



Report of Independent Auditors and  
Financial Statements  
**State of California Assembly**  
(A Governmental Fund of the State of California)

June 30, 2011

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## **REPORT OF INDEPENDENT AUDITORS**

To the State of California  
Assembly Committee on Rules

We have audited the accompanying financial statements of the governmental activities of the State of California Assembly (“Assembly”), as of and for the year ended June 30, 2011, which comprises the Assembly’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Assembly’s management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the account balances and results of operations of the State of California Assembly and do not purport to, and do not, present fairly the financial position of the State of California, as of June 30, 2011, or the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Assembly as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**MOSS-ADAMS**<sub>LLP</sub>

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 28 through 29 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, who 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 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 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 the 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.

*Moss Adams LLP*

Sacramento, California  
November 10, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis of State of California Assembly ("Assembly") provides an overview of the Assembly's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the Assembly's financial statements, which begin on page 9.

The Assembly administers the cost of legislative and related support and administrative services as well as capital outlay for property and equipment used by the Assembly. The Assembly and the California State Senate ("Senate") along with the Joint Senate and Assembly are collectively referred herein to as the Legislature. The Legislature was established with the adoption of the California Constitution in 1849 and consists of 80 members of the Assembly and 40 members of the Senate who are elected by the voters of the State of California ("State"). The Legislature makes laws for the people of the State of California, approves the State budget, and proposes amendments to the California Constitution.

The Assembly is an integral part of the State of California and is included as a governmental fund in the State's *Comprehensive Annual Financial Report*.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements that provide information about how Assembly's operations were funded and detail the financial position and results of operations of the Assembly. These statements also provide detail of expenditures during the year ended June 30, 2011 and tell what net assets remain for future spending.

This Management's Discussion and Analysis ("MD&A") is designed to provide an easily readable analysis of the Assembly's financial condition and results of operations. A comparative analysis is provided with an emphasis on the year ended June 30, 2011. The MD&A that follows provides an overview of the Assembly's financial activities for the fiscal year ended June 30, 2011.

There are four financial statements presented in the basic financial statements. They are:

1. Statement of Net Assets
2. Statement of Activities
3. Balance Sheet
4. Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund

The Statement of Net Assets and the Statement of Activities ("Government-Wide Financial Statements") display information about the Assembly as a whole. The Government-Wide Financial Statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balance (“Fund Financial Statements”) present the accounts and transactions of the single fund that comprises the accounts of the Assembly. The Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both measurable and available.

Because the Government-Wide Financial Statements and Fund Financial Statements are prepared using different basis of accounting, reconciliations are provided showing the differences between the Statement of Net Assets and the Balance Sheet and differences between the Statement of Activities and the Statement of Revenue, Expenditures and Changes in Fund Balance.

Notes to the financial statements provide additional information.

Also included in this annual report are schedules of budgeted revenues and expenditures compared to actual amounts. The Schedules of Revenue and Expenditures – Budget and Actual are prepared using budgetary accounting principles under which encumbrances are used in budget control as a reduction of available budget amount. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

#### **GOVERNMENT-WIDE FINANCIAL REPORTING**

The Government-Wide Financial Statements report the Assembly’s net assets and changes in them. It reflects the amount of net assets invested in the capital assets and the unrestricted amount of net assets available for future years. The increase or decrease in the net assets depends on operating transfers received from the State’s General Fund, operating expenses, transfers-out and capital asset activities that took place during the year. The portion of net assets indicated as “investment in capital assets” represents the cost of capital assets, net of accumulated depreciation.

In the Government-Wide Financial Statements, the Assembly’s total assets increased by \$5,850,686 or 15%, to \$44,606,538 at June 30, 2011 compared to \$38,755,852 at June 30, 2010. The significant components of assets are cash, receivables, prepaid expenditures and capital assets (net of depreciation). Specifically, cash in State Treasury increased \$3,768,815 and receivables decreased \$1,562,119 or 62%, due to the timing of receipt of funds and transfers, and prepaid expenditures increased from \$17,746,209 to \$22,052,806 at June 30, 2011 because management decided to prepay future operating expenses for the coming year. Capital assets of \$1,331,683 represent a component of net assets that is not available for future expenditure.

