Plan fiduciary net position – beginning	**53,820**
Plan fiduciary net position – ending (b)	**$ 57,199**
State's net pension liability – ending (a) – (b)	**$ 3,300,013**
Plan fiduciary net position as a percentage of the total pension liability	1.70%
Covered-employee payroll	$ 163,574
State's net pension liability as a percentage of covered-employee payroll	2017.44%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

		2014 [3]
SINGLE-EMPLOYER PLANS		
JUDGES' II		
Total pension liability		
Service cost	$	78,670
Interest		61,044
Benefit payments, including refunds of employee contributions		(8,950)
Net change in total pension liability		130,764
Total pension liability – beginning		**837,198**
Total pension liability – ending (a)	**$**	**967,962**
Plan fiduciary net position		
Contributions – employer		57,027
Contributions – employee		20,413
Net investment income		150,168
Benefit payments, including refunds of employee contributions		(8,950)
Administrative expense		(785)
Net change in plan fiduciary net position		217,873
Plan fiduciary net position – beginning		**795,967**
Plan fiduciary net position – ending (b)	**$**	**1,013,840**
State's net pension liability/(asset) – ending (a) – (b)	**$**	**(45,878)**
Plan fiduciary net position as a percentage of the total pension liability		104.74%
Covered-employee payroll	$	40,476
State's net pension liability/(asset) as a percentage of covered-employee payroll		-113.35%

(continued)

Schedule of Changes in Net Pension Liability and Related Ratios (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

		2014 [3]
SINGLE-EMPLOYER PLANS		
LEGISLATORS'		
Total pension liability		
Service cost	$	732
Interest		6,465
Benefit payments, including refunds of employee contributions		(7,482)
Net change in total pension liability		(285)
Total pension liability – beginning		**115,806**
Total pension liability – ending (a)	**$**	**115,521**
Plan fiduciary net position		
Contributions – employer		565
Contributions – employee		113
Net investment income		15,372
Benefit payments, including refunds of employee contributions		(7,482)
Administrative expense		(362)
Net change in plan fiduciary net position		8,206
Plan fiduciary net position – beginning		**122,148**
Plan fiduciary net position – ending (b)	**$**	**130,354**
State's net pension liability/(asset) – ending (a) – (b)	**$**	**(14,833)**
Plan fiduciary net position as a percentage of the total pension liability		112.84%
Covered-employee payroll	$	1,471
State's net pension liability as a percentage of covered-employee payroll		-1008.36%

(concluded)

Schedule of State Pension Contributions

For the Past Fiscal Year [1]

(amounts in thousands)

	2015
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
STATE MISCELLANEOUS [2]	
Actuarially determined contribution	$ 2,421,157
Contributions in relation to the actuarially determined contribution	(2,583,400)
Contribution deficiency (excess)	$ (162,243)
Covered-employee payroll	$ 10,655,117
Contributions as a percentage of covered-employee payroll	24.25%
STATE INDUSTRIAL [2]	
Actuarially determined contribution	$ 92,024
Contributions in relation to the actuarially determined contribution	(104,769)
Contribution deficiency (excess)	$ (12,745)
Covered-employee payroll	$ 577,713
Contributions as a percentage of covered-employee payroll	18.14%
STATE SAFETY [2]	
Actuarially determined contribution	$ 341,509
Contributions in relation to the actuarially determined contribution	(387,508)
Contribution deficiency (excess)	$ (45,999)
Covered-employee payroll	$ 2,003,716
Contributions as a percentage of covered-employee payroll	19.34%
STATE PEACE OFFICERS AND FIREFIGHTERS [2]	
Actuarially determined contribution	$ 1,086,102
Contributions in relation to the actuarially determined contribution	(1,148,597)
Contribution deficiency (excess)	$ (62,495)
Covered-employee payroll	$ 3,115,364
Contributions as a percentage of covered-employee payroll	36.87%

(continued)

[1] This schedule will be built prospectively until it contains ten years of data.

[2] This schedule includes amounts attributable to fiduciary funds, related organizations, and discretely presented component units, which are not part of the primary government.

Schedule of State Pension Contributions (continued)

For the Past Fiscal Year [1]
(amounts in thousands)

	2015
PUBLIC EMPLOYEES' RETIREMENT FUND PLANS	
CALIFORNIA HIGHWAY PATROL	
Actuarially determined contribution	$ 323,393
Contributions in relation to the actuarially determined contribution	(352,139)
Contribution deficiency (excess)	$ (28,746)
Covered-employee payroll	$ 809,610
Contributions as a percentage of covered-employee payroll	43.49%
SINGLE-EMPLOYER PLANS	
JUDGES'	
Actuarially determined contribution	$ 1,884,555
Contributions in relation to the actuarially determined contribution	(3,598)
Contribution deficiency (excess)	$ 1,880,957
Covered-employee payroll	$ 167,542
Contributions as a percentage of covered-employee payroll	2.15%
JUDGES' II	
Actuarially determined contribution	$ 63,193
Contributions in relation to the actuarially determined contribution	(59,982)
Contribution deficiency (excess)	$ 3,211
Covered-employee payroll	$ 41,458
Contributions as a percentage of covered-employee payroll	144.68%
LEGISLATORS'	
Actuarially determined contribution	$ 260
Contributions in relation to the actuarially determined contribution	(544)
Contribution deficiency (excess)	$ (284)
Covered-employee payroll	$ 1,397
Contributions as a percentage of covered-employee payroll	38.94%

(continued)

Schedule of State Pension Contributions (continued)

For the Past Fiscal Year [1]

(amounts in thousands)

Notes to Required Supplementary Information

Public Employees' Retirement Fund (PERF) and Single-Employer Plans

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Government Code section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability.
Covered-employee payroll:	Pensionable earnings provided by the employer
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2013.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method	See each plan's June 30, 2013 Actuarial Valuation Report.
Asset valuation method	Actuarial value of assets; for details see each plan's June 30, 2013 Actuarial Valuation Report.
Inflation	2.75%
Salary increases	PERF – varies by entry age and service Judges' – not applicable Judges' II – 3.00% Legislators' – 3.00%
Payroll growth	3.00%
Investment rate of return	Net of pension plan investment expenses and administrative expenses; includes inflation: PERF – 7.50%, which is used for contribution purposes Judges' – 4.25% Judges' II – 7.00% Legislators' – 5.75%
Retirement age	The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011.
Mortality	Mortality rates are based on the 2014 CalPERS Experience Study adopted by the CalPERS Board and post-retirement mortality rates include 20 years of projected on-going mortality improvements using Scale BB published by the Society of Actuaries.

Schedule of the State's Proportionate Share of Net Pension Liability – CalSTRS

For the Past Fiscal Year [1]

(amounts in thousands)

	2014 [2]
State's proportion of CalSTRS' net pension liability	37.65%
State's proportionate share of CalSTRS' net pension liability	$ 22,001,531
Plan fiduciary net position as a percentage of the total pension liability	76.52%

[1] This schedule will be built prospectively until it contains ten years of data.

[2] The date in the column heading represents the end of the measurement period of the net pension liability, which is one year prior to the reporting period.

Schedule of the State's Contributions – CalSTRS

For the Past Fiscal Year [1]

(amounts in thousands)

	2015
Statutorily required contribution	$ 1,486,004
Contributions in relation to the statutorily required contribution	1,486,004
Annual contribution deficiency/(excess)	$ —

[1] This schedule will be built prospectively until it contains ten years of data.

Notes to Required Supplementary Information

State's Participation in CalSTRS

Actual contribution amounts:	Based on statutorily required contributions as outlined in California Education Code sections 22954 and 22955, as well as California Public Resources Code section 6217
Changes in benefit terms:	The California Pension Employees' Pension Reform Act of 2013 resulted in a new benefit formula, CalSTRS 2% at 62, for members first hired on or after January 1, 2013. Significant changes from the previous CalSTRS 2% at 60 benefit formula include raising the normal retirement age from 60 to 62 and placing a limit on creditable compensation to 120% of the Social Security wage base, annually adjusted for changes in the Consumer Price Index.
Valuation date:	Actuarially determined contribution rates were calculated as of June 30, 2013.
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Amortization method/period	Level percent of payroll, open period, 30 years remaining amortization period
Asset valuation method	Expected value with 33% adjustment to market value
Consumer price inflation	3.00%
Payroll growth	3.75%
Investment rate of return	For calculating the actuarially determined contribution: 7.50%, net of pension plan investment and administrative expenses For calculating total pension liability: 7.60%, net of pension plan investment expenses, but gross of administrative expenses
Interest on accounts	4.50%
Post-retirement benefit increases (COLAs)	2.00% simple

Schedule of Funding Progress

(amounts in millions)

Other Postemployment Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State substantive plan						
June 30, 2013	$ 10	$ 64,585	$ 64,574	0.0 %	$ 18,060	357.6 %
June 30, 2014	41	71,814	71,773	0.0	19,250	372.8
June 30, 2015	86	74,189	74,103	0.1	20,180	367.2
Trial Courts [1]						
July 1, 2009	$ 9	$ 1,493	$ 1,484	0.6 %	$ 1,009	147.0 %
July 1, 2011	17	1,385	1,368	1.2	922	148.4
July 1, 2013	30	1,421	1,391	2.1	931	149.4

[1] The trial courts reporting is based on 51 individual biennial actuarial valuations as of July 1, 2013.

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

Infrastructure Assets Using the Modified Approach

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

A. Infrastructure Asset Reporting Categories

The infrastructure assets reported in the State's financial statements for the fiscal year ending June 30, 2015, are in the following categories and amounts: state highway infrastructure (completed highway projects) totaling $70.7 billion, land purchased for highway projects totaling $14.1 billion, and infrastructure construction-in-progress (uncompleted highway projects) totaling $11.7 billion.

Donation and Relinquishment: Donation and relinquishment activity affects the inventory of statewide lane miles, land, and/or bridges as adjustments to the infrastructure assets and/or land balance in the State's financial statements. For the fiscal year ending June 30, 2015, there were no donations of infrastructure, and relinquishments are $3.5 million of state highway infrastructure (completed highway projects) and $707,000 of infrastructure land.

B. Condition Baselines and Assessments

1. Bridges

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

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

The following table shows the State's established condition baseline and actual BHI for fiscal years 2012-13 through 2014-15:

Fiscal Year Ended June 30	Established BHI Baseline [1]	Actual BHI
2013	80.0	94.8
2014	80.0	95.6
2015	80.0	95.7

[1] The actual statewide BHI should not be lower than the minimum BHI established by the State.

The following table provides details on the State's actual BHI as of June 30, 2015:

BHI Description	Bridge Count	Percent	Network BHI
Excellent	6,224	47.08 %	99.9
Good	4,984	37.71	96.9
Acceptable	768	5.81	85.9
Fair	678	5.13	74.4
Poor	236	1.79	58.6
Does not carry traffic	328	2.48	88.4
Total	**13,218**	**100.00 %**	

Note: Effective July 2014, Caltrans changed standards for the BHI calculation from AASHTO's "Commonly Recognized Elements for Bridge Inspection" to AASHTO's "Guide Manual for Bridge Element Inspection." Adoption of the new standards resulted in minor changes to the measurements.

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 a roadway's pavement condition by the following descriptions:

1. Excellent/good condition – few potholes or cracks
2. Fair condition – moderate number of potholes or cracks
3. Poor condition – significant or extensive number of potholes or cracks

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

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

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
March 2008	18,000	12,998	26.2 %
December 2011 [3]	18,000	12,333	24.9
December 2013	18,000	7,820	15.7

[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.

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

Pavement Condition [1]	Lane Miles	Distressed Lane Miles
Excellent/Good	29,534	—
Fair	12,364	—
Poor	7,820	7,820
Total	**49,718**	**7,820**

[1] Pavement condition categorization in the most recent *State of the Pavement* report has been altered. Previously, distressed lane miles were categorized as "fair" or "poor" conditions. Currently, all distressed lane miles are characterized as "poor" condition. The total number of distressed lane miles is unchanged.

C. Budgeted and Actual Preservation Costs

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

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

Fiscal Year Ended June 30	Estimated Budgeted Preservation Costs (in millions)[1]	Actual Preservation Costs (in millions)[1]
2011	$ 3,209	$ 3,170
2012	3,325	3,042
2013	2,858	2,531
2014	2,421	2,104
2015	3,337	1,685

[1] In fiscal year 2014-15, the methodology for identifying the preservation budgeted and actual costs was adjusted to include additional costs not previously reported.

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Budgetary Comparison Schedule

General Fund and Major Special Revenue Funds

Year Ended June 30, 2015

(amounts in thousands)

	General			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
REVENUES				
Corporation tax	$ 9,617,712	$ 9,809,000	$ 9,908,607	$ 99,607
Intergovernmental	—	—	—	—
Cigarette and tobacco taxes	84,343	84,000	86,317	2,317
Inheritance, estate, and gift taxes	—	—	—	—
Insurance gross premiums tax	2,490,301	2,486,000	2,444,573	(41,427)
Vehicle license fees	758	758	21,449	20,691
Motor vehicle fuel tax	—	—	—	—
Personal income tax	71,698,570	75,384,000	76,862,208	1,478,208
Retail sales and use taxes	23,438,344	23,684,000	23,667,703	(16,297)
Other major taxes and licenses	366,901	353,000	358,509	5,509
Other revenues	1,953,374	1,555,242	1,635,566	80,324
Total revenues	**109,650,303**	**113,356,000**	**114,984,932**	**1,628,932**
EXPENDITURES				
State and consumer services	15,269	17,004	15,872	(1,132)
Business and transportation	8,659	92,189	92,171	(18)
Resources	1,151,572	1,638,355	1,480,892	(157,463)
Health and human services	29,001,967	30,448,933	29,491,187	(957,746)
Correctional programs	9,384,760	9,913,264	9,786,848	(126,416)
Education	50,061,331	61,654,357	61,572,526	(81,831)
General government:				
Tax relief	416,755	427,382	416,756	(10,626)
Debt service	5,143,758	5,163,514	5,149,628	(13,886)
Other general government	6,292,542	7,579,811	7,134,691	(445,120)
Total expenditures	**101,476,613**	**116,934,809**	**115,140,571**	**(1,794,238)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	420,981	—
Transfers to other funds	—	—	(2,656,548)	—
Other additions and deductions	—	—	441,107	—
Total other financing sources (uses)	**—**	**—**	**(1,794,460)**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	(1,950,099)	—
Fund balances – beginning	—	—	**8,409,889**	—
Fund balances – ending	**$ —**	**$ —**	**$ 6,459,790**	**$ —**

Federal				Transportation			
Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
77,131,605	77,131,605	77,131,605	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	5,544,107	5,679,036	5,713,698	34,662
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	3,995,374	4,030,508	4,041,791	11,283
27	27	27	—	460,574	449,899	383,635	(66,264)
77,131,632	**77,131,632**	**77,131,632**	**—**	**10,000,055**	**10,159,443**	**10,139,124**	**(20,319)**
5,605	5,605	5,605	—	116,239	116,239	107,328	(8,911)
3,334,568	3,334,568	3,334,568	—	9,993,707	10,016,595	9,238,172	(778,423)
343,035	343,035	343,035	—	178,274	178,274	177,729	(545)
62,608,991	62,608,991	62,608,991	—	3,624	3,624	2,716	(908)
56,625	56,625	56,625	—	—	—	—	—
7,058,766	7,058,766	7,058,766	—	2,695	2,695	2,443	(252)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	1,798	2,414	1,440	(974)
853,813	853,813	853,813	—	1,568,016	1,568,015	1,474,412	(93,603)
74,261,403	**74,261,403**	**74,261,403**	**—**	**11,864,353**	**11,887,856**	**11,004,240**	**(883,616)**
—	—	5,765,678	—	—	—	18,018,462	—
—	—	(8,628,600)	—	—	—	(18,390,483)	—
—	—	(9,452)	—	—	—	(390,058)	—
—	**—**	**(2,872,374)**	**—**	**—**	**—**	**(762,079)**	**—**
—	—	(2,145)	—	—	—	(1,627,195)	—
—	**—**	**9,177**	**—**	**—**	**—**	**17,230,591**	**—**
$ —	**$ —**	**$ 7,032**	**$ —**	**$ —**	**$ —**	**$ 15,603,396**	**$ —**

(continued)

Budgetary Comparison Schedule (continued)

General Fund and Major Special Revenue Funds

Year Ended June 30, 2015

(amounts in thousands)

	Environmental and Natural Resources			
	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	—	—	—	—
Personal income tax	—	—	—	—
Retail sales and use taxes	—	—	—	—
Other major taxes and licenses	159,709	159,709	159,709	—
Other revenues	4,951,728	4,951,728	4,951,728	—
Total revenues	**5,111,437**	**5,111,437**	**5,111,437**	**—**
EXPENDITURES				
State and consumer services	84,307	84,307	75,819	(8,488)
Business and transportation	267,839	267,839	266,991	(848)
Resources	6,277,882	4,890,634	4,463,202	(427,432)
Health and human services	40,687	40,687	36,001	(4,686)
Correctional programs	—	—	—	—
Education	11,289	11,289	8,925	(2,364)
General government:				
Tax relief	—	—	—	—
Debt service	—	—	—	—
Other general government	142,114	151,255	104,207	(47,048)
Total expenditures	**6,824,118**	**5,446,011**	**4,955,145**	**(490,866)**
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	—	—	551,017	—
Transfers to other funds	—	—	(237,125)	—
Other additions and deductions	—	—	7,152,061	—
Total other financing sources (uses)	**—**	**—**	**7,465,953**	**—**
Excess (deficiency) of revenues and other sources over (under) expenditures and other uses	—	—	7,622,245	—
Fund balances – beginning	**—**	**—**	**11,526,758**	**—**
Fund balances – ending	**$ —**	**$ —**	**$ 19,149,003**	**$ —**

(concluded)

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

June 30, 2015
(amounts in thousands)

		Major Special Revenue Funds		
	General	**Federal**	**Transportation**	**Environmental and Natural Resources**
Budgetary fund balance reclassified into GAAP statement fund structure	**$ 6,459,790**	**$ 7,032**	**$ 15,603,396**	**$ 19,149,003**
Basis difference:				
Interfund receivables	46,526	—	2,944,261	623,097
Loans receivable	50,058	210,255	—	1,330,521
Interfund payables	(5,281,728)	—	(11,096)	(40,000)
Escheat property	(859,805)	—	—	—
Bonds authorized but unissued	—	—	(12,602,700)	(12,553,992)
Tax revenues	(213,820)	—	—	—
Fund classification changes	2,247,037	2,107	—	—
Other	300,000	—	2,859,692	(53,412)
Timing difference:				
Liabilities budgeted in subsequent years	(4,976,690)	(1,514)	(576,490)	(81,370)
GAAP fund balance (deficit) – ending	**$ (2,228,632)**	**$ 217,880**	**$ 8,217,063**	**$ 8,373,847**

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

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

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

Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2400.121. The supplement includes a comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available by emailing the State Controller's Office, Division of Accounting and Reporting at StateGovReports@sco.ca.gov.