Liabilities at June 30, 2011 consist of \$1,173,942 of accounts payable and accrued liabilities, and \$7,107,946 of liabilities for compensated absences. Total liabilities increased \$9,511 to \$8,281,888 at June 30, 2011 from \$8,272,377 at June 30, 2010. Specifically, the accounts payable and accrued liabilities increased by \$490,355 and the compensated absences decreased by \$480,844. The change in accounts payable and accrued liabilities between the years is because of the timing of processing the payments for the Assembly’s obligations. Compensated absences vary as the result of changes in number of employees, compensation rates and by the amount of vacation employees elect to use.

For the year ended June 30, 2011, net assets changed as follows:

Beginning net assets	\$ 30,483,475
Increase in net assets	<u>5,841,175</u>
Ending net assets	<u>\$ 36,324,650</u>

While budgeted transfers from the State General Fund decreased by \$2,644,000, or 2%, during the year ended June 30, 2011 (\$146,716,000 for 2011 compared to \$149,360,000 for 2010), expenses decreased \$1,411,903 or 1%, to \$124,986,422 during the year ended June 30, 2011 from \$126,398,325 during the year ended June 30, 2010. While member and employee salaries and benefits increased by \$2,402,123 during the year ended on June 30, 2011, the other non-salary expenses decreased by \$3,814,026. Member and employee salaries and benefits increased because of increases to pension costs in the current fiscal year. Because the priorities are different from year to year, the non-salary and benefit expenses vary depending on the need for certain services such as mailings, printing, consulting, etc. Overall, the Assembly had an increase in net assets of \$5,841,175 during the year ended June 30, 2011 as compared to a net increase of \$1,255,301 during the year ended June 30, 2010.

Net assets invested in capital assets are \$1,331,683 and \$1,994,290 as of June 30, 2011 and 2010, respectively. This \$662,607 decrease in capital assets is attributable to current year capital additions of \$300,949 offset by a \$172,202 net retirement of capital assets and current year depreciation expense of \$791,354. Unrestricted net assets, excluding net assets invested in capital assets, amounted to \$34,992,967 at June 30, 2011 compared to \$28,489,185 at June 30, 2010.

#### **FUND LEVEL FINANCIAL REPORTING**

The Assembly consists of a single governmental fund. The Assembly's expenditures are categorized by function, of which there are two: 1) legislative and related support/administrative services and 2) capital outlay. The Fund Financial Statements report the financing sources of the Assembly, the detailed expenditures for the current year, and the remaining fund balances at the end of the year.

Beginning in the year ended June 30, 2011, newly effective accounting guidance issued by the Governmental Accounting Standards Board requires that fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the State of California is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories of the Assembly's fund balances include: nonspendable and committed funds. Nonspendable fund balance represents amounts such as prepaid expenses that are not available for expenditure because they are not expected to be converted to cash. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. The California Government Code provides for annual appropriations from general revenues of the State General Fund to be used by the Assembly for salaries and expenses of Assembly members as well as for the Assembly's operating costs or other uses as determined by the Assembly's Committee on Rules. The unexpended balance of annual appropriations as of June 30, 2011 is continuously appropriated and available for future expenditures of the Assembly in excess of future annual budgeted amounts. The net increase or decrease in the fund balance is the result of the current year's appropriations, expenditures and transfers.

The fund balance of the Assembly was \$42,062,295 and \$36,041,943 as of June 30, 2011 and 2010, respectively, as reported under the modified accrual basis of accounting. The fund balance includes nonspendable amounts of \$22,052,805 and \$17,746,209 for prepaid items at June 30, 2011 and 2010, respectively. The committed amounts of \$20,009,490 and \$18,295,734 for June 30, 2011 and 2010, respectively, represent amounts designated by legislation for specific purposes.