Reconciliation of Budgetary With GAAP Basis

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

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

Basis Difference

Interfund Receivables and Loans Receivable: Loans made to other funds or to other governments are normally recorded as either expenditures or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The adjustments related to interfund receivables caused increases of $47 million in the General Fund, $2.9 billion in the Transportation Fund, and $623 million in the Environmental and Natural Resources Fund. The adjustments related to loans receivable caused increases of $50 million in the General Fund, $210 million in the Federal Fund, and $1.3 billion in the Environmental and Natural Resources Fund.

Interfund Payables: Loans received from other funds or from other governments are normally recorded as either revenues or transfers on a budgetary basis. However, in accordance with GAAP, these loans are recorded as liabilities. The adjustments related to interfund payables caused decreases of $5.3 billion in the General Fund, $11 million in the Transportation Fund, and $40 million in the Environmental and Natural Resources Fund.

Escheat Property: A liability for the estimated amount of escheat property expected to ultimately be reclaimed and paid is not reported on a budgetary basis. The liability is required to be reported on a GAAP basis. This adjustment caused an $860 million decrease in the General Fund.

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 decreases of $12.6 billion in the Transportation Fund and $12.6 billion in the Environmental and Natural Resources Fund.

Tax Revenues: Estimated tax payments are accrued on a budgetary basis pursuant to Chapter 751, Statutes of 2008. However, in accordance with GAAP, tax payments are accrued based on the portion of estimated net final payments related to the fiscal year. This adjustment caused a decrease of $214 million in the General Fund.

Fund Classification Changes: The fund balance amounts for governmental funds have been reclassified in accordance with governmental accounting standards. These reclassifications caused increases of $2.2 billion in the General Fund and $2 million in the Federal Fund. These increases represent the fund balances of funds that are not considered part of the General Fund or the Federal Fund, respectively, for any budgetary purpose or for the Budgetary/Legal Basis Annual Report.

Other: Certain other adjustments and reclassifications are necessary in order to present the financial statements in accordance with GAAP. The other adjustments caused increases of $300 million in the General Fund and $2.9 billion in the Transportation Fund, and a decrease of $53 million in the Environmental and Natural Resources Fund.

Timing Difference

Liabilities Budgeted in Subsequent Years: On a budgetary basis, the primary government does not accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused decreases of $5.0 billion in the General Fund, $2 million in the Federal Fund, $576 million in the Transportation Fund, and $81 million in the Environmental and Natural Resources Fund. The large decrease in the General Fund primarily consists of $2.3 billion for medical assistance, $1.1 billion for June 2015 payroll that was deferred to July 2015, $591 million for pension contributions, $327 million for payments to K-12 schools and higher education institutions, and $273 million for workers' compensation claims.

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Part Two

State of California Internal Control and State and Federal Compliance Audit Report for the Year Ended June 30, 2015

Contents

Independent Auditor's Report on Internal Control and on Compliance and Other Matters

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

The Governor and the Legislature of the State of California

We have audited, in accordance with the 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 11, 2016. Our report includes a reference to other auditors who audited the financial statements of the following, as described in our report on the State's financial statements:

Government-wide Financial Statements

- Certain enterprise funds that, in the aggregate, represent 78 percent of the assets and deferred outflows and 36 percent of the revenues of the business-type activities.

- The University of California and the California Housing Finance Agency that represent 93 percent of the assets and deferred outflows, and 94 percent of the revenues of the discretely presented component units.

Fund Financial Statements

- The Safe Drinking Water State Revolving fund, that represents 16 percent of the assets and deferred outflows, and 5 percent of the additions, revenues, and other financing sources of the Environmental and Natural Resources fund, a major governmental fund.

- The following major enterprise funds: Electric Power fund, Water Resources fund, State Lottery fund, and California State University fund.

- The Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Teachers' Retirement, the State Water Pollution Control, and the 1943 Veterans Farm and Home Building funds, that represent 86 percent of the assets and deferred outflows, and 33 percent of the additions, revenues, and other financing sources of the aggregate remaining fund information.

- The discretely presented component units noted above.

This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Golden State Tobacco Securitization Corporation, the Public Building Construction, the Public Employees' Retirement, the State Lottery, and the 1943 Veterans Farm and Home Building funds were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified a deficiency in internal control that we consider to be a material weakness as described in the accompanying section entitled Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of California's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

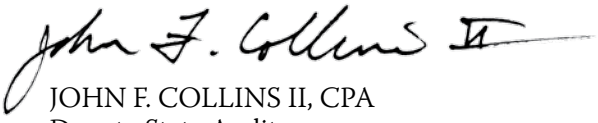
Entity's Responses to Findings

The State of California's response to the finding identified in our audit is described in the accompanying section on Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements. The State's response was not subjected to the auditing procedures applied in the audit and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CALIFORNIA STATE AUDITOR



JOHN F. COLLINS II, CPA
Deputy State Auditor

March 11, 2016

Schedule of Findings

STATE OF CALIFORNIA
SCHEDULE OF FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiency identified that is not considered to be a material weakness?	No
Noncompliance material to financial statements noted?	No

Internal Control and Compliance Issues Applicable to the Financial Statements and State Requirements

DEPARTMENT OF HEALTH CARE SERVICES

Reference Number: 2015-001

Condition:

The Department of Health Care Services (DHCS) overstated Medi-Cal expenditures for fiscal year 2014–15 in the General Fund by $1.149 billion. Additionally, DHCS overstated Medi-Cal expenditures and revenues for fiscal year 2014–15 in the Federal Trust Fund by $1.023 billion. Lastly, in various funds within the Non Major Governmental Funds, DHCS understated expenditures and revenues by $237 million and $16 million, respectively. For budgetary purposes, DHCS reports Medi-Cal expenditures on a cash-basis. Generally accepted accounting principles (GAAP), however, require governmental funds to be accounted for on a modified accrual basis. Specifically, expenditures must be recognized in the accounting period in which they are incurred. Additionally, the related federal funding should be recognized when all applicable eligibility requirements, including time requirements, are met. As a result, DHCS must prepare GAAP adjustments to convert its budgetary reports to the modified accrual basis for proper presentation in the State's Comprehensive Annual Financial Report. The following sections provide more detail about DHCS' misstatements by program.

Overstated Accruals for Managed Care and Other Shared Programs

DHCS overstated expenditures and related revenues by $602.3 million in the Federal Trust Fund, and overstated expenditures by $325.7 million in the General Fund, for the Medi-Cal Managed Care (Managed Care) Program. Managed Care health plan providers help Medi-Cal beneficiaries find doctors, pharmacies and health education programs. These providers are paid a monthly rate for each individual enrolled with them. DHCS validates provider information and generates invoices for payment to Managed Care Plans. DHCS uses its Capitation Management (CAPMAN) system to generate the validated invoices. To prepare its accrual, DHCS must identify any unpaid invoices for services provided by June 30, 2015. DHCS relied upon a query of the CAPMAN data to obtain this information. However, the CAPMAN data included paid invoices and these invoices were erroneously accrued. DHCS indicated this error occurred because the staff preparing the accrual were unfamiliar with the data.

Additionally, DHCS overstated expenditures and revenues in the Federal Trust Fund by $480.6 million and overstated expenditures in the General Fund by $432.4 million when preparing accruals for all the program services it coordinates with the Department of Social Services (DSS), including a new Managed Care program. Beginning in April 2014, DHCS began transitioning care for certain recipients of the In Home Supportive Services (IHSS) program from Fee-for-Service to Managed Care. The IHSS program provides an in home alternative to other traditional out-of-home settings such as nursing homes. Because DSS is involved in the administration of this and other programs it is important for DHCS to effectively coordinate with DSS when preparing the necessary accruals. However, we found there was an ineffective reliance on email communication and little formal guidance available for staff to use when preparing the GAAP accruals.

Overstated DHCS Medi-Cal Expenditure and Revenue Accruals

DHCS overstated expenditures and revenues by $409 million in both the Low Income Health Program Fund within the Non Major Governmental Funds and the Federal Trust Fund. The Low Income Health Program Fund finances the cost of providing certain health care services to a defined population of uninsured adults who are not otherwise eligible for Medicare or Medi-Cal. DHCS prepared accruals related to its request for additional federal funding from the Centers for Medicare and Medicaid Services (CMS). Staff at DHCS prepared this accrual based on the inclusion of the anticipated funding in certain budget documents. However, CMS denied the request for additional funding and so the accruals for both the Low Income Health Program Fund and the Federal Trust Fund are not valid. DHCS failed to provide sufficient guidance to those staff preparing this

GAAP accrual. Insufficient guidance also contributed to two additional overstatements. Specifically, DHCS overstated expenditures and related revenues by $135.9 million in the Federal Trust Fund and overstated expenditures by $137.8 million in the General Fund for the Fee-For-Service Health Care Delivery System. It also overstated expenditures and related revenues by $171 million in the Federal Trust Fund for the Health Care Support program.

Understated DHCS Medi-cal Expenditure and Revenue Accruals

DHCS understated expenditures and related revenues by $393 million in the Federal Trust Fund and the Public Hospital Investment, Improvement, and Incentive Fund within the Non Major Governmental Funds for the Delivery System Reform Incentive Pool (DSRIP) program. DSRIP provides funding to create financial incentives for certain Designated Public Hospitals' to pursue delivery-system reforms. Those reforms involve infrastructure development, system redesign, and clinical-outcome and population-focused improvements. DHCS failed to accrue expenditures for services provided by June 30, 2015 that were scheduled for payment in the following fiscal year. This understatement occurred because DHCS relied heavily on email communication between accounting and program staff preparing the accrual, and as a result, there was a miscommunication regarding the level of unpaid services.

DHCS also understated expenditures and related revenues by $383.1 million in the Federal Trust Fund for the Specialty Mental Health Consolidation program, which provides specialty mental health services to qualifying Medi-Cal recipients. This error occurred primarily because DHCS failed to update its accrual methodology to include the additional federal funding available through the Affordable Care Act. DHCS indicated this oversight was the result of a recent change in how it accounts for the Affordable Care Act in certain budget documents and staff did not carry forward this change into the accrual methodology for the Specialty Mental Health Consolidation program.

Misstated Reimbursement Accruals

DHCS understated expenditures by $253.3 million in the Children's Health and Human Services Fund (Children's Health Fund) within the Non Major Governmental Funds and overstated expenditures by $253.3 million in the General Fund. The Children's Health Fund receives a tax imposed on the sellers of Medi-Cal Managed Care plans. A portion of this tax reimburses the General Fund for certain Medi-Cal related costs. DHCS' accrual methodology directs staff to accrue this reimbursement; however, staff failed to do so for a portion of tax revenues received prior to June 30, 2015. In this instance, staff preparing the accrual did not have a sufficient understanding of the underlying flow of program funding to prepare an accurate accrual.

Criteria:

California Government Code Section 12461 requires the State Controller's Office (Controller's Office) to issue an annual financial report that is prepared in accordance with GAAP. The Controller's Office provides guidance to departments on the preparation of their year-end financial statements in its Year-End Financial Reports Information GAAP Basis manual (GAAP manual). To prepare its financial report, the Controller's Office annually requests that departments submit GAAP-related adjustments for the funds they manage.

Codification of Governmental Accounting and Financial Reporting Standards Section 1600 states that financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. The current financial resources measurement focus and modified accrual basis of accounting require expenditures to be reported when the related liability has been incurred except in certain limited circumstances.

Codification of Governmental Accounting and Financial Reporting Standards Section N50 states that for government-mandated non-exchange transactions recipients should recognize revenues when all applicable eligibility requirements, including time requirements, are met. When the modified accrual basis of accounting is used, revenues resulting from non-exchange transactions should also be available.

Codification of Governmental Accounting and Financial Reporting Standards Section 1800 defines reimbursements as repayments from the fund responsible for a particular expenditure to the fund that initially paid for them. Reimbursements should not be displayed in the financial statements. The GAAP manual instructs agencies to record a reduction in expenditures for the reimbursed fund and to record an increase in expenditures for the reimbursing fund.

Recommendation:

To ensure its financial statements are properly presented at fiscal year-end, DHCS should:

- Improve internal communications among program and accounting staff who prepare the GAAP accruals.
- Update existing accrual methodologies as needed and create new methodologies for those programs for which none exist.
- Provide additional guidance and training to program and accounting staff on the requirements of GAAP.

Department's View and Corrective Action:

DHCS agrees with the recommendations. DHCS has already begun efforts to address the issues described within this report for the fiscal year 2015–16 GAAP accruals. Specifically, the DHCS Accounting Section has prepared a GAAP Accrual Enhancement Plan (plan) to improve the GAAP accrual process. The plan calls for existing Accounting Section staff to be reassigned from other duties for a period of six to eight weeks to a temporary GAAP accrual focus team. These individuals will be selected based on their experience in working with more complex accounting tasks to work collaboratively with other existing staff in developing written GAAP accrual guidelines, methodologies, and training materials. The plan calls for the selection of the team members by March 2016 and the outlined accrual methodologies completed by June 2016 with the updated finalized methodologies to be in place by August 2016. Training for program level staff who participates in the GAAP accrual process is planned for June 2016. The DHCS Accounting Section plans to improve its communication among all staff by developing these standard written procedures and by providing each program division with a single point of contact within the Accounting Section.

Date:	March 18, 2016
Deputy State Auditor:	John F. Collins II, CPA
Project Managers:	Theresa Farmer, CPA Nicholas Kolitsos, CPA, MBA, Audit Principal Michael Tilden, CPA, Audit Principal Norm Calloway, CPA (inactive)
Team Leads:	Nasir Ahmadi, CPA Lisa Ayrapetyan, CPA, CIA Angela Dickison, CPA, CIA Tim Jones, CPA Joseph R. Meyer, CPA, CIA Dan Motta, CPA
Staff:	Reed Adam, MPAc Mariyam Azam Laurence Ardi, CFE Brandon A. Clift, CPA, CFE Brigid Drury, MPAc Brian Dunn, CPA, CFE Andrew Esterson, CFE Carol Hand Joey Judson Veronica Kaufman Martin T. Lee, CPA Richard Marsh, MST Charles H. Meadows III, CPA Marshall Miller, MPAc David Monnat Ryan J. Mooney Michelle O'Connor, CPA John Slusser, CPA, CGMA Jesse Walden Hunter Wang Natalja Zvereva
Legal Counsel:	Joseph L. Porche, Staff Counsel

Part Three

Federal Compliance Audit Report for the Year Ended June 30, 2015

Contents

Auditor's Section

mgo Certified Public Accountants

Sacramento
Walnut Creek
San Francisco
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report on the Schedule of Expenditures of Federal Awards as Required by OMB Circular A-133,
Audits of States, Local Governments, and Non-Profit Organizations

The Governor and the Legislature of the State of California:

Report on the Schedule of Expenditures of Federal Awards

We have audited the accompanying Schedule of Expenditures of Federal Awards (the Schedule) of the State of California for the fiscal year ended June 30, 2015, and the related notes to the Schedule.

Management's Responsibility for the Schedule of Expenditures of Federal Awards

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

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, A*udits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

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

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

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of California for the fiscal year ended June 30, 2015, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the Schedule, the State of California's basic financial statements include the operations of the University of California system, a component unit of the State of California, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California State Water Resources Control Board Safe Drinking Water Pollution Control Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California, which reported $5.5 billion, $2.6 billion, $124.0 million, $169.2 million, and $59.6 million, respectively, in federal awards which are not included in the Schedule for the fiscal year ended June 30, 2015. Our audit, described above, did not include the operations of the University of California system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California State Water Resources Control Board Safe Drinking Water Pollution Control Revolving Fund, and the California Housing Finance Agency because these entities engaged other auditors to perform an audit in accordance with OMB Circular A-133. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 11, 2016 on our consideration of the State of California'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 of the Schedule, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control over financial reporting and compliance of the Schedule.

Macias Gini & O'Connell LLP

Sacramento, California
March 11, 2016

mGO Certified Public Accountants

Sacramento
Walnut Creek
San Francisco
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Expenditures of Federal Awards Performed in Accordance With *Government Auditing Standards* and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Governor and the Legislature of the State of California:

We have audited, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the Schedule of Expenditures of Federal Awards (the Schedule) of the State of California for the fiscal year ended June 30, 2015, and have issued our report thereon dated March 11, 2016. Our report includes an emphasis of matter paragraph to describe those entities which are not included in the Schedule. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the State of California's internal control over financial reporting of the Schedule (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State of California's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over financial reporting of the Schedule.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Schedule will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of California's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of California's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California
March 11, 2016

mgo Certified Public Accountants

Sacramento
Walnut Creek
San Francisco
Oakland
Los Angeles
Century City
Newport Beach
San Diego

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

The Governor and the Legislature of the State of California:

Report on Compliance for Each Major Federal Program

We have audited the State of California's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State of California's major federal programs for the fiscal year ended June 30, 2015. The State of California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

As described in Note 1 to the Schedule, the State of California's basic financial statements include the operations of the University of California system, a component unit of the State of California, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California State Water Resources Control Board Safe Drinking Water Pollution Control Revolving Fund, and the California Housing Finance Agency, a component unit of the State of California, which reported $5.5 billion, $2.6 billion, $124.0 million, $169.2 million, and $59.6 million, respectively, in federal awards which are not included in the Schedule for the fiscal year ended June 30, 2015. Our audit, described below, did not include the operations of the University of California system, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California State Water Resources Control Board Safe Drinking Water Pollution Control Revolving Fund, and the California Housing Finance Agency because these entities engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of California's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-

133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of California's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State of California's compliance.