The net increase in fund balance increased by \$3,606,378, or 149%, during the year ended June 30, 2011 (\$6,020,352 for 2011 compared to \$2,413,974 for 2010) because transfers-in from the State General Fund decreased by \$2,644,000, or 2%, during the year ended June 30, 2011 (\$146,716,000 for 2011 compared to \$149,360,000 for 2010), expenses decreased \$432,407, or 0.3%, to \$124,807,245 during the year ended June 30, 2011 from \$125,239,652 during the year ended June 30, 2010, and transfers-out decreased by \$5,817,971, or 32%, during the year ended June 30, 2011 (\$12,119,403 for 2011 compared to \$17,937,374 for 2010). The change in expenses was attributable to an increase in member and employee salaries and benefits of \$3,484,445 during the year ended June 30, 2011, which was offset by decreases in other non-salary and benefit expenses of \$3,916,852. The increase in member and employee salaries and benefits was because of increases to pension costs in the current fiscal year, and the decrease in other non-salary and benefit expenses was mostly because of a \$2,081,327 decrease in printing expenses due to fewer mailings in 2011. The decrease in transfers-out is primarily due to a decrease in paying expenditures of other state agencies during the year ended June 30, 2011.

### **BUDGETARY HIGHLIGHTS**

The amount appropriated and recorded as transfers-in from the State General Fund for fiscal year ended June 30, 2011 was \$146,716,000 compared to \$149,360,000 for the fiscal year ended June 30, 2010.

During the year ended June 30, 2011, the Assembly's transfers-in were in excess of expenditures and transfers-out to other State of California agencies by \$1,716,342. Expenditures were less than budgeted amounts by \$13,835,745 and transfers-out were more than budgeted amounts by \$12,119,403, which lead to this excess.

Actual expenditures were less than budgeted amounts because the Assembly was able to conserve funds in all budget categories. Operating expenses were \$12,554,374 less than budgeted and other budget categories were \$1,281,371 less than was budgeted. The level of expenditures and transfers-out in year ended June 30, 2011 does not necessarily set a trend for future years. Variances occur because of the shifting of priorities during the year, which affect the use of resources available to the Assembly. Financing sources, net of other financing uses, were more than budgeted amounts because of unbudgeted transfers of \$12,119,403 to other state agencies. The Assembly sometimes elects to use accumulated fund balances to pay expenses of programs performed by other state agencies that are not funded from other sources.

The Assembly's annual budget is determined by the Assembly as the amount necessary to fund operating and capital costs but limited by provisions of the California Constitution, Article IV, Section 7.5.

## **CAPITAL ASSETS**

Capital assets consist of automobiles, office furniture, and office equipment acquisitions capitalized at cost. Depreciation is computed and recorded by using the straight-line method on such equipment with an estimated useful life of five years. The acquisition or retirement of such capital assets is routinely determined during the course of the year, on an as-needed basis. Land and buildings jointly owned by the Assembly and Senate are excluded from both the Government-Wide and Fund Financial Statements of the Assembly and Senate but are included in the combined financial statements of the Legislature. A summary of changes in the Assembly's capital assets is as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Automobiles	\$ 4,452,924	\$ 300,949	\$ (924,950)	\$ 3,828,923
Furniture and equipment	<u>3,809,541</u>	<u>                    </u>	<u>                    </u>	<u>3,809,541</u>
Total capital assets	8,262,465	300,949	(924,950)	7,638,464
Less accumulated depreciation	<u>6,268,175</u>	<u>791,354</u>	<u>(752,748)</u>	<u>6,306,781</u>
Capital assets, net	<u><u>\$ 1,994,290</u></u>	<u><u>\$ (490,405)</u></u>	<u><u>\$ (172,202)</u></u>	<u><u>\$ 1,331,683</u></u>

## **FUTURE BUDGETS**

The Governor has approved the final 2011/2012 budget for the State of California, which includes an appropriation of \$146,716,000 for support of Assembly, which is the same as the 2010/2011 appropriation. This funding level does not pose a risk to the Assembly because the fund balance at June 30, 2011 is available to supplement future appropriations.

## **CONTACTING THE ASSEMBLY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide general overview of the Assembly's finances and to show the Assembly's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Assembly Rules Committee at State Capitol, Room 3016, Sacramento, California 95814.