Basis for Qualified Opinion on Major Federal Programs

As described in the table below and in the accompanying schedule of findings and questioned costs, the State of California did not comply with requirements regarding the following:

Finding Number	CFDA Number	Federal Program Name or Cluster	Compliance Requirement(s)	State Administering Department
2015-001	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Eligibility	Department of Public Health
2015-002	20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	Special Tests and Provisions	Department of Transportation
2015-006	93.568	Low-Income Home Energy Assistance Program	Period of Performance	Department of Community Services and Development
2015-008	93.767	Children's Health Insurance Program	Activities Allowed or Unallowed; Allowable Costs/Cost Principles	Department of Health Care Services
2015-009	93.775, 93.777, 93.778	Medicaid Cluster	Eligibility	Department of Health Care Services
2015-010	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	Department of Health Care Services

Compliance with such requirements is necessary, in our opinion, for the State of California to comply with the requirements applicable to that program.

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State of California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed in the Basis for Qualified Opinion paragraph for the fiscal year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the fiscal year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the table below and in the accompanying schedule of findings and questioned costs.

Finding Number	CFDA Number	Federal Program Name or Cluster	Compliance Requirement(s)	State Administering Department
2015-003	20.513, 20.516, 20.521	Transit Services Cluster	Subrecipient Monitoring	Department of Transportation
2015-004	84.365	English Language Acquisition State Grants	Activities Allowed or Unallowed; Allowable Costs/Cost Principles	Department of Education
2015-005	93.568	Low-Income Home Energy Assistance Program	Earmarking	Department of Community Services and Development
2015-007	93.917	HIV Care Formula Grants	Subrecipient Monitoring	Department of Public Health

Our opinion on each major federal program is not modified with respect to these matters.

The State of California's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of California's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of the State of California is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of California's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of California's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2014-004, 2015-006, 2015-008, 2015-009, and 2015-010 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-003, 2015-005, and 2015-007 to be significant deficiencies.

The State of California's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of California's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Sacramento, California
March 11, 2016

Schedule of Findings and Questioned Cost

STATE OF CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Section I – Summary of Auditor's Results

Financial Statements

Issued under a separate cover. Refer to California State Auditor's 2015-001.1 report entitled *State of California: Internal Control and Compliance Audit Report for the Fiscal Year Ended June 30, 2015.*

Schedule of Expenditures of Federal Awards (Schedule)

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified?	No
Noncompliance material to the Schedule noted?	No

Federal Awards

Internal control over major federal programs:	
Material weakness (es) identified?	Yes
Significant deficiency (ies) identified?	Yes
Type of auditor's reports issued on compliance for major federal programs:	Refer to the next page

Qualified

CFDA Number	Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Services – Capital Assistance Grants
93.568	Low-Income Home Energy Assistance Program
93.767	Children's Health Insurance Program
	Medicaid Cluster:
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Unmodified

CFDA Number	Federal Program or Cluster
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
	Food Distribution Cluster:
10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnerships Program
	Employment Service Cluster:
17.207	Employment Service/Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
17.225	Unemployment Insurance
	Highway Planning and Construction Cluster:
20.205	High Planning and Construction
20.219	Recreation Trails Program
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research
20.509	Formula Grants for Rural Areas
	Transit Services Programs Cluster:
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities
20.516	Job Access and Reverse Commute Program
20.521	New Freedom Program

	Special Education Cluster:
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.282	Charter Schools
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition State Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.917	HIV Care Formula Grants
93.958	Block Grants for Community Mental Health Services
96.001	Social Security-Disability Insurance
97.067	Homeland Security Grant Program

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	Yes
Dollar threshold used to distinguish between type A and type B programs	$136,731,897
Auditee qualified as low-risk auditee?	No

Identification of Major Federal Programs:

CFDA Number	Federal Program or Cluster
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
	Food Distribution Cluster:
10.565	Commodity Supplemental Food Program
10.568	Emergency Food Assistance Program (Administrative Costs)
10.569	Emergency Food Assistance Program (Food Commodities)
10.558	Child and Adult Care Food Program
14.239	Home Investment Partnerships Program
	Employment Service Cluster:
17.207	Employment Service/Wagner-Peyser Funded Activities
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
17.225	Unemployment Insurance
	Highway Planning and Construction Cluster:
20.205	High Planning and Construction
20.219	Recreation Trails Program
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Services – Capital Assistance Grants
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research
20.509	Formula Grants for Rural Areas
	Transit Services Programs Cluster:
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities
20.516	Job Access and Reverse Commute Program
20.521	New Freedom Program
	Special Education Cluster:
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
84.282	Charter Schools
84.287	Twenty-First Century Community Learning Centers
84.365	English Language Acquisition State Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance Program
93.767	Children's Health Insurance Program

Identification of Major Programs (continued):

CFDA Number	Federal Program or Cluster
	Medicaid Cluster:
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program
93.917	HIV Care Formula Grants
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security-Disability Insurance
97.067	Homeland Security Grant Program

Schedule of Federal Award Findings and Questioned Costs

U.S. DEPARTMENT OF AGRICULTURE

Reference Number:	2015-001
Category of Finding:	Eligibility
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Public Health (Public Health)
Federal Catalog Number:	10.557
Federal Program Title:	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Federal Award Number and Years:	7CA700CA7; 2014 7CA700CA7; 2015

Criteria

TITLE 7: Agriculture, PART 246 – SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN, Subpart C – Participant Eligibility, §246.7 Certification of Participants.

(c) Eligibility criteria and basic certification procedures.

(1) To qualify for the Program, infants, children, and pregnant, postpartum, and breastfeeding women must:

(i) Reside within the jurisdiction of the State (except for Indian State agencies). Indian State agencies may establish a similar requirement. All state agencies may determine a service area for any local agency, and may require that an applicant reside within the service area. However, the State agency may not use length of residency as an eligibility requirement.

(ii) Meet the income criteria specified in paragraph (d) of this section.

(d) Income criteria and income eligibility determinations. The State agency shall establish, and provide local agencies with, income guidelines, definitions, and procedures to be used in determining an applicant's income eligibility for the Program.

(o) Are applicants required to be physically present at certification? – (1) In general. The State or local agency must require all applicants to be physically present at each WIC certification.

Condition

Local agencies are responsible for eligibility determination for participants in the WIC program using the state-owned Integrated Statewide Information System (ISIS).

We tested 60 beneficiaries and found four instances in which at least one type of required eligibility information was not obtained or evidenced in ISIS at the time of application.

- For two cases, the identification verification code for the participants was noted within ISIS as "Other," requiring the local agency to specify further documentation in the ISIS comment fields. However, no such information was provided at the time of application to notate the identification documentation presented and inspected by the local agency for the participants reviewed.

- For one case, the participant provided no income documentation when the child was certified. During our review of this participant's eligibility records, we noted code "N" for No Income Documentation available at the certification date. For the "Income Documentation" field, only one code can be used for a family. Administrators are instructed to designate "N" for the family if one individual doesn't have income eligibility on the day of setup. The applicant's infant was still pending Medi-Cal approval which prompted the "N" designation and the mother was not enrolled in a program that adjunctively qualified her children for WIC benefits. The family continued to receive WIC benefits after the one month probationary period without providing Income Documentation for the infant. However, valid income documentation was provided two months subsequent to the time of application.

- For one case, the local agency could not provide supporting eligibility information to document the participant's adjunctive eligibility through another federal program. When a participant is adjunctively eligible, a Medi-Cal eligibility code is required to be documented within ISIS. No such Medi-Cal eligibility code was noted for this participant. Further, we reviewed the eligibility information of the participant's mother and noted that she did not qualify for Food Stamps or Temporary Assistance to Needy Families (TANF); therefore the participant in question is not eligible for WIC benefits until approved by Medi-Cal.

Total federal expenditures paid to participants for food instruments amounted to $974,449,702 for fiscal year 2014–15. Total benefits paid to the 60 tested participants amounted to $37,651, of which $3,695 was paid to the participants noted above.

Questioned Costs

$3,695

Recommendation

Public Health should strengthen its communication and training to local agencies to ensure intake workers responsible for eligibility determination are knowledgeable of the documentation requirements in ISIS. Public Health should also consider additional monitoring of local agencies to ensure compliance with eligibility requirements.

Department's View and Corrective Action Plan

Public Health concurs with the findings. Public Health/WIC Division will develop and implement a monthly monitoring report to capture all 'holds' placed on participant accounts. The monitoring report will be distributed to each WIC local agency contractor on a monthly basis so that the WIC local agency contractors may review and determine if all documentation has been submitted by the participant in order to release the hold code placed in the management information system. This monitoring report will provide the opportunity for enhanced monitoring and focused technical assistance to WIC local agency contractors that appear to have holds in the management information system records beyond the acceptable timeframes. Lastly, Public Health/WIC Division will host semi-annual training webinars for WIC local agency staff that will be focused on WIC eligibility determination and proper documentation in the management information system.

Contact

Jennifer Goldbronn, Chief, Nutrition Standards Section II, WIC Division
Jennifer.goldbronn@cdph.ca.gov or (916) 928-8614

Implementation Date

The management information system report will be developed and implemented by June 1, 2016.

The webinars will take place in June 2016 and December 2016, and ongoing as part of regular WIC local agency staff training.

U.S. DEPARTMENT OF TRANSPORTATION

Reference Number:	2015-002
Category of Finding:	Special Tests and Provisions – Wage Rate Requirement
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)
Federal Catalog Number:	20.319 (ARRA)
Federal Program Title:	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
Federal Award Number and Years:	FR0021; 2011 FR0022; 2011 FR0045; 2011 FR0058; 2011

Criteria

TITLE 29: LABOR PART 5-STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING FEDERALLY FINANCED AND ASSISTED CONSTRUCTION (ALSO LABOR STANDARDS PROVISIONS APPLICABLE TO NONCONSTRUCTION CONTRACTS SUBJECT TO THE CONTRACT WORK HOURS AND SAFETY STANDARDS ACT), Subpart A—Davis-Bacon and Related Acts Provisions and Procedures, §5.5 Contract provisions and related matters.

(a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in §5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, provided, that such modifications are first approved by the Department of Labor):

(1) Minimum wages. (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages

and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics.

(ii) (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number).

Condition

In fiscal year 2013-14, the predecessor auditor reported that Caltrans did not have procedures in place to comply with federal wage rate requirements because it did not obtain certified weekly payrolls from contractors for the High-Speed Rail program. In fiscal year 2014-15, Caltrans had not yet implemented procedures to obtain the weekly certified payrolls.

Questioned Costs

Not determined.

Recommendation

Caltrans should implement procedures to obtain the weekly required certified payrolls in accordance with Title 29: Labor Part 5 and should retroactively obtain and review the previously uncollected certified payrolls for contractors that performed construction work in prior fiscal years.

Department's View and Corrective Action Plan

Caltrans will ensure that all new contracts are evaluated for Davis-Bacon applicability, and the determination will be documented in the project file. Caltrans implemented procedures to collect weekly certified payrolls on July 7, 2015.

Of the four closed contracts that were audited, Caltrans Legal determined that the Davis-Bacon provisions were not required for one of the contracts. Further, another audited contract did not contain the appropriate David-Bacon language; Caltrans was not able to seek an amendment to add the requirement and therefore will not be able to collect certified payrolls for this contract.

Finally, Caltrans will attempt to retroactively collect the weekly certified payrolls for the remaining two audited contracts that contained Davis-Bacon language, as well as for any additional, non-audited closed contracts that contained the Davis-Bacon language.

For contracts in which Caltrans contracts directly with a contractor, Caltrans will review weekly certified payrolls for compliance with Davis-Bacon. For Local Agency sub-recipients contracts the Local Agency is responsible for reviewing the weekly certified payrolls for Davis-Bacon compliance as outlined in Caltrans Local Assistance Procedures Manual.

Contact
Crystal Ortiz, Division of Rail and Mass Transportation

Implementation Date
June 30, 2016

Reference Number:	2015-003
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Transportation (Caltrans)
Federal Catalog Number:	20.513, 20.516, 20.521
Federal Program Title:	Transit Services Cluster
Federal Award Number and Years:	37X069; 2008 37X128; 2010

Criteria
A-102 Common Rule (§___.32), part (d)(2) Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

> 2) A physical inventory of equipment shall be taken and the results reconciled with the equipment records.

Condition
Caltrans' Division of Mass Transportation (DMT) performs site visits and inspections to monitor assets acquired with federal funding, and ensure proper maintenance records and insurance coverages. Owners of capital assets funded by the federal grant awards are required to maintain the vehicles, equipment, and property in good operating order or in working condition.

During fiscal year 2013-14, the predecessor auditor reported that Caltrans does not have adequate controls in place to ensure that all equipment is inspected within the required time frame for the Transit Services Cluster. Caltrans is currently in the process of implementing controls to ensure that all equipment with its subrecipients is inspected through monitoring on a three-year cycle for the Transit Services Cluster. We selected eight subrecipients for testing and noted that for two of the subrecipients Caltrans was unable to provide supporting equipment inspection reports to indicate that the equipment was properly monitored under the three-year inspection cycle.

Questioned Costs
No specific questioned costs were identified.

Recommendation
Caltrans should continue to strengthen its corrective action plan by ensuring that all subrecipient equipment acquired with federal funding be inspected on a three-year cycle.

Department's View and Corrective Action Plan
The monitoring plans for subrecipients' equipment have been managed in headquarters at a branch level. This has worked in the past, except when staff travel was restricted due to budgetary concerns and staff turnover. To enhance monitoring, Caltrans is in the process of implementing an electronic grants management system. This system will enable Caltrans to run reports in real time to determine if all agencies and equipment have been monitored according to our three-year monitoring cycle. When district and headquarters staff perform equipment monitoring inspections, the inspection date will be entered, and a scanned copy of the inspection form will be uploaded into the electronic grants management system. The system will automatically notify managers of the three-year monitoring due dates. If a field manager finds equipment in the electronic grants management system that appears due for inspection, they can take necessary corrective action. On March 16, 2016, Caltrans will provide a statewide monitoring workshop to provide Caltrans staff training on the new grants management system, and anticipates full implementation by December 31, 2016.

Contact
Mark Codey, Office Chief, Federal Transit Grants Program

Implementation Date
January 2018

U.S. DEPARTMENT OF EDUCATION

Reference Number:	2015-004
Category of Finding:	Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Type of Finding:	Material Weakness and Instance of Noncompliance
State Administering Department:	California Department of Education (Education)
Federal Catalog Number:	84.365
Federal Program Title:	English Language Acquistion State Grants
Federal Award Numbers and Years:	S365A120005; 2012 S365A130005; 2013 S365A140005; 2014

Criteria

OMB Circular A-133, Subpart C—Auditees, §.300 Auditee responsibilities

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Title 34 CFR §76.770 A State shall have procedures to ensure compliance

Each State shall have procedures for reviewing and approving applications for subgrants and amendments to those applications, for providing technical assistance, for evaluating projects, and for performing other administrative responsibilities the State has determined are necessary to ensure compliance with applicable statutes and regulations.

Title 20 USC §6826 Local Plans, (a) Plan required

Each eligible entity desiring a subgrant from the State educational agency under section 6824 of this title shall submit a plan to the State educational agency at such time, in such manner, and containing such information as the State educational agency may require.

Title 20 USC §6824 Within-State allocations, (a) In general
After making the reservation required under subsection (d)(1) of this section, each State educational agency receiving a grant under section 6821(c)(3) of this title shall award subgrants for a fiscal year by allocating to each eligible entity in the State having a plan approved under section 6826 of this title an amount that bears the same relationship to the amount received under the grant and remaining after making such reservation as the population of limited English proficient children in schools served by the eligible entity bears to the population of limited English proficient children in schools served by all eligible entities in the State.

Condition
Education could not provide evidence of an approved local plan for three of 25 subrecipients tested. Education awarded and disbursed funds to subrecipients without first ensuring that the federal compliance requirements were understood and that the subrecipient programs utilizing those funds were in compliance with those requirements. Due to department turnover, Education has not had since 2009, a process in place to ensure that subrecipients have an approved plan in place prior to awarding funds. A total of $3,309,979 was disbursed to the 25 subrecipients tested and a total of $129,869,393 was disbursed to all 892 subrecipients.

Questioned Costs
A total of $46,798 was disbursed to the three subrecipients in question during the fiscal year ended June 30, 2015.

Recommendation
Education should develop controls and procedures to ensure that awards are made only to subrecipients with approved local plans.

Department's View and Corrective Action Plan
Education concurs with the recommendation. To ensure that subrecipients have approved plans in place prior to awarding English Language Acquisitions State Grant funds, Education strengthened review and approval processes over: (1) plans submitted for the first time (new applications); (2) plans submitted for each year a Local Education Agency (LEA) seeks a subgrant (plan updates); and (3) plans submitted with sanctions as an Improvement Plan Addendum due to not meeting the Annual Measureable Achievement Objectives for two or more years.

As part of these new processes, all LEAs were notified of the requirement to annually update plans if applying for Title III Limited English Proficient or Immigrant subgrants and were required to provide a link to their LEA Plan on the Consolidated Application and Reporting System (CARS). Education reviewed all applications and plans submitted via CARS and where necessary, technical assistance was provided to LEAs in need of guidance.

Commencing July 1, 2015, using a review checklist that contains all required program elements, Education reviewed approximately 1,200 applications and plans submitted via CARS for Title III LEP and Immigrant subgrants to ensure that: (1) all of the funds allocated to subgrants for Title III were for required and allowable activities; (2) funded activities did not supplant other federal, state or local funding; and (3) only two percent of each subgrant was used for administrative costs.

Contact
Elena Fajardo, Administrator
Language Policy and Leadership Office
English Learner Support Division

Implementation Date
July 2015

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number:	2015-005
Category of Finding:	Earmarking
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Community Services and Development (CSD)
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-15B1CALIEA; 2015 G-14B1CALIEA; 2014 G-13B1CALIEA; 2013 G-12B1CALIEA; 2012

Criteria

USC Title 42 – the Public Health and Welfare. Chapter 94 – Low-Income Energy Assistance. Subchapter II – Low-Income Home Energy Assistance. § 8624 Applications and Requirements.

(b) Certifications required for covered activities

As part of the annual application required by subsection (a) of this section, the chief executive officer of each State shall certify that the State agrees to-

(9) provide that-

(A) The State may use for planning and administering the use of funds under this subchapter an amount not to exceed 10 percent of the funds payable to such State under this subchapter for a fiscal year.

(k) Limitation on use of funds; waiver

(1) Except as provided in paragraph (2), not more than 15 percent of the greater of – (A) the funds allotted to a State under this subchapter for any fiscal year; or (B) the funds available to such State under this subchapter for such fiscal year may be used by the State for low-cost residential weatherization or other energy-related home repair for low-income households, particularly those low-income households with the lowest incomes that pay a high proportion of household income for home energy.

(2)(A) If a State receives a waiver granted under subparagraph (B) for a fiscal year, the State may use not more than the greater of 25 percent of- (i) the funds allotted to a State under this subchapter for such fiscal year; or (ii) the funds available to such State under this subchapter for such fiscal year; for residential weatherization or other energy-related home repair for low-income households, particularly those

low-income households with the lowest incomes that pay a high proportion of household income for home energy.

Condition

During our testing and based on inquiry and discussion with CSD management, processes and internal controls were established by CSD to administer and monitor earmarking requirements over the life of the grant award. However, the earmarking requirement pursuant to the U.S. Code Title 42 Section 8624, requires that no more than 10 percent of LIHEAP funds are expended on planning and administration for a federal fiscal year; and not more than 15 percent (25 percent with a waiver) of LIHEAP funds are expended on weatherization for a federal fiscal year.

Because CSD's process for evaluating and monitoring compliance was established to ensure it does not exceed the required percentages over the life of the grant award, we were unable to test and determine CSD's compliance with the aforementioned earmarking compliance requirement on a federal fiscal year basis. Our understanding is that CSD misinterpreted the earmarking regulations, and as such, designed and implemented both processes and controls related to the planning and administration and weatherization earmarking compliance requirement based upon the life of the grant award, as opposed to on a federal fiscal year basis.

During the fiscal year ended June 30, 2015, the grant award years 2011 - 2015 were still active and subject to the planning and administration and weatherization earmarking compliance requirement. It should be noted, that CSD has a developed tool, the Budget Allocation Worksheet, which is utilized for monitoring compliance with the earmarking compliance requirement. The Fiscal Services Unit is responsible for allocating the LIHEAP federal funds and preparing the Budget Allocation Worksheet. CSD budgets and obligates five percent of the grant award for CSD state operations costs. Another five percent of the grant award is budgeted and obligated to local agencies for planning and administration purposes as part of the total allocation to local agencies, so that the total planning and administration costs do not exceed ten percent of the grant award. Fifteen percent of the grant award is obligated to local agencies for weatherization purposes. The Budget Allocation Worksheet is routed to the Budget Manager, Chief Financial Officer, Energy Program Managers, and the Executive Unit for review and approval. Finally, CSD's utilizes its Payment-Accounting-Reporting-Contract database to track and monitor the spending and reporting of local agencies against their approved contracts.

Questioned Costs

Questioned costs, if any, cannot be determined.

Recommendation

CSD should conduct the necessary meetings and trainings to ensure management and staff have the proper interpretation and understanding of the earmarking compliance requirements. Current processes should be evaluated and redesigned as necessary, and internal controls implemented that ensure CSD's ongoing compliance with the earmarking

requirements on a federal fiscal year basis. Furthermore, since there was a misinterpretation of the LIHEAP earmarking regulations, CSD should consider the necessity for obtaining, in writing, any further clarification from the federal awarding agency.

Department's View and Corrective Action Plan
CSD will work with DHHS to clarify the earmarking requirements and redesign our administrative processes and internal controls to ensure adherence to the earmarking requirements.

Contact
Cindy Halverstadt, Deputy Director, Administrative Services Division

Implementation Date
CSD anticipates being able to complete modifications in order to implement them by October 1, 2016 to be in compliance with the 2017 federal grant award.

Reference Number:	2015-006
Category of Finding:	Period of Performance
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Community Services and Development (CSD)
Federal Catalog Number:	93.568
Federal Program Title:	Low-Income Home Energy Assistance Program (LIHEAP)
Federal Award Numbers and Years:	G-13B1CALIEA; 2013 G-12B1CALIEA; 2012

Criteria
USC Title 42 – the Public Health and Welfare. Chapter 94 – Low-Income Energy Assistance. Subchapter II – Low-Income Home Energy Assistance. §8626 Payments to States; fiscal year requirements respecting availability, etc.

> (b)(2)(B) No amount may be held available under this paragraph for a State from a prior fiscal year to the extent such amount exceeds 10 percent of the amount payable to such State for such prior fiscal year. For purposes of the preceding sentence, the amount payable to a State for a fiscal year shall be determined without regard to any amount held available under this paragraph for such State for such fiscal year from the prior fiscal year.
>
> The Secretary shall reallot amounts made available under this paragraph for the fiscal year following the fiscal year of the original allotment in accordance with paragraph (1) of this subsection.

Condition

Pursuant to the "Terms and Conditions Addendum: Additional Financial Requirements" issued by the DHHS's Office of Community Services, the two-year funding period (or the obligation period) is from the first day of the federal fiscal year for which LIHEAP funds were awarded through the last day of the following federal fiscal year (i.e., from October 1 of the first federal fiscal year through September 30 of the second federal fiscal year.) Any federal funds not obligated by the end of the obligation period will be recouped by DHSS.

CSD misinterpreted the period of performance compliance requirement and understood the obligation period to be five federal fiscal years. However, CSD must obligate the funds within the first two federal fiscal years but then has five federal fiscal years in which to expend and liquidate the federal funds awarded under the grant awards. CSD is not in compliance with the required period of performance pursuant to the "Terms and Conditions Addendum: Additional Financial Requirements" and Section 8626 of Title 42 of the U.S. Code. For fiscal year 2014-15, CSD obligated $29,279,877 and $13,610,556 in federal funds related to the 2012 and 2013 grant award year, respectively, which fell outside the period of performance.

CSD's practice has been to carryover and re-obligate LIHEAP funds on an annual basis, which were not expended by its subrecipients, as long as the re-obligation occurred within five years from the grant award date. CSD's practice was based upon its understanding that it had five years to expend and liquidate LIHEAP funds. The 2011 - 2015 grant award years were still active during the fiscal year ended June 30, 2015; however, only the 2012 and 2013 grant awards had carryover funds that were expended in 2015.

Questioned Costs

Questioned costs totaled $24,799,000, which represents the costs incurred during fiscal year 2014-15 using federal funds from the 2012 and 2013 grant award years, which were carried over and re-obligated outside of the period of performance.

Recommendation

CSD should conduct the necessary internal meetings and trainings to ensure management and staff have the proper understanding of the period of performance compliance requirement. The LIHEAP obligation period requirements are included in the "Terms and Conditions Addendum: Additional Financial Requirements". We also recommend that current processes be evaluated and redesigned as necessary, and internal controls implemented that ensure CSD's ongoing compliance with the two-year obligation period.

Department's View and Corrective Action Plan

CSD's administrative processes for the LIHEAP block grant were designed to ensure that local service providers had the funding needed to deliver services throughout the year. As LIHEAP is not a federally mandated program and the federal award may be delayed, CSD administers contracts with local service providers on a calendar year basis and makes adjustments in future contracts as a way to streamline state and local administrative

processes. CSD ensures that LIHEAP funds are distributed in accordance with agreed upon allocation methodologies and costs are expended within the five year expenditure period allowed. Based on CSD's ongoing dialogue with the U.S. Department of Health and Human Services (HHS), it has been CSD's interpretation that fully obligating all LIHEAP grant funds in the first federal fiscal year and facilitating the expenditure of LIHEAP funds through re-obligation over the course of the five year period was appropriate.

HHS conducted a monitoring visit in August 2015, which raised for the first time concerns with CSD's method of obligating funds; however, CSD did not receive anything definitive at that time, or since, advising of noncompliance. CSD anticipated having further discussions following that visit with HHS and was awaiting the final monitoring report for guidance on what changes, if any, would be required. As of this date, CSD has not received the HHS monitoring report.

CSD agrees with the recommendation that current processes be evaluated and will do so in consultation with HHS. Any redesign should be implemented on a going forward basis with internal controls that ensure CSD's ongoing compliance with the "Terms and Conditions Addendum: Additional Financial Requirements".

Contact
Cindy Halverstadt, Deputy Director, Administrative Services Division

Implementation Date
Anticipate October 1, 2016 to be in compliance with the 2017 federal grant award.

Reference Number:	2015-007
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Significant Deficiency and Instance of Noncompliance
State Administering Department:	California Department of Public Health (Public Health)
Federal Catalog Number:	93.917
Federal Program Title:	HIV Care Formula Grants
Federal Award Number and Years:	6 X07HA12778-06-03; 2014 6 X07HA12778-07-01; 2015 6 X09HA26794-01-02; 2014 1 X08HA28020-01-00; 2014

Criteria

TITLE 31 – MONEY AND FINANCE, SUBTITLE V – GENERAL ASSISTANCE ADMINISTRATION, §7502. Audit requirements; exemptions:

(f) (2) Each pass-through entity shall:

(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the federal requirements, which govern the use of such awards and the requirements of this chapter;

(B) monitor the subrecipient's use of federal awards through site visits, limited-scope audits, or other means; and

(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the director, pertaining to federal awards provided to the subrecipient by the pass-through entity.

OMB Circular A-133 Compliance Supplement provides guidance on subrecipient monitoring.

A pass-through entity is responsible for:

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

During our review of subrecipient monitoring, we noted that for two of the nine subrecipients selected for testing, Public Health did not ensure that subrecipients completed required OMB Circular A-133 audits (single audits) within nine months of the end of the subrecipient's audit period. Public Health did not follow up with the two subrecipients until August 17, 2015, 14 months after the end of the

subrecipients' audit period. Consequently, there may be a delay in monitoring the compliance of subrecipient activities and issuing any corrective action with respect to audit findings, if applicable.

Public Health also monitors subrecipients' use of federal awards by performing site visits. The monitoring performed is documented by program advisors in the Department's site visit monitoring reports. While the site visit monitoring reports are subject to review and approval by a section manager, such review and approval is not documented in all nine subrecipients selected for testing.

Public Health passed through $119.7 million to subrecipients for the HIV Care Formula Grants during fiscal year 2014-15.

Questioned Costs
No specific questioned costs were identified.

Recommendation
Public Health should implement policies and procedures to obtain subrecipient single audit reports within a timely basis to verify that the required audits are completed within nine months of the end of the subrecipient's audit period; to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report; and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, we recommend that Public Health implement policies and procedures to take timely appropriate action using sanctions as deemed necessary. Further, we recommend that Public Health implement policies and procedures over the site monitoring reports to document management's review and approval.

Department's View and Corrective Action Plan
Public Health agrees with the recommendation and will implement policies and procedures with internal controls to ensure timely receipt of OMB Circular A-133 Single Audit Report (s). Both a fiscal analyst and management will oversee the tracking and monitoring process of the OMB Circular A-133 reports. Public Health Office of AIDS (OA) has developed a comprehensive tracking document to indicate the date each subrecipient's auditing period is complete, and the due date of each OMB Circular A-133 report. Reminders will be sent to subrecipients prior to the due date. Public Health will take timely, appropriate follow-up actions.

Public Health agrees with the recommendation to document management review of site visit reports, and has already implemented this policy.

Contact
Irene Hollensteiner, Support Branch Chief, Office of AIDS

Implementation Date
On April 1, 2016, the Office of AIDS will implement internal controls to include the Care Program Section Manager with a monthly status report of all OMB Circular A-133 Reports. As a result, the manager will be able to track and follow-up on obtaining OMB Circular A-133 Reports that are due, as well as decide on the appropriate course of action if the reports are not received.

As of September 15, 2015, a policy was implemented to require manager approval and sign-off on each Site Visit Monitoring Report. As a result of this policy, the CDPH will have documentation that a manager reviewed and approved each Site Visit Monitoring Report.

Reference Number:	2015-008
Category of Finding:	Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Health Care Services (Health Care Services)
Federal Catalog Number:	93.767
Federal Program Title:	Children's Health Insurance Program (CHIP)
Federal Award Number and Years:	05-13A5CA5021; 2013 05-14A5CA5021; 2014 05-15A5CA5021; 2015

Criteria
TITLE 2 GRANTS AGREEMENTS, PART 225 COST PRINCIPLES FOR STATE, LOCAL AND INDIAN TRIBAL GOVERNMENTS, APPENDIX A- GENERAL PRINCIPLES FOR DETERMINING ALLOWABLE COSTS, SECTION (C)(1) states:

To be allowable under Federal awards, costs must meet the following general criteria: (b) Be allocable to Federal awards under the provisions of 2 CFR part 225.

Condition
We tested a sample of 40 cash draws for CHIP amounting to $1,086,034,397. Of the sample items tested, we noted that 10 cash draws included a total of $3,685,271 in Local Education Agency (LEA) expenditures that are not allowed to be funded under CHIP.

Questioned Costs
$3,685,271

Recommendation
Management should strengthen internal controls to ensure that program expenditures are properly funded from allowable federal funding sources. Further, we recommend that management review prior cash draws to evaluate the extent to which LEA expenditures have been funded by the Children's Health Insurance Program, and make the necessary corrections to the funding source.

Department's View and Corrective Action Plan
Internal controls exist to ensure that program expenditures are properly funded from allowable federal funding sources. Business rules were implemented through the fiscal intermediary to draw down funding according to Aid Codes. A coding error associated with Aid Code 7x, One Month Bridge to Healthy Families, resulted in payments clamed under CHIP from title XIX funding. LEA Medi-Cal Billing Option Program expenditures are not allowed to be claimed under CHIP.

DHCS conducted a root-cause analysis to identify the coding error associated with Aid Code 7x and made the necessary corrections. DHCS will work with the Fiscal Intermediary to ensure LEA claims are paying correctly; program will work with the Accounting Office to ensure funding for prior claims paid are adjusted accordingly. In addition, DHCS will review claiming regularly to protect against errant billing in the future.

Contact
Rick Record, Chief, LEA Billing Option Unit, (916) 552-9222

Implementation Date
July 1, 2016

Reference Number:	2015-009
Category of Finding:	Eligibility
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Health Care Services (Health Care Services)
Federal Catalog Number:	93.778
Federal Program Title:	Medicaid Cluster - Medical Assistance Program
Federal Award Number and Years:	05-1505CA5MAP; 2015 05-1505CAADM; 2015 05-1405CA5MAP; 2014 05-1405CAADM; 2014

Criteria

TITLE 42 PUBLIC HEALTH, Part 435- ELIGIBILITY IN THE STATES, SUBPART J, §910- USE OF SOCIAL SECURITY NUMBER

Use of social security number (a) The agency must require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers.

(g) the agency must verify each SSN of each applicant and beneficiary with SSA, as prescribed by the Commissioner, to insure that each SSN furnished was issued to that individual and to determine whether any others were issued.

TITLE 42 PUBLIC HEALTH, Part 435- ELIGIBILITY IN THE STATES, SUBPART J, §916- PERIODIC REDETERMINATIONS OF MEDICAID ELIGIBILITY, Periodic redeterminations of Medicaid Eligibility

(a) The agency must redetermine eligibility of Medicaid beneficiaries, with respect to circumstances that may change, at least every 12 months.

California has a county-administered system where local county welfare departments perform eligibility determinations and redeterminations of beneficiaries. Attachment 1.2-D, Description of Staff Performing Eligibility Determinations, states that Health Care Services is the single state agency for administration of the Title XIX (Medicaid) program and may make eligibility determinations for programs under Title XIX State plan and waivers. Under the administrative guidance of Health Care Services and the supervision of the California Department of Social Services (Social Services), county welfare departments make most Title XIX eligibility non-modified adjusted gross income (MAGI) determinations.

OMB Circular A-133 Compliance Supplement provides guidance on Split Eligibility Determination Functions.

(1) Background – Some nonfederal entities pay the federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. For example, a State arranges with local government social services agencies to perform the "intake function" (e.g., the meeting with the social services client to determine income and categorical eligibility) while the State maintains the computer systems supporting the eligibility determination process and actually pays the benefits to the participants. In such cases, the State is fully responsible for federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as federal awards expended on the State's Schedule of Expenditures of Federal Awards. Therefore, the auditor of the State is responsible for meeting the internal control and compliance audit objectives for eligibility. This may require the auditor of the State to perform, coordinate, or arrange for additional procedures

to ensure compliant eligibility determinations when another entity performs part of the eligibility determination functions. The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., local government) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity's responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary.

OMB Circular A-133 Compliance Supplement, states in relation to Medicaid Eligibility the following:

E. Eligibility

1. Eligibility for Individuals

The auditor should not test eligibility for determinations based on Modified Adjusted Gross Income (MAGI-based determination) made after September 30, 2013. Detailed testing is performed under the Medicaid and CHIP Eligibility review Pilots, which serve as CMS' oversight of Medicaid and CHIP eligibility determinations during the initial years of Affordable Care Act implementation. Since the Medicaid and CHIP Eligibility Review Pilots do not review non-MAGI based cases (i.e. Aged, Blind, and Disabled), the auditor should test non-MAGI determinations.