## **BASIC FINANCIAL STATEMENTS**

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**STATE OF CALIFORNIA ASSEMBLY**  
**(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Current assets (unrestricted):	
Cash in State Treasury	\$ 20,253,108
Receivables:	
Due from State General Fund	908,290
Due from other State agencies	60,651
Prepaid expenditures	<u>22,052,806</u>
Total current assets	43,274,855
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>1,331,683</u>
Total assets	<u><u>\$ 44,606,538</u></u>
<b>LIABILITIES</b>	
Current liabilities (payable from unrestricted assets):	
Accounts payable and accrued liabilities	\$ 1,173,942
Liability for compensated absences, current	<u>1,935,580</u>
Total current liabilities	3,109,522
Noncurrent liabilities:	
Liability for compensated absences, net of current portion	<u>5,172,366</u>
Total liabilities	<u>8,281,888</u>
<b>NET ASSETS</b>	
Invested in capital assets	1,331,683
Unrestricted	<u>34,992,967</u>
Net assets	<u>36,324,650</u>
Total liabilities and net assets	<u><u>\$ 44,606,538</u></u>

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

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	<b>Governmental Activities</b>
	<hr/>
<b>LEGISLATIVE AND RELATED SUPPORT/ADMINISTRATIVE SERVICES EXPENDITURES</b>	
Member salaries and benefits	\$ 8,230,487
Employee salaries	69,221,373
Employee benefits	35,678,865
Session per diem	2,020,656
Automotive	242,486
Building rent and maintenance	3,820,631
Depreciation	791,354
Office supplies	590,941
Postage	933,221
Printing	976,643
Telephone	463,276
Travel	1,153,417
Other	863,072
	<hr/>
Total legislative and related support/administrative services expenditures	124,986,422
	<hr/>
<b>TRANSFERS</b>	
Transfers in from the State General Fund	146,716,000
Transfer to Joint Legislative Budget Committee	(3,769,000)
Transfers to other State agencies	(12,119,403)
	<hr/>
Total transfers, net	130,827,597
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Increase in net assets	5,841,175
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Net assets – beginning	30,483,475
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Net assets – end	\$ 36,324,650
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**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2011**

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**ASSETS**

Cash in State Treasury	\$	20,253,108
Receivables:		
Due from State General Fund		908,290
Due from other State agencies		60,651
Prepaid expenditures		<u>22,052,805</u>
 Total assets	\$	<u><u>43,274,854</u></u>

**LIABILITIES AND FUND BALANCE**

Accounts payable and accrued liabilities	\$	1,173,942
Compensated absences due and payable		<u>38,617</u>
 Total liabilities		<u>1,212,559</u>
 <b>Fund Balance:</b>		
Nonspendable for:		
Prepaid expenditures		22,052,805
Committed		<u>20,009,490</u>
 Total fund balance		<u>42,062,295</u>
 Total liabilities and fund balance	\$	<u><u>43,274,854</u></u>

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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**Fund Balance – Governmental Funds** \$ 42,062,295

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements. 1,331,683

Portion of liability for compensated absences that is not due and payable in the current period is not included in the government fund financial statements. (7,069,328)

**Net Assets of Governmental Activities** \$ 36,324,650

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE-  
GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2011**

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**EXPENDITURES**

Current:

Legislative and related support/administrative services expenditures:

Member salaries and benefits	\$ 8,230,487
Employee salaries	69,704,802
Employee benefits	35,678,865
Session per diem	2,020,656
Automotive	242,486
Building rent and maintenance	3,820,631
Office supplies	590,941
Postage	933,221
Printing	976,643
Telephone	463,276
Travel	1,153,417
Other	690,871
Capital outlay	<u>300,949</u>
 Total expenditures	 <u>124,807,245</u>

**OTHER FINANCING SOURCES (USES)**

Transfers in from the State General Fund	146,716,000
Transfer to Joint Legislative Budget Committee	(3,769,000)
Transfers to other State agencies	<u>(12,119,403)</u>
 Total other financing sources, net	 130,827,597
 Net increase in fund balance	 6,020,352
 Fund balance – beginning	 <u>36,041,943</u>
 Fund balance – end	 <u><u>\$ 42,062,295</u></u>

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

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**Net Change in Fund Balance – Governmental Fund