Condition

Based on our review of 140 participants across multiple counties, we found five instances for which at least one type of required eligibility information was not obtained or evidenced in the Statewide Automated Welfare System (SAWS). As a result, we could not conclude that the five participants were eligible to receive $1,068 in benefits for fiscal year 2014-15.

- For three cases, the Claimant Index Number (CIN) was approved for coverage without completion of a redetermination form.
- For one case, the social security number was not verified in the Medicaid Eligibility Determination Systems (MEDS) and there was a duplicate social security number.
- For one case, an inaccurate social security number was provided by the participant and Health Care Services was unable to verify it.

Total fee-for-service federal expenditures paid were $26,872,839,540 for fiscal year 2014-15.

Questioned Costs
$1,068

Recommendation
Health Care Services should strengthen its communication and training to local agencies to ensure intake workers performing the eligibility determinations are knowledgeable of the documentation requirements in SAWS.

Department's View and Corrective Action Plan
The Department of Health Care Services (DHCS) agrees with the findings and recommendations. DHCS will issue county guidance to reiterate the need for counties to:

- Perform timely renewals and maintain appropriate verification documents in SAWS
- Ensure when verification of a Social Security number fails, the county knows that further action to resolve the failed verification must be performed.

DHCS will also request counties to incorporate the information provided in the county guidance into the training curriculum provided to county eligibility workers.

Contact
Robert Sugawara, Chief, Program Review Branch, Medi-Cal Eligibility Division

Implementation Date
Reissuance of guidance by no later than September 30, 2016

Reference Number:	2015-010
Category of Finding:	Subrecipient Monitoring
Type of Finding:	Material Weakness and Material Instance of Noncompliance
State Administering Department:	California Department of Health Care Services (Health Care Services)
Federal Catalog Number:	93.959
Federal Program Title:	Block Grants for Prevention and Treatment of Substance Abuse
Federal Award Number and Year:	TI010062-15; 2015

Criteria

TITLE 2 - Grants and Agreements Subtitle A - OFFICE OF MANAGEMENT AND BUDGET GUIDANCE FOR GRANTS AND AGREEMENTS CHAPTER II - OFFICE OF MANAGEMENT AND BUDGET GUIDANCE PART 200 - UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS Subpart D - Post Federal Award Requirements §200.331 Requirements for pass-through entities.

> (b)Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in paragraphs (d) and (e) of this section, which may include consideration of such factors as:
>
> > (1) The subrecipient's prior experience with the same or similar subawards;
> >
> > (2) The results of previous audits including whether or not the subrecipient receives a Single Audit in accordance with Subpart F—Audit Requirements of this part, and the extent to which the same or similar subaward has been audited as a major program;
> >
> > (3) Whether the subrecipient has new personnel or new or substantially changed systems; and
> >
> > (4) The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

Condition

All federal awards made on or after December 26, 2014 are subject to the new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The effective date of the Uniform Guidance for subawards is the same as the effective date of the Federal award from which the subaward is made. Based on discussions with management, Health Care Services was unaware of the new requirements under the Uniform Guidance and did not evaluate the subrecipient's risk of noncompliance to determine the appropriate subrecipient monitoring.

Questioned Costs

No specific questioned costs were identified.

Recommendation
Health Care Services should review the Uniform Guidance provisions and establish and/or amend policies and procedures to comply with such requirements. Specifically, we recommend that management develop appropriate criteria to evaluate their subrecipients' risk of noncompliance and related subrecipient monitoring. Management should consider suggested risk factors such as their prior experience with the subrecipient, the results of the subrecipient's single audits, whether the subrecipient has new personnel or substantially changed systems, and the extent and results of any federal awarding agency monitoring.

Department's View and Corrective Action Plan
The Department of Health Care Services (DHCS) agrees with the Macias Gini & O'Connell LLP (MGO) finding and recommendation that DHCS review the new Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) provisions and establish policies and procedures to comply with such requirements.

DHCS will develop appropriate criteria for a risk assessment tool to evaluate each first-tier subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring described in the Uniform Guidance.

Contact
Maurilio Mendez, Supervisor, Fiscal Policy Unit, Substance Use Disorder Program, Policy and Fiscal Division

Implementation Date
Processes and procedures will be developed and implemented by September 1, 2016.

The pre-award risk-based assessment will be incorporated into the annual first-tier subrecipient audit plan to determine the appropriate monitoring required. In addition, the Uniform Guidance pre-award risk assessment requirement will be passed down to first-tier subrecipients (California's 58 Counties) with guidance and appropriate monitoring to ensure compliance at the second-tier sub recipient level.

Auditee's Section

Schedule of Expenditures of Federal Awards For the Fiscal Year Ended June 30, 2015

STATE OF CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Agriculture				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 50,226,274	$ 26,645,116
Market Protection and Promotion	10.163		2,999,497	-
Specialty Crop Block Grant Program - Farm Bill	10.170		18,898,209	16,350,407
Organic Certification Cost Share Programs	10.171		2,024,273	-
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475		202,154	-
Meat, Poultry, and Egg Products Inspection	10.477		77,139	30,236
Food Safety Cooperative Agreements	10.479		133,204	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		1,064,463,200	255,001,433
Child and Adult Care Food Program	10.558		406,079,912	402,993,571
State Administrative Expenses for Child Nutrition	10.560		33,652,105	-
WIC Farmers' Market Nutrition Program (FMNP)	10.572		1,863,095	182,243
Senior Farmers Market Nutrition Program	10.576		710,068	646,206
Child Nutrition Discretionary Grants Limited Availability	10.579		4,073,137	4,073,137
Fresh Fruit and Vegetable Program	10.582		11,225,436	11,225,436
Technical Assistance for Specialty Crops Program	10.604		360,967	302,548
Pass-Through from California Citrus Mutual	10.604	95-3139901	244,478	-
Total Formula Grants for Rural Areas			605,445	302,548
Cooperative Forestry Assistance	10.664		3,113,731	1,535,283
Urban and Community Forestry Program	10.675		580,143	222,919
Forest Legacy Program	10.676		11,561	-
Forest Stewardship Program	10.678		846,764	172,017
Forest Health Protection	10.680		553,018	422,391
Watershed Restoration and Enhancement Agreement Authority	10.693		9,943	-
Long Term Standing Agreements For Storage, Transportation and Lease	10.999		394,481	-
Total Excluding Clusters			**1,602,742,789**	**719,802,943**
SNAP Cluster				
Supplemental Nutrition Assistance Program	10.551		7,510,835,224	7,510,835,224
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		879,394,420	748,889,718
Total SNAP Cluster			**8,390,229,644**	**8,259,724,942**
Child Nutrition Cluster				
School Breakfast Program	10.553		473,620,509	473,620,509
National School Lunch Program	10.555		1,422,016,064	1,422,016,064
Special Milk Program for Children	10.556		383,515	383,515
Summer Food Service Program for Children	10.559		24,786,888	23,574,118
Total Child Nutrition Cluster			**1,920,806,976**	**1,919,594,206**
Food Distribution Cluster				
Commodity Supplemental Food Program	10.565		5,595,390	5,595,390
Emergency Food Assistance Program (Administrative Costs)	10.568		9,874,253	9,324,479
Total Food Distribution Cluster			**15,469,643**	**14,919,869**
Forest Service Schools and Roads Cluster				
Schools and Roads - Grants to States	10.665		30,977,613	30,977,613
Total Forest Service Schools and Roads Cluster			**30,977,613**	**30,977,613**
Research and Development Cluster				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		8,463	-
Specialty Crop Block Grant Program - Farm Bill	10.170		7,419,773	-
Total Research and Development Cluster			**7,428,236**	**-**
Total U.S. Department of Agriculture			**11,967,654,901**	**10,945,019,573**

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Commerce				
Economic Development_Technical Assistance	11.303		$ 45,190	$ 45,000
Interjurisdictional Fisheries Act of 1986	11.407		116,275	-
Coastal Zone Management Administration Awards	11.419		2,670,341	206,300
Coastal Zone Management Estuarine Research Reserves	11.420		949,355	559,886
Marine Fisheries Initiative	11.433			
Pass-Through from National Marine Fisheries Service		R1481003	5,364	-
Pacific Fisheries Data Program	11.437			
Pass-Through from Pacific States Marine Fisheries Commission		R1270003	541,860	-
Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438		15,992,988	12,515,687
Regional Fishery Management Councils	11.441			
Pass-Through from Pacific Fisheries Management Council		R1242004	168,653	-
Unallied Management Projects	11.454		834,880	-
Habitat Conservation	11.463		903,279	823,406
Meteorologic and Hydrologic Modernization Development	11.467		613,010	-
Unallied Science Program	11.472		224,832	210,763
State and Local Implementation Grant Program	11.549		623,339	-
ARRA - State Broadband Data and Development Grant Program	11.558		1,439,592	-
Other - U.S. Department of Commerce/Marine Debris Program	11.999		58,625	-
Total Excluding Clusters			**25,187,583**	**14,361,042**
Research and Development Cluster				
Unallied Science Program	11.472		224,832	-
Total Research and Development Cluster			**224,832**	**-**
Total U.S. Department of Commerce			**25,412,415**	**14,361,042**
U.S. Department of Defense				
Planning Assistance to States	12.110		2,995,366	-
Payments to States in Lieu of Real Estate Taxes	12.112		72,467	72,467
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		19,805,957	-
Basic and Applied Scientific Research	12.300		118,661	-
National Guard Military Operations and Maintenance (O&M) Projects	12.401		69,568,930	-
National Guard ChalleNGe Program	12.404		15,455,583	-
Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610		2,558	-
Economic Adjustment Assistance for State Governments	12.617		24,199	-
Air Force Defense Research Sciences Program	12.800		13,225	-
Other - U.S. Department of Defense	12.999		1,686,611	360
Total U.S. Department of Defense			**109,743,557**	**72,827**
U.S. Department of Housing and Urban Development				
Manufactured Home Dispute Resolution	14.171		188,761	-
Emergency Solutions Grant Program	14.231		9,867,475	9,381,703
Home Investment Partnerships Program	14.239		36,969,523	32,876,231
Housing Opportunities for Persons with AIDS	14.241		3,404,380	3,154,894
Equal Opportunity in Housing	14.400		1,182,812	-
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		833,578	689,516
Total Excluding Clusters			**52,446,529**	**46,102,344**
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		22,657,146	20,062,428
Total CDBG - State-Administered CDBG Cluster			**22,657,146**	**20,062,428**
Total U.S. Department of Housing and Urban Development			**75,103,675**	**66,164,772**

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of the Interior				
Cultural Resource Management	15.224		$ 4,478	$ -
Fish, Wildlife and Plant Conservation Resource Management	15.231		532,595	491,935
Southern Nevada Public Land Management	15.235		190,747	-
Coastal Impact Assistance Program (CIAP)	15.426		(21,788)	-
Federal Oil and Gas Royalty Management State and Tribal Coordination	15.427		722,032	-
Minerals Leasing Act	15.437		66,307,125	66,307,125
Providing Water to At-Risk Natural Desert Terminal Lakes	15.508		183,353	-
Central Valley Project Improvement Act, Title XXXIV	15.512		5,252,504	-
Fish and Wildlife Coordination Act	15.517		148,853	-
Recreation Resources Management	15.524		2,292,608	-
San Luis Unit, Central Valley Project	15.527		23,985	-
California Water Security and Environmental Enhancement	15.533		114,571	33,898
Lake Tahoe Regional Wetlands Development Program	15.543		135,681	-
San Joaquin River Restoration Program	15.555		387,358	-
Fish and Wildlife Management Assistance	15.608		17,416	-
Coastal Wetlands Planning, Protection and Restoration Act	15.614		2,385,852	2,385,852
Cooperative Endangered Species Conservation Fund	15.615		26,529,801	24,312,014
Clean Vessel Act Program	15.616		1,755,166	1,318,032
Sportfishing and Boating Safety Act	15.622		1,416,102	1,416,102
North American Wetlands Conservation Fund	15.623		669,706	664,706
Enhanced Hunter Education and Safety Program	15.626		101,952	-
Coastal Program	15.630		3,770	-
Landowner Incentive Program	15.633		24,325	24,325
State Wildlife Grants	15.634		3,610,964	1,060,218
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648		355,694	-
Research Grants (Generic)	15.650		23,352	-
Endangered Species Conservation - Recovery Implementation Funds	15.657		173,008	-
Natural Resource Damage Assessment, Restoration and Implementation	15.658		1,000,000	950,000
Coastal Impact Assistance Program	15.668		2,646,314	2,462
Earthquake Hazards Research and Monitoring Assistance	15.807		79,908	-
U.S. Geological Survey_ Research and Data Collection	15.808		11,223	-
National Cooperative Geologic Mapping Program	15.810		174,381	-
National Geological and Geophysical Data Preservation Program	15.814		31,163	-
Historic Preservation Fund Grants-In-Aid	15.904		1,359,553	281,327
Outdoor Recreation_Acquisition, Development and Planning	15.916		3,282,986	1,986,838
ARRA - Redwood National Park Cooperative Management with the State of California	15.937		53,778	-
Natural Resource Stewardship	15.944		67,995	-
National Park Service Conservation, Protection, Outreach, and Education	15.954		7,552	-
Other - U.S. Department of the Interior	15.999		3,976,107	14,899
Total Excluding Clusters			**126,032,170**	**101,249,733**
Fish and Wildlife Cluster				
Sport Fish Restoration Program	15.605		17,622,148	1,179,660
Wildlife Restoration and Basic Hunter Education	15.611		9,976,033	607,438
Total Fish and Wildlife Cluster			**27,598,181**	**1,787,098**
Research and Development Cluster				
California Water Security and Environmental Enhancement	15.533		54,229	-
Sport Fish Restoration Program	15.605		10,153,480	-
Wildlife Restoration and Basic Hunter Education	15.611		2,637,043	-
Cooperative Endangered Species Conservation Fund	15.615		2,715,281	-
State Wildlife Grants	15.634		1,859,738	-

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Central Valley Project Improvement (CVPI) Anadromous Fish Restoration Program (AFRP)	15.648		$ 22,926	$ -
Research Grants (Generic)	15.650		799	-
Natural Resource Stewardship	15.944		45,711	-
Total Research and Development Cluster			**17,489,207**	**-**
Total U.S. Department of the Interior			**171,119,558**	**103,036,831**
U.S. Department of Justice				
Law Enforcement Assistance_Narcotics and Dangerous Drugs_Laboratory Analysis	16.001		217,057	-
Sexual Assault Services Formula Program	16.017		870,308	870,308
Juvenile Accountability Block Grants	16.523		2,692,521	2,560,655
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540		3,827,628	3,371,889
National Criminal History Improvement Program (NCHIP)	16.554		206,315	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		7,394	-
Crime Victim Assistance	16.575		49,143,225	47,170,920
Crime Victim Compensation	16.576		26,246,387	-
Crime Victim Assistance/Discretionary Grants	16.582		114,638	-
Drug Court Discretionary Grant Program	16.585		211,059	-
Violence Against Women Formula Grants	16.588		12,442,238	11,464,662
Residential Substance Abuse Treatment for State Prisoners	16.593		636,050	554,132
State Criminal Alien Assistance Program	16.606		41,601,436	-
Bulletproof Vest Partnership Program	16.607		158,087	158,087
Project Safe Neighborhoods	16.609		757,469	724,702
Regional Information Sharing Systems	16.610			
Pass-Through from Western States Information Network		2014-RS-CX-0007, 2013-MU-MU-K001	1,647,531	-
Public Safety Partnership and Community Policing Grants	16.710		865,824	-
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735		423,662	173,433
DNA Backlog Reduction Program	16.741		3,645,135	580,538
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		774,901	721,971
Support for Adam Walsh Act Implementation Grant Program	16.750		382,305	-
Edward Byrne Memorial Competitive Grant Program	16.751		292,857	-
Economic High-Tech and Cyber Crime Prevention	16.752		(4,487)	-
Congressionally Recommended Awards	16.753		67,928	-
Harold Rogers Prescription Drug Monitoring Program	16.754		444,629	-
ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808		254,674	-
Second Chance Act Prisoner Reentry Initiative	16.812		3,908	-
John R. Justice Prosecutors and Defenders Incentive Act	16.816		130,730	130,730
Postconviction Testing of DNA Evidence to Exonerate the Innocent	16.820		63,961	55,358
Vision 21	16.826		27,450	-
Equitable Sharing Program	16.922		1,416,628	-
Other - Department of Justice	16.999		474,219	-
Total Excluding Clusters			**150,043,667**	**68,537,385**
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	16.738		16,144,168	13,796,482
ARRA - Recovery Act - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803		(96,038)	(96,038)
Total JAG Program Cluster			**16,048,130**	**13,700,444**
Research and Development Cluster				
Law Enforcement Assistance_Narcotics and Dangerous Drugs_Laboratory Analysis	16.001		3,935	-
Total Research and Development Cluster			**3,935**	**-**
Total U.S. Department of Justice			**166,095,732**	**82,237,829**

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
U.S. Department of Labor				
Labor Force Statistics	17.002		$ 7,112,375	$ -
Compensation and Working Conditions	17.005		1,101,496	-
Unemployment Insurance	17.225		6,115,138,246	-
Senior Community Service Employment Program	17.235		6,927,034	6,544,103
Trade Adjustment Assistance	17.245		4,157,048	-
Work Opportunity Tax Credit Program (WOTC)	17.271		2,238,774	-
Temporary Labor Certification for Foreign Workers	17.273		1,448,684	-
Workforce Investment Act (WIA) National Emergency Grants	17.277		1,431,160	1,245,393
Workforce Investment Act (WIA) Dislocated Worker National Reserve Technical Assistance and Training	17.281		48,267	-
Occupational Safety and Health_State Program	17.503		29,282,176	-
Consultation Agreements	17.504		5,945,553	-
Mine Health and Safety Grants	17.600		314,219	-
Total Excluding Clusters			**6,175,145,032**	**7,789,496**
Employment Service Cluster				
Employment Service/Wagner-Peyser Funded Activities	17.207		81,645,150	2,269,589
Disabled Veterans' Outreach Program (DVOP)	17.801		16,053,732	-
Local Veterans' Employment Representative Program	17.804		1,453,302	-
Total Employment Service Cluster			**99,152,184**	**2,269,589**
WIA Cluster				
WIA Adult Program	17.258		120,408,439	111,506,946
WIA Youth Activities	17.259		112,896,478	107,753,394
WIA Dislocated Worker Formula Grants	17.278		160,413,703	151,754,991
Total WIA Cluster			**393,718,620**	**371,015,331**
Total U.S. Department of Labor			**6,668,015,836**	**381,074,416**
U.S. Department of Transportation				
Airport Improvement Program	20.106		311,464	-
Highway Research and Development Program	20.200		2,267	-
Highway Training and Education	20.215		8,336	8,336
National Motor Carrier Safety	20.218		15,293,014	-
Performance and Registration Information Systems Management	20.231		36,386	-
Commercial Driver's License Program Improvement Grant	20.232		1,305,006	-
Fuel Tax Evasion-Intergovernmental Enforcement Effort	20.240		83,194	-
Capital Assistance to States - Intercity Passenger Rail Service	20.317		3,899,305	3,899,305
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319		134,559,368	895,412
High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319		7,589,050	6,967,232
Total High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants			142,148,418	7,862,644
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		66,762,830	66,762,830
ARRA - Formula Grants for Rural Areas	20.509		2,689	-
Formula Grants for Rural Areas	20.509		31,056,271	29,233,846
Total Formula Grants for Rural Areas			31,058,960	29,233,846
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		63,936,872	12,734,500
National Priority Safety Programs	20.616		25,034,717	11,302,521
Pipeline Safety Program State Base Grant	20.700		3,822,324	-
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		1,780,850	184,933
Total Excluding Clusters			**355,483,943**	**131,988,915**

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FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Highway Planning and Construction Cluster				
ARRA - Highway Planning and Construction	20.205		$ 13,219,607	$ 5,081,141
Highway Planning and Construction	20.205		3,419,367,878	1,094,610,216
Recreational Trails Program	20.219		3,122,784	2,765,067
Total Highway Planning and Construction Cluster			**3,435,710,269**	**1,102,456,424**
Transit Services Programs Cluster				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		9,224,038	8,695,763
Job Access And Reverse Commute Program	20.516		4,259,514	4,097,125
New Freedom Program	20.521		2,063,110	1,980,750
Total Transit Services Programs Cluster			**15,546,662**	**14,773,638**
Federal Transit Cluster				
Bus and Bus Facilities Formula Program	20.526		597,643	597,643
Total Federal Transit Cluster			**597,643**	**597,643**
Highway Safety Cluster				
State and Community Highway Safety	20.600		19,627,429	5,383,651
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		555,810	-
Occupant Protection Incentive Grants	20.602		3,607	-
Safety Belt Performance Grants	20.609		267,915	-
State Traffic Safety Information System Improvement Grants	20.610		1,779,034	85,333
Incentive Grant Program to Increase Motorcyclist Safety	20.612		3,338	-
Child Safety and Child Booster Seats Incentive Grants	20.613		46,690	-
Total Highway Safety Cluster			**22,283,823**	**5,468,984**
Research and Development Cluster				
Highway Planning and Construction	20.205		16,439,525	-
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		66,105	-
Formula Grants for Rural Areas	20.509		472,748	-
Total Research and Development Cluster			**16,978,378**	**-**
Total U.S. Department of Transportation			**3,846,600,718**	**1,255,285,604**
Equal Employment Opportunity Commission				
Other - Equal Opportunity Employment Commission	30.999		2,590,300	-
Total Equal Employment Opportunity Commission			**2,590,300**	**-**
General Services Administration				
Election Reform Payments	39.011		371,495	-
Total General Services Administration			**371,495**	**-**
National Endowment for the Arts				
Promotion of the Arts_Partnership Agreements	45.025		1,003,471	-
Grants to States	45.310		14,476,136	8,470,354
Total National Endowment for the Arts			**15,479,607**	**8,470,354**
Small Business Administration				
State Trade and Export Promotion Pilot Grant Program	59.061		405,002	405,002
Total Small Business Administration			**405,002**	**405,002**
U.S. Department of Veterans Affairs				
Burial Expenses Allowance for Veterans	64.101		252,001	-
All-Volunteer Force Educational Assistance	64.124		1,333,639	-
Total U.S. Department of Veterans Affairs			**1,585,640**	**-**

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FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Environmental Protection Agency				
Air Pollution Control Program Support	66.001		$ (160,988)	$ -
State Indoor Radon Grants	66.032		170,179	-
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		757,442	-
The San Francisco Bay Water Quality Improvement Fund	66.126		852,825	755,507
State Environmental Justice Cooperative Agreement Program	66.312		6,999	-
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		9,183,052	2,338,439
Pass-Through from San Jose State University Foundation	66.419	R1175004	1,495,833	-
State Public Water System Supervision	66.432		2,290,683	-
State Underground Water Source Protection	66.433		600,981	-
Urban Waters Small Grants	66.440		19,145	-
Water Quality Management Planning	66.454		1,160,372	392,164
Nonpoint Source Implementation Grants	66.460		8,350,306	3,620,234
Regional Wetland Program Development Grants	66.461		129,801	123,242
Beach Monitoring and Notification Program Implementation Grants	66.472		478,244	280,105
Performance Partnership Grants	66.605		1,624,454	-
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		201,894	7,959
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		683,688	-
Pollution Prevention Grants Program	66.708		76,080	76,080
Hazardous Waste Management State Program Support	66.801		8,152,628	-
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		1,031,325	-
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		879,324	656,306
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		2,573,212	-
Brownfields Training, Research, and Technical Assistance Grants and Cooperative Agreements	66.814		33,466	-
State and Tribal Response Program Grants	66.817		1,070,620	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		32,111	-
Total Environmental Protection Agency			**41,693,676**	**8,250,036**
U.S. Department of Energy				
State Energy Program	81.041		2,892,187	-
ARRA - Weatherization Assistance for Low-Income Persons	81.042		(3,798)	-
Weatherization Assistance for Low-Income Persons	81.042		4,207,053	3,341,464
Total Weatherization Assistance for Low-Income Persons			4,203,255	3,341,464
Nuclear Waste Disposal Siting	81.065		1,021,083	-
ARRA - Conservation Research and Development	81.086		273,113	-
Renewable Energy Research and Development	81.087		199,633	199,633
Environmental Remediation and Waste Processing and Disposal	81.104		345,969	-
State Energy Program Special Projects	81.119		69,718	69,718
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		376,435	-
Long-Term Surveillance and Maintenance	81.136		23,120	-
Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214		70,721	-
Total U.S. Department of Energy			**9,475,234**	**3,610,815**
U.S. Department of Education				
Adult Education - Basic Grants to States	84.002		101,977,835	98,869,008
Title I Grants to Local Educational Agencies	84.010		1,630,256,125	1,614,683,737
Migrant Education_State Grant Program	84.011		136,069,733	134,530,011
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		1,261,125	1,247,092
Career and Technical Education -- Basic Grants to States	84.048		115,703,836	106,211,251

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FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		$ 306,415,721	$ -
Independent Living_State Grants	84.169		1,506,786	382,044
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177		3,558,577	3,390,339
Special Education-Grants for Infants and Families	84.181		49,892,917	-
Safe and Drug-Free Schools and Communities_National Programs	84.184		7,779,173	5,843,633
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		2,885,375	-
Education for Homeless Children and Youth	84.196		6,652,298	6,226,577
Assistive Technology	84.224		1,220,000	-
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265		398,745	-
Charter Schools	84.282		36,513,416	34,605,300
Twenty-First Century Community Learning Centers	84.287		126,637,701	123,678,130
Special Education - State Personnel Development	84.323		2,381,308	2,371,334
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		9,403,673	9,403,673
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		(2,081)	-
Rural Education	84.358		1,234,971	1,200,000
English Language Acquisition State Grants	84.365		135,073,315	129,869,393
Mathematics and Science Partnerships	84.366		11,070,500	10,166,522
Improving Teacher Quality State Grants	84.367		244,197,450	239,341,668
Grants for State Assessments and Related Activities	84.369		27,745,370	21,290,698
College Access Challenge Grant Program	84.378		18,695,998	369,601
Race to the Top - Early Learning Challenge	84.412		26,698,170	21,536,651
Promoting Readiness of Minors in Supplemental Security Income	84.418		6,163,677	-
Total Excluding Clusters			**3,011,391,714**	**2,565,216,662**
Special Education Cluster (IDEA)				
Special Education_Grants to States	84.027		971,486,657	935,685,786
Special Education_Preschool Grants	84.173		34,326,213	32,646,880
Total Special Education Cluster (IDEA)			**1,005,812,870**	**968,332,666**
School Improvement Grants Cluster				
School Improvement Grants	84.377		87,620,909	86,786,485
ARRA - School Improvements, Recovery Act	84.388		21,684,436	21,684,436
Total School Improvement Grants Cluster			**109,305,345**	**108,470,921**
Total U.S. Department of Education			**4,126,509,929**	**3,642,020,249**
U.S. Election Assistance Commission				
Help America Vote Act Requirements Payments	90.401		16,846,427	-
Total U.S. Election Assistance Commission			**16,846,427**	**-**
U.S. Department of Health and Human Services				
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018		328,582	161,082
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		478,824	478,824
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		1,709,413	1,598,643
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		2,117,046	2,117,046
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048		426,107	283,038
Alzheimer's Disease Demonstration Grants to States	93.051		239,008	239,008
National Family Caregiver Support, Title III, Part E	93.052		14,880,915	14,311,984
Public Health Emergency Preparedness	93.069		(178,956)	-
Environmental Public Health and Emergency Response	93.070		456,188	135,172

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Medicare Enrollment Assistance Program	93.071		$ 666,064	$ 632,515
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		65,448,292	32,371,665
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		234,441	-
Guardianship Assistance	93.090		38,385,767	38,337,676
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		6,241,628	4,049,862
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094		770,159	647,535
Food and Drug Administration_Research	93.103		840,252	-
Maternal and Child Health Federal Consolidated Programs	93.110		169,463	127,820
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		9,099,321	4,399,575
Emergency Medical Services for Children	93.127		156,034	-
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		408,527	-
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		489,290	36,156
Injury Prevention and Control Research and State and Community Based Programs	93.136		3,136,875	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150		7,001,608	6,502,324
Health Program for Toxic Substances and Disease Registry	93.161		857,611	-
Grants to States for Loan Repayment Program	93.165		1,464,861	1,464,861
Grants to States to Support Oral Health Workforce Activities	93.236		757,617	-
State Rural Hospital Flexibility Program	93.241		259,774	-
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		4,074,037	1,436,475
Universal Newborn Hearing Screening	93.251		289,122	171,496
Immunization Cooperative Agreements	93.268		37,142,569	-
Adult Viral Hepatitis Prevention and Control	93.270		136,353	-
Substance Abuse and Mental Health Services-Access to Recovery	93.275		925,607	-
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		12,628,900	3,680,999
Small Rural Hospital Improvement Grant Program	93.301		357,249	-
National State Based Tobacco Control Programs	93.305		377,253	-
Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program	93.314		92,312	-
State Health Insurance Assistance Program	93.324		4,745,488	3,997,702
ACL Independent Living State Grants	93.369		568,552	209,851
Food Safety and Security Monitoring Project	93.448		134,161	-
ACL Assistive Technology	93.464		131,262	-
Pregnancy Assistance Fund Program	93.500		1,690,084	495,757
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		25,909,706	20,086,818
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506		350,125	-
PPHF 2012 National Public Health Improvement Initiative	93.507		629,060	-
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		1,759,072	-
Affordable Care Act (ACA) - Consumer Assistance Program Grants	93.519		833,503	-
Pre-existing Condition Insurance Program (PCIP)	93.529		365,093	-
The Affordable Care Act Medicaid Incentives for Prevention of Chronic Disease Demonstration Project	93.536		1,787,733	-
The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	93.544		(12,338)	-
PPHF: State Nutrition, Physical Activity, and Obesity Programs - financed in part by PPHF	93.548		73	-
Promoting Safe and Stable Families	93.556		34,157,356	31,399,238
Child Support Enforcement	93.563		626,880,044	493,519,526
Child Support Enforcement Research	93.564		126,713	126,713
Refugee and Entrant Assistance_State Administered Programs	93.566		30,757,299	14,775,039
Low-Income Home Energy Assistance Program	93.568		174,112,258	165,270,558
Community Services Block Grant	93.569		63,057,462	59,798,847
Refugee and Entrant Assistance_Discretionary Grants	93.576		1,646,825	1,497,831

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
U.S. Repatriation	93.579		$ 18,164	$ -
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584		3,472,462	3,366,095
State Court Improvement Program	93.586		2,243,156	-
Community-Based Child Abuse Prevention Grants	93.590		2,669,916	2,007,981
Grants to States for Access and Visitation Programs	93.597		895,360	677,997
Chafee Education and Training Vouchers Program (ETV)	93.599		6,039,219	-
Head Start	93.600		211,564	-
The Affordable Care Act - Medicaid Adult Quality Grants	93.609		937,858	-
Voting Access for Individuals with Disabilities_Grants to States	93.617		908,927	-
Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare-Medicaid Individuals in States with Approved Financial Alignment Models	93.626		431,525	431,525
Affordable Care Act Implementation Support for State Demonstrations to Integrate Care for Medicare-Medicaid Enrollees	93.628		5,772,323	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630		6,836,812	-
ACA Support for Demonstration Ombudsman Programs Serving Beneficiaries of State Demonstrations to Integrate Care for Medicare-Medicaid	93.634		254,764	-
Children's Justice Grants to States	93.643		1,685,568	1,526,846
Stephanie Tubbs Jones Child Welfare Services Program	93.645		33,848,322	33,848,322
Child Welfare Research Training or Demonstration	93.648		2,106,319	1,655,960
ARRA - Foster Care_Title IV-E	93.658		(40,625)	(40,625)
Foster Care_Title IV-E	93.658		1,242,766,046	1,184,460,875
Total Foster Care_Title IV-E			1,242,725,421	1,184,420,250
ARRA - Adoption Assistance	93.659		(51,346)	(51,346)
Adoption Assistance	93.659		463,867,171	447,058,474
Total Adoption Assistance			463,815,825	447,007,128
Social Services Block Grant	93.667		530,933,835	280,770,382
Child Abuse and Neglect State Grants	93.669		3,780,559	52,267
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671		7,904,568	7,684,703
Chafee Foster Care Independence Program	93.674		17,983,930	16,408,442
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection (ASC-HAI) Prevention Initiative	93.720		5,514	-
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF-2012)	93.733		220,639	-
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs - financed by 2012 Prevention and Public Health Funds (PPHF-2012)	93.734		507,682	507,682
State Public Health Approaches for Ensuring Quitline Capacity - Funded in part by 2012 Prevention and Public Health Funds (PPHF-2012)	93.735		2,538,536	1,928,202
PPHF: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745		232,310	162,805
State Public Health Actions to Prevent and Control Diabetes, Heart Disease, Obesity and Associated Risk Factors and Promote School Health financed in part by Prevention and Public Health Funding (PPHF)	93.757		742,993	-
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758		8,443,568	2,031,362
Children's Health Insurance Program	93.767		1,443,334,956	-
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		300,713	284,356
Money Follows the Person Rebalancing Demonstration	93.791		18,905,723	-
National Bioterrorism Hospital Preparedness Program	93.889		(64,061)	-
Grants to States for Operation of Offices of Rural Health	93.913		225,077	-
HIV Care Formula Grants	93.917		165,550,105	119,661,770
HIV Prevention Activities_Health Department Based	93.940		18,432,296	9,738,012
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		3,759,869	7,933
Assistance Programs for Chronic Disease Prevention and Control	93.945		2,119,341	-

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Tuberculosis Demonstration, Research, Public and Professional Education	93.947		$ 232,608	$ -
Block Grants for Community Mental Health Services	93.958		53,083,913	51,822,348
Block Grants for Prevention and Treatment of Substance Abuse	93.959		239,109,903	223,014,365
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		6,295,829	1,633,895
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		90,766	-
Preventive Health and Health Services Block Grant	93.991		1,213,309	1,104,958
Maternal and Child Health Services Block Grant to the States	93.994		39,866,522	23,835,795
Other - Department of Health and Human Services	93.999		17,856,079	-
Total Excluding Clusters			**5,540,978,231**	**3,319,953,017**
Aging Cluster				
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		39,159,533	36,875,790
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		66,490,528	64,524,476
Nutrition Services Incentive Program	93.053		12,717,625	12,717,625
Total Aging Cluster			**118,367,686**	**114,117,891**
TANF Cluster				
Temporary Assistance for Needy Families	93.558		3,107,815,715	2,651,137,295
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714		3,034,125	3,034,125
Total TANF Cluster			**3,110,849,840**	**2,654,171,420**
CCDF Cluster				
Child Care and Development Block Grant	93.575		264,306,565	264,306,565
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		290,945,200	276,964,188
Total CCDF Cluster			**555,251,765**	**541,270,753**
Medicaid Cluster				
State Medicaid Fraud Control Units	93.775		24,210,334	-
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		50,268,693	7,093,103
Medical Assistance Program	93.778		53,092,349,549	1,605,793,889
Total Medicaid Cluster			**53,166,828,576**	**1,612,886,992**
Total U.S. Department of Health and Human Services			**62,492,276,098**	**8,242,400,073**
Corporation for National and Community Service				
State Commissions	94.003		756,551	-
AmeriCorps	94.006		21,862,961	21,862,961
Volunteer Generation Fund	94.021		600,502	-
Total Excluding Clusters			**23,220,014**	**21,862,961**
Foster Grandparent/Senior Companion Cluster				
Foster Grandparent Program	94.011		1,014,374	-
Total Foster Grandparent/Senior Companion Cluster			**1,014,374**	**-**
Total Corporation for National and Community Service			**24,234,388**	**21,862,961**
Executive Office of the President				
High Intensity Drug Trafficking Areas Program	95.001			
Pass-Through from CA Border Alliance Group / City of San Diego / San Diego Police Department		G15SC0001A, G14SC0001A	786,682	-
Pass-Through from CV HIDTA/LA Police Chief's Association / Sacramento County		G14CV0002A,G13CV0002A, G12CV0002A	89,887	-
Pass-Through from INCH/LA Police Chief's Association / Riverside County		G14LA0007A, G13LA0007A	84,720	-
Pass-Through from LA Clear/LA Police Chief's Association / City of Monrovia		G15LA0006A, G14LA0006A, DORC	971,256	-
			1,932,545	**-**

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

FEDERAL AGENCY/FEDERAL PROGRAM TITLE/ PASS-THROUGH ENTITY OR PROGRAM	FEDERAL CATALOG NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNTS PASSED THROUGH TO SUBRECIPIENTS
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security_Disability Insurance	96.001		$ 225,084,711	$ -
Total Social Security Administration			**225,084,711**	**-**
U.S. Department of Homeland Security				
Non-Profit Security Program	97.008		1,762,105	1,655,192
Boating Safety Financial Assistance	97.012		6,668,277	2,648,208
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		487,821	-
Flood Mitigation Assistance	97.029		1,779,402	1,689,271
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		85,411,084	83,105,196
Hazard Mitigation Grant	97.039		11,441,884	10,198,909
National Dam Safety Program	97.041		151,343	-
Emergency Management Performance Grants	97.042		33,109,468	17,379,278
State Fire Training Systems Grants	97.043		(100)	-
Cooperating Technical Partners	97.045		417,995	4,292
Pass-Through from California Natural Resources Agency	97.045	0CA12006	274,172	-
Total Cooperating Technical Partners			692,167	4,292
Fire Management Assistance Grant	97.046		51,340,883	50,442,447
Pre-Disaster Mitigation	97.047		4,088,473	3,750,011
Emergency Operations Center	97.052		18,870	18,870
Homeland Security Grant Program	97.067		232,175,964	216,896,159
Pass-Through from Imperial County Sheriff's Office	97.067	R1395007	30,152	-
Pass-Through from Sacramento County Sheriff's Department	97.067	R0995006	40,107	-
Pass-Through from San Diego County Sheriff's Department	97.067	R1295015	28,011	-
Pass-Through from San Diego Sheriff Department	97.067	2014-00093	1,340,387	-
Total Homeland Security Grant Program			233,614,621	216,896,159
Driver's License Security Grant Program	97.089		2,673,084	-
Severe Repetitive Loss Program	97.110		2,778,476	2,754,988
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111		1,422,964	1,422,964
Border Interoperability Demonstration Project	97.120		1,400,461	1,364,165
Total U.S. Department of Homeland Security			**438,841,283**	**393,329,950**
Total Expenditures of Federal Awards			**$ 90,427,072,727**	**$ 25,167,602,334**

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

Notes to the Schedule of Expenditures of Federal Awards

STATE OF CALIFORNIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2015

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the expenditures for all federal award programs received by the State of California (State) for the fiscal year ended June 30, 2015, except for federal awards received by the University of California system, a component unit of the State, the California State University system, the California State Water Resources Control Board Water Pollution Control Revolving Fund, the California State Water Resources Control Board Safe Drinking Water State Revolving Fund, and the California Housing Finance Agency, a component unit of the State. These entities engaged other auditors to perform an audit in accordance with the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133).

2. BASIS OF ACCOUNTING

The federal award expenditures reported in the Schedule are prepared from records maintained by each State department for federal funds and reported on the cash basis. All expenditures for each program are net of applicable program income and refunds.

State departments' records are periodically reconciled to State Controller's Office records for federal receipts and department expenditure reports. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

3. NONCASH FEDERAL AWARDS

The State is the recipient of federal award programs that do not result in cash receipts or disbursements. These noncash federal awards include a variety of items, such as commodities, vaccines, or federal excess property. Noncash awards for the fiscal year ended June 30, 2015 are as follows:

Federal Catalog Number	Federal Program Title	NonCash Awards for the Fiscal Year Ended June 30, 2015
10.555	National School Lunch Program	$ 157,026,788
10.565	Commodity Supplemental Food Program	19,403,334
10.569	Emergency Food Assistance Program (Food Commodities)	64,494,527
15.543	Lake Tahoe Regional Wetlands Development Program	670,000
39.003	Donation of Federal Surplus Personal Property	6,327,157
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	441,434
93.268	Immunization Cooperative Agreements	394,725,145
	Total	$ 643,088,385

4. LOANS, LOAN GUARANTEES OUTSTANDING, AND INSURANCE IN EFFECT

Loans and loan guarantees outstanding, and insurance in effect at June 30, 2015 are summarized below:

Federal Catalog Number	Federal Program Title	Loans/Loan Guarantees Outstanding at June 30, 2015	Insurance in Effect at June 30, 2015
64.114	Veterans Housing – Guaranteed and	$ -	$ 82,002,000
66.818	Brownfield Assessment and Cleanup Cooperative Agreements	800,000	-
81.041	State Energy Program	1,634,902	-
	Total	$ 2,434,902	$ 82,002,000

5. PASS-THROUGH

Federal awards received by the State from a pass-through entity are included in the Schedule and are italicized.

6. SUBRECIPIENTS

Amounts provided to subrecipients from each federal program are included in a separate column on the Schedule.

7. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in Note 2.

Summary Schedule of Prior Audit Findings Prepared by Department of Finance

Reference Number:	**2014-002**
Federal Program:	10.553 10.555 10.556 10.559 10.558
State Administering Department:	California Department of Education (Education)
Audit Finding:	Subrecipient Monitoring; Reporting. Education lacks adequate controls over the Child Nutrition Information and Payment System (CNIPS). Failure to maintain adequate information technology controls over logical access could result in improper reimbursements through CNIPS.
Status of Corrective Action:	Fully Corrected. Education fully implemented corrective action processes to strengthen CNIPS information technology general controls as described in Education's March 2015 response.

Reference Number:	**2014-003**
Federal Program:	10.557
State Administering Department:	California Department of Public Health (Public Health)
Audit Finding:	Eligibility, Subrecipient Monitoring. Public Health lacks adequate controls over subrecipient monitoring to ensure that local agencies policies and procedures were adequate to ensure income and other eligibility criteria were evidenced in accordance with state and federal requirements. Failure to monitor local agencies could result in noncompliance with eligibility requirements.
Status of Corrective Action:	Partially Corrected. Public Health's Women, Infants and Children Program (WIC) has provided written communication to local agency contractors and provided training webinars to review the policies and procedures regarding Integrated Statewide Information System (ISIS) documentation. Planned corrective actions not yet completed are that Public Health/WIC continues to evaluate the feasibility of making changes to ISIS mandatory fields and creating new automated reports and monitoring tools to review ISIS documentation. Public Health/WIC is in the planning stages of replacing ISIS, and will take this into consideration

with this proposed corrective action.

Public Health/WIC will determine the feasibility of making changes to the management information system (ISIS) to categorize specific fields as mandatory so that contracted local agency staff cannot move forward without completing the appropriate documentation in the system; make changes to internal process for monitoring local agency contractors to strengthen compliance; determine feasibility of creating a quarterly report of participant ISIS 'holds' and other information that may provide the opportunity for enhanced monitoring and technical assistance to local agency contractors with ISIS holds; review and update monitoring tools to prioritize eligibility criteria; issue written communication to reiterate importance of correctly documenting all participant eligibility determinations in ISIS and provide training webinars focused on these processes.

Reference Number: **2014-004**

Federal Program: 10.557

State Administering Department: California Department of Public Health (Public Health)

Audit Finding: Eligibility; Reporting. Public Health lacks adequate IT controls over logical access for the Integrated Statewide Information System (ISIS). IT general controls should be properly designed and operating effectively to help ensure application controls function properly.

Status of Corrective Action: Fully Corrected. Public Health's Women, Infants and Children Program (WIC) issued a policy and procedures memo to reiterate existing instructions to WIC contracted local agencies regarding the responsibilities of the local agencies to ensure ISIS user account security. Public Health/WIC updated its semi-annual reporting template to require local agency contractors to verify that ISIS access has been removed for terminated staff and review monthly ISIS reports and verify that state staff identified still engage in ISIS activities as part of the essential functions of their jobs and ensure that the employee exit process includes a review and termination of ISIS access.

Reference Number: **2014-005**

Federal Program: 10.557

State Administering Department: California Department of Public Health (Public Health)

Audit Finding: Subrecipient Monitoring. Public Health did not have adequate controls in place to ensure notices of audit findings were issued within 90 days of completion of a financial management review. Failure to issue findings in a timely manner increases the risk that local agencies may utilize federal funds for unallowable costs and activities.

Status of Corrective Action: Fully Corrected. There were two letters that were issued beyond the 90 day time period as a result of a miscommunication within Public Health's Women, Infants and Children (WIC) Division regarding staff's understanding of advice provided by Public Health's Office of Legal Services. All staff who were involved in the issuance of audit findings letters were advised that there is no 'hold' placed on the issuance of audit finding letters. Public Health/WIC centralized all audit functions. Currently, staff reside and report to various managers throughout the WIC Division. The staff are now centralized into one unit under one manager to better supervise all audit functions.

Reference Number: **2014-006**

Federal Program: 10.557

State Administering Department: California Department of Public Health (Public Health)

Audit Finding: Special Tests and Provisions. Public Health did not have adequate controls in place to ensure that food instruments redeemed by vendors conform to program regulations. Improper reporting and follow-up on food instruments with altered purchase price increases the risk that vendors inappropriately redeem food instruments, and the state will not reclaim monies owed.

Status of Corrective Action: Fully Corrected. The spreadsheet used by Public Health's Women, Infants and Children Division to document whether a vendor submitted a food instrument with an error has been modified to add a formula which will automatically calculate the total number of errors identified for each food instrument.

Reference Number: **2014-007**

Federal Program: 10.557

State Administering Department: California Department of Public Health (Public Health)

Audit Finding: Special Tests and Provisions. Public Health lacks adequate controls to ensure it properly monitored high risk vendors and took appropriate action on findings identified during vendor inventory audits. Failure to issue notices of audit findings on compliance investigations and failure to properly review compliance buy audits increases the risk that vendors inappropriately redeem food instruments and the state will not reclaim monies owed.

Status of Corrective Action: Fully Corrected. Public Health's Women, Infants and Children Division monitors on a bi-weekly basis the vendor inventory audit report for the update and status of vendors that have audit findings. This review is a cross-check to ensure that letters are being issued timely. In addition, two review checklists were developed - the Internal Management Quality Assurance File Review Checklist and the File Peer Review Checklist to ensure that cross-checks and additional review are being conducted to ensure additional oversight.

Reference Number: **2014-008**

Federal Program: 10.565

State Administering Department: California Department of Education (Education)

Audit Finding: Reporting. Education does not have a process in place to ensure accuracy of FNS-153 reports prior to submission. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Status of Corrective Action: Fully Corrected. Education established a process to ensure the accuracy of the FNS-153 reports that was fully implemented by September 30, 2015, which is the date the next quarterly report is due. This process is described in Education's March 2015 response.

Reference Number: **2014-009**

Federal Program: 14.239

State Administering Department: California Department of Housing and Community Development (HCD)

Audit Finding: Subrecipient Monitoring. HCD lacks adequate policies and procedures to ensure that management decisions are issued within six month after receipt of a subrecipient's OMB Circular A-133 audit report. Failure to issue management decisions in a timely manner may result in delays in recovery of questioned costs and proper corrective action.

Status of Corrective Action: Fully Corrected. HCD has ensured that the Home Investment Partnerships Program (HOME) A-133 subrecipient audit finding tracking system is kept up to date, either in the Consolidated Automated Program Enterprise System (CAPES) or in an Excel File stored in the Division of Financial Assistance Group drive.

The staff or Manager responsible for sending out the management letters will continue to keep this report up to date. The responsible person's supervisor checks the report monthly to ensure that the management letters are going out within six months. If not the responsible person's supervisor will adjust their priorities to allow time for the letter to go out or will delegate as necessary to other HCD employees.

Reference Number: **2014-010**

Federal Program: 17.225

State Administering Department: California Employment Development Department (EDD)

Audit Finding: Eligibility. EDD does not have a process in place to reconcile the Unemployment Insurance (UI) benefit expenditures raw data extract provided for eligibility testing, to its general ledger system. Failure to reconcile claimant expenditures to the general ledger may result in errors in amounts reported in their general ledger and to the Federal government.

Status of Corrective Action: Fully Corrected. This recommendation has been fully implemented. EDD stated in response to findings identified in the Fiscal Year 2013-2014 Single Audit Report that EDD complied with the criteria cited for this finding, which was to: "Maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal

awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs." EDD has internal controls over federal programs to ensure compliance with applicable federal laws, regulations, and contract and grant agreements. EDD maintains controls to ensure the amounts recorded in the general ledger and reported to the federal government are accurate. The controls include weekly, monthly, and year-end processes which consist of reconciling claimant expenditures from the Single Client Data Base and other related systems (e.g., Accounting and Compliance Enterprise System [ACES], and Benefit Accounting System). These processes would identify any discrepancies before the amounts are reported to the federal government. This was further validated, as the KPMG audit did not disclose deficiencies with management of federal monies.

Regarding the $600 million discrepancy cited in previous audits, the expectation was to tie raw data to the payments for the UI Program. This information was initially provided for the fiscal year ending June 30, 2014. The $600 million discrepancy referenced is a comparison of the initial raw data extract to the expenditure information being reported on the general ledger Report 13 (Report of Expenditures of Federal Funds) which contains more than just UI payments. Once it was realized the auditors required raw data included on the Report 13 instead of simply the UI payment portion of the data, EDD communicated this information and began working on a process to extract this information.

Extracting raw data from the accounting system reported on the Report 13 is complex and was not requested in prior audits. The expenditure data provided on the Report 13 is derived from multiple systems in different business areas. The extraction required a collaborative department-wide effort involving information technology staff, accounting staff, and program area staff (UI and tax). To reconcile the general ledger information being reported on Report 13 to the raw data extract, EDD was required to define various expenditure types (e.g., overpayments, paper warrants, electronic benefit transfers, combined wages to and from other states, federal income tax withholdings, and extension expenditures, etc.) generated from the various subsystems within each business unit. Subsequent to defining the expenditure types, EDD was required to identify computer programmers having the skill set to write computer coding necessary to extract raw data from each of the subsystems. Upon completing the written code, the data was tested to ensure the accuracy of the information. The data was analyzed by various business units from the new computer programs to identify inaccuracies or missing data in the information being reported.

As of December 2014, EDD has programming in place to extract the Report 13 raw data for future requests.

Reference Number:	**2014-011**
Federal Program:	17.225
State Administering Department:	California Employment Development Department (EDD)
Audit Finding:	Eligibility. EDD lacks established policies to address which users are authorized to have certain permissions within the California Unemployment Benefits Payment System (CUBS) that would ensure a proper segregation of duties. Failure to maintain adequate information technology controls could result in improper eligibility determinations and benefit payments.
Status of Corrective Action:	Fully Corrected. This recommendation has been fully implemented. As of August 2014, the permission to create weekly certifications in CUBS was revoked for all staff that had the permissions to file claims. Periodic monitoring continues to ensure proper segregation of duties.

Reference Number:	**2014-012**
Federal Program:	17.225
State Administering Department:	California Employment Development Department (EDD)
Audit Finding:	Reporting. EDD lacks adequate controls in place to evidence its review and reconciliation of the ETA 2208A, Quarterly Unemployment Insurance Contingency Report. Failure to reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.
Status of Corrective Action:	Fully Corrected. This recommendation was fully implemented in the Fall of 2014. EDD has modified the worksheets used to collect detailed data for the ETA 2208A report. The original backup worksheets collected staff years and paid data on separate sheets where the various workload categories were categorized independently of each other. This increased the possibility that a change in one sheet would not be captured in the other sheet. The updated worksheets use Excel "lookup" formulas for both staff years worked and paid using the same reference table to categorize both, eliminating the possibility of the same type of errors that were discovered during the audit. In addition, EDDs review process has been modified to ensure documentation of all ETA 2208A report reviews.

Reference Number:	**2014-013**
Federal Program:	20.205 (ARRA)
State Administering Department:	California Department of Transportation (Caltrans)
Audit Finding:	Special Tests and Provisions. Caltrans lacks adequate controls to ensure required materials certifications were prepared. Failure to maintain support for materials certification testing increases the risk that materials do not conform to approved plans and specifications.
Status of Corrective Action:	Fully Corrected. Caltrans Division of Construction edited the Construction Manual to clarify the list of documents to be maintained in the project history file required for permanent retention.

Reference Number:	**2014-014**
Federal Program:	20.319 (ARRA)
State Administering Department:	California Department of Tranportation (Caltrans)
Audit Finding:	Cash Management. Caltrans lacks proper controls over its review of cash draws prior to submission to the Federal government. Failure to maintain adequate controls increases the risk that Caltrans may draw inaccurate amounts of federal funds.
Status of Corrective Action:	Fully Corrected. A reminder memorandum was sent to staff regarding the review and signature of cash drawdown requests by first line supervisors or managers prior to submittal in the Federal Railroad Administration's electronic invoice submittal system. Contract managers were reminded to retain this evidence of review in the project file.

Reference Number:	**2014-015**
Federal Program:	20.319 (ARRA)
State Administering Department:	California Department of Transportation (Caltrans)

Audit Finding:	Davis-Bacon Act. Caltrans failed to implement procedures to obtain weekly required certified payrolls in compliance with Davis-Bacon Act requirements.
Status of Corrective Action:	Not Corrected. Caltrans has not yet implemented corrective action for this finding as of June 30, 2015. Refer to current year finding number 2015-002.

Reference Number:	**2014-016**
Federal Program:	20.319 (ARRA)
State Administering Department:	California High Speed Rail Authority (High Speed Rail)
Audit Finding:	Davis-Bacon Act. High Speed Rail lacked finalized and documented procedures designed to detect or prevent noncompliance with Davis-Bacon requirements.
Status of Corrective Action:	Fully Corrected. High Speed Rail has a finalized Labor Compliance Operating Manual which will be revised and updated, as necessary. This manual contains the processes and control activities utilized to monitor for federal Davis-Bacon compliance.

Reference Number:	**2014-017**
Federal Program:	20.319 (ARRA)
State Administering Department:	California High Speed Rail Authority (High Speed Rail)
Audit Finding:	Reporting. Although High Speed Rail reported accurate financial information on the Federal Financial Report (SF-425), it lacks adequate internal controls to ensure that the SF-425 captures all relevant spending information. High Speed Rail lacks procedures to ensure that its workbook was accurate and complete when compared to its official accounting records.
Status of Corrective Action:	Fully Corrected. A process was established and procedures implemented for which a comparison of the official accounting record and the Excel workbook occurs monthly and quarterly prior to the submittal of the SF-425.

Reference Number: **2014-018**

Federal Program: 20.319 (ARRA)

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Reporting. Caltrans lacks adequate controls over FFRs (SF-425) submitted for the High Speed Rail program. Failure to maintain and reconcile reports to supporting documents increases the risk of errors in information reported to the federal government.

Status of Corrective Action: Fully Corrected. In March 2014, Caltrans Division of Rail and Mass Transportation received new guidance from the Federal Railroad Administration (FRA) on the way to correctly complete the SF-425 report. A reminder memorandum was sent to staff with the FRA guidance and the requirement that SF-425 be reviewed and signed by first-line supervisors or managers. Contract managers were reminded to retain supporting documentation and evidence of review in the project file.

Reference Number: **2014-019**

Federal Program: 20.505
20.513
20.516
20.521

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Reporting. Caltrans did not have a process in place to comply with reporting requirements of the Federal Funding Accountability Transparency Act (FFATA) for the Metropolitan Transportation Planning Program and the Transit Services Cluster. Failure to implement a process over FFATA reporting results in late or non-submission of subaward information and noncompliance with the grant agreement.

Status of Corrective Action: No longer applicable. FFATA reporting requirements are no longer applicable as of fiscal year 2014/2015.

Reference Number:	**2014-020**
Federal Program:	20.505
State Administering Department:	California Department of Transportation (Caltrans)
Audit Finding:	Subrecipient Monitoring. Caltrans does not have adequate controls over award communication to subrecipients. Failure to properly communicate award information increases the risk that subrecipients may inappropriately spend federal funds or fail to comply with federal regulations.
Status of Corrective Action:	Fully Corrected. Caltrans' Office of Regional Planning (ORP) amended the encumbrance document to include the Catalog of Federal Domestic Assistance title and number. The updated document was sent to the Metropolitan Planning Organizations and Regional Transportation Planning Agencies in May 2015 and posted on the Office of Regional Planning's (ORP) website. The encumbrance documents are currently being executed and sent to ORP for processing.

Reference Number:	**2014-021**
Federal Program:	20.513 20.516 20.521 20.509
State Administering Department:	California Department of Transportation (Caltrans)
Audit Finding:	Reporting. Caltrans does not have adequate controls in place to evidence its review of SF-425 reports and maintain support for amounts reported. Failure to retain supporting documentation for amounts reported and a lack of adequate review controls increases the risk of errors in information reported to the federal government.
Status of Corrective Action:	Fully Corrected. Caltrans implemented procedures to retain supporting documentation and evidence of supervisory approvals in response to the previous year's audit report.

Reference Number: **2014-022**

Federal Program: 20.509
20.513
20.516
20.521

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Subrecipient Monitoring. Caltrans does not have a process in place to ensure subrecipients who expend more than $500,000 in federal awards submit single audit reports as required by OMB Circular A-133. Failure to obtain and review single audit reports of all subrecipients increases the risk that subrecipients may have spent monies for unallowable purposes or failed to comply with other federal regulations.

Status of Corrective Action: Fully Corrected. Caltrans followed up with the entities and ensured they submitted a single audit report or exemption letter. Caltrans also continues to refine the reporting tools and procedures to ensure all subrecipients comply with OMB Circular A-133 single audit reporting requirements.

Reference Number: **2014-023**

Federal Program: 20.513
20.516
20.521

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Equipment and Real Property Management. Caltrans lacks controls to ensure that all equipment is inspected within the required time frame. Caltrans was also unable to provide supporting inspection reports and monitoring letters for eight inspections. Failure to perform equipment inspections increases the risk that subrecipients are not utilizing equipment in accordance with federal requirements.

Status of Corrective Action: Partially Corrected. The Division of Rail and Mass Transporation (DRMT) has eliminated the vast majority if the backlog due to the previous influx of new vehicles, is committed to following the State Management Plan, and is working to perform all needed inspections at a rate of 1/3, 1/3 and 1/3 per year, so that all inspections are completed in a three-year cycle. DRMT is on target to conform with the three-year plan. Additionally, staff has been reminded to

follow procedures by not sending the original reports back to the recipients and by properly maintaining a copy of the inspection and monitoring reports in the history file. Refer to the current year finding 2015-003.

Reference Number: **2014-024**

Federal Program: 20.513
20.516
20.521

State Administering Department: California Department of Transportation (Caltrans)

Audit Finding: Subrecipient Monitoring. Caltrans lacks policies and procedures to obtain Data Universal Numbering System (DUNS) numbers prior to awarding federal funds. Failure to obtain the DUNS numbers prior to awarding funds increases the risk that subawards may be incorrectly reported.

Status of Corrective Action: Fully Corrected. Caltrans changed its DUNS number collection process. A field was added on grant applications for subrecipient agencies to enter their DUNS number. These changes are already in effect.

Reference Number: **2014-025**

Federal Program: 84.027

State Administering Department: California Department of Education (Education)

Audit Finding: Level of Effort - Maintenance of Effort. Education failed to meets its maintenance of effort (MOE) requirements. Failure to meet MOE requirements increases the risk of reduced federal funding. Education should monitor its compliance throughout the grant period to ensure MOE requirements are met. If Education cannot meet the MOE requirements, it should apply for a waiver from the U.S. Department of Education.

Status of Corrective Action: Fully Corrected. To clarify, the State Maintenance of Financial Support (MFS) refers to the responsibility of the State to maintain State financial support for special education and related services from one fiscal year to the next. Local Education Agency (LEA) MOE refers to the responsibility of the LEA to maintain the same level of expenditures for the education of children with disabilities from one fiscal year to the next. Based on these definitions Education will use MFS instead of MOE.

For Fiscal Year (FY) 2011–12, the MFS shortfall was calculated to be $19,173,000. The State Legislature appropriated $19,173,000 of general fund dollars in the FY 2015–16 Education Trailer Bill, Assembly Bill (AB) 104, Item 40.

For FY 2012–13, the MFS shortfall was calculated to be $36,762,000. Education will submit a request to the State Legislature for additional funding to meet the MFS. If the State Legislature does not appropriate the funding, a waiver will be requested from the federal Office of Special Education Programs (OSEP). Due to the State legislative process, the determination of compliance with MFS, for FY 2012–13, is open until FY 2016–17.

The AB 602 funding formula requires Education to make multiple calculations/appropriations of state special education funds over a two year period. At the end of the two year period, the MFS is calculated. If a shortfall is determined, Education will submit a request to the State Legislature for additional funding to meet the MFS. If the State Legislature does not appropriate the funding, a waiver will be requested from the OSEP. Due to the AB 602 funding formula requirements and the State legislative process, the determination of compliance with the MFS, for FY 2013–14, is open until FY 2017–18.

Reference Number:	**2014-026**
Federal Program:	84.282
State Administering Department:	California Department of Education (Education)
Audit Finding:	Subrecipient Monitoring. Education lacks policies and procedures to obtain Data Universal Numbering System (DUNS) numbers from Charter Schools Program subrecipients prior to awarding federal funds. Failure to obtain DUNS numbers increases the risk that subawards may be incorrectly reported.
Status of Corrective Action:	Fully corrected. Education has implemented changes to the policies and procedures for obtaining DUNS numbers prior to approving subawards. Education added a requirement to the sub-recipient application process which now requires the DUNS numbers be provided. In addition to the aforementioned corrective action that is specific to the Charter Schools Program, Education added the DUNS Number as a data collection element to its Charter Schools Annual Information Survey (Survey). The Survey is released annually and prior to the beginning of the State fiscal year. The purpose of the Survey is to collect information

from all charter schools so that Education has current information on file, including but not limited to, charter school contact information, funding, and facilities. The purpose of adding the DUNS Number to the Survey was twofold: charter school awareness that the DUNS number is a condition of receiving federal grant funding, and to collect the data for the Charter Schools Program and other federal grant programs.

Reference Number: **2014-027**

Federal Program: 93.767

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Allowable Activities. Health Care Services does not have a process in place to reconcile fee-for-service claims to its general ledger. Specifically, Health Care Services could not identify claims that had a split funding source resulting from the enactment of the Affordable Care Act (ACA). Failure to reconcile fee-for-service claims detail to the general ledger may result in errors on the State's Report 13 and in reporting to the federal government.

Status of Corrective Action: Partially Corrected. Health Care Services does not agree with the finding that there is no process to reconcile fee-for-service claims. Health Care Services acknowledges that two system issues were identified that affected the value in the funding field on the California-Medicaid Management Information System (CA-MMIS) history for ACA claims. Health Care Services has opened projects to correct the system for the two issues identified. One project has been implemented and the second is scheduled to be implemented in March 2016.

Reference Number: **2014-028**

Federal Program: 93.775
93.777
93.778
93.767

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Subrecipient Monitoring. Health Care Services needs to work with the Centers for Medicare and Medicaid Services (CMS) and counties to ensure eligibility control and compliance objectives are subject to audit

at the county or obtain written approval from CMS that non-Modified Adjusted Gross Income (MAGI) eligibility should not be tested in the scope of county OMB Circular A-133 audits and instead be tested by the state auditor.

Status of Corrective Action: Partially Corrected. Health Care Services agrees that the State Automated Welfare Systems (SAWS) are owned, operated and maintained by the respective 58 counties throughout the state. However, Health Care Services contends that existing federally mandated Medi-Cal eligibility quality control reviews performed by Health Care Services, along with additional reviews that Health Care Services is planning to implement in fiscal year 2015-16, is more than sufficient to meet county internal control and compliance objectives for eligibility. The fact that Health Care Services is performing the reviews instead of county auditors should not preclude the objectives from being met. Health Care Services is currently working closely with the Centers for Medicare and Medicaid Services (CMS) to obtain approval to implement a series of four new Medicaid eligibility quality control pilots over the next three years that are designed to replace pre-Affordable Care Act quality control requirements.

Health Care Services is beginning the Round 3 Pilot reviews of a random sample of both MAGI and non-MAGI cases. The review of these cases will be completed in August 2015 and the results will be sent to CMS for their evaluation and comment. The county administration budget methodology effort is progressing and Health Care Services is engaged in the process to hire the contractor who will review county performance and time studies. Health Care Services anticipates the contractor will be on board and working by the fall of 2015.

Reference Number: **2014-029**

Federal Program: 93.775
93.777
93.778
93.767

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Subrecipient Monitoring. Throughout fiscal year 2013-14, Health Care Services did not have a process in place to monitor counties to ensure that non-Modified Adjusted Gross Income (MAGI) eligibility determinations are made in accordance with state and federal regulations. Failure to monitor eligibility increases the risk that payments may be made to providers for ineligible beneficiaries.

Status of Corrective Action: Partially Corrected. Health Care Services disagrees with the recommendation. In response to the implementation of Affordable Care Act, Children's Medical Services (CMS) issued a directive on August 15, 2013, that instructed states to suspend Medi-Cal Eligibility Quality Control and Payment Error Rate Measurement reviews effective December 31, 2013. This directive mandated states to participate in a series of four separate pilot review programs, the first of which commenced in January 2014.

Health Care Services is beginning the effort to examine a random sample of non-MAGI eligibility determinations as part of the Round 3 Pilot program required by CMS. Approximately 12 percent of the cases reviews in this Pilot will be non-MAGI. The process will be completed in August 2015 and the results will be submitted to CMS for review and comment.

Reference Number: **2014-030**

Federal Program: 93.775
93.777
93.778
93.767

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Allowable Activities/ Allowable Costs. Health Care Services needs to ensure that its IT general controls over the California Medicaid Management System (CA-MMIS) are operating effectively. Health Care Services should implement CA-MMIS policies and procedures. Ineffective IT general controls could result in inappropriate claims being processed.

Status of Corrective Action: Partially Corrected. On April 8, 2015, CA-MMIS issued four Corrective Action Plan (CAP) requests to Xerox to address the 2013-14 audit findings below.

- CAP 36 is for the enforcement of the mainframe account policy to deactivate user IDs that have been idle for 29 days; however, this finding remains uncorrected.

- CAP 37 is for the complete documentation of the 84 User ID (UID) strings not currently defined on Xerox's role based security sheet; however, this finding remains uncorrected.

- CAP 38 is for the development of processes and procedures to regularly compare current employee listings from all CA-MMIS

business partners to the mainframe account user database; however, this finding remains uncorrected.

- CAP 39 is for the update of change control documentation to include checklist approval criteria associated with test script review and validation; however, this finding remains uncorrected.

In May 2015, Xerox submitted CAP responses for each audit finding. CA-MMIS is currently reviewing each Xerox CAP response. All CAP response reviews are scheduled to be completed by July 1, 2015 and returned to Xerox with Health Care Services' directions. CA-MMIS intends to implement all CAPS by the end of 2015 in order to avoid repeat findings.

Reference Number: **2014-031**

Federal Program: 93.775
93.777
93.778
93.767

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Activities Allowed/ Allowable Costs. Health Care Services did not properly configure the capitation file extracted from the Medicaid Eligibility Database System (MEDS) used to calculate capitation payments to health plans. As a result, Health Care Services did not ensure that retroactive changes in aid codes are properly adjusted in subsequent capitation payments. Health Care Services also could not determine the amount of any questioned costs resulting from this error in configuration without significant cost and effort.

Status of Corrective Action: Partially Corrected. Health Care Services has worked diligently to make the necessary adjustments to the MEDS logic and payment systems. It has been determined the current payment system logic is adequate. However, the MEDS logic does need to be adjusted. Adjustments are in the final business rule design phase and will soon move to the development phase. Although Health Care Services previously reported this would be completed by June 30, 2015, the complexity of the change and testing are extending the timeline to July 31, 2015. Health Care Services is committed to ensuring the change is implemented accurately and is thoroughly tested prior to implementation.

Reference Number: **2014-032**

Federal Program: 93.775
93.777
93.778

State Administering Department: California Department of Health Care Services (Health Care Services)

Audit Finding: Subrecipient Monitoring. Health Care Services continues to lack adequate policies and procedures to ensure that it properly monitors subrecipients. Specifically, Health Care Services should develop policies and procedures to obtain Data Universal Numbering System (DUNS) numbers prior to awarding federal funds, ensure that site visits are performed in accordance with department policy, and develop policies and procedures to ensure OMB Circular A-133 audit reports for all subrecipients reporting federal funds of more than $500,000 are received and management decisions are issued.

Status of Corrective Action: Partially Corrected. Health Care Services is finalizing a Policy and Procedure Letter (PPL) to send to stakeholders outlining the process to obtain DUNS numbers and track subrecipient funds greater than $500,000. This audit was done on the CMAA program; however, Health Care Services determined subrecipient monitoring affected three other programs within the Medi-Cal Administrative Claiming Section. Therefore, the PPL is directed at all affected programs and requires stakeholder input to ensure that Health Care Services provides: accurate information, implements sound processes and issues appropriate due dates. It is anticipated that the PPL be issued by June 30, 2015. In addition, Health Care Services has added language to all contracts outlining the requirements for DUNS numbers and subrecipient monitoring.

The County-Based Medi-Cal Administrative Activities (CMAA) program is currently updating their site visit protocols and will begin site visits in fiscal year (FY) 2015-16. Staff turnover and training of new staff inhibited the ability for CMAA to do site visits in the current FY. However, two other programs within the section have completed two site visits each and will continue into the next FY.

Reference Number: **2014-033**

Federal Program: 93.917

State Administering Department:	California Department of Public Health (Public Health)
Audit Finding:	Subrecipient Monitoring. Public Health lacks policies and procedures to communicate the Catalog of Federal Domestic Assistance (CFDA) title and number to subrecipients when it issues subawards. Failure to properly communicate award information increases the risk that subrecipients may inappropriately spend federal funds or fail to comply with federal regulations, including OMB Circular A-133 audit requirements.
Status of Corrective Action:	Fully Corrected. Public Health implemented policies and procedures to communicate the CFDA title and number to subrecipients. Public Health communicated the CFDA title and number via email and in a Management Memo issued to subrecipients on February 26, 2015 and processed amended contracts with an effective date of April 1, 2015, which is in State Fiscal Year 2014-15. Public Health has displayed the CFDA title and number on the amended contract scope of work and has notified the Office of AIDS (OA) contract processing staff that inclusion of the CFDA title and number is standard practice. Thus, OA feels that they have fully satisfied this finding.

Reference Number:	**2014-034**
Federal Program:	93.958 93.959
State Administering Department:	California Department of Health Care Services (Health Care Services)
Audit Finding:	Subrecipient Monitoring. Health Care Services lacks policies and procedures to ensure that it obtained Data Universal Numbering System (DUNS) numbers from its subrecipients prior to awarding federal funds. Failure to obtain DUNS numbers increases the risk that subawards may be incorrectly reported.
Status of Corrective Action:	Partially Corrected. Health Care Services was not able to implement a DUNS number policy for fiscal year (FY) 2013-14. Health Care Services was unaware of the audit findings related to the DUNS number until two-thirds of the way through FY 2013-14, and was not able to correct the finding in FY 2013-14. Health Care Services implemented the DUNS number policy with the release of its FY 2014-15 Planning Estimate and Renewal Application on April 11, 2014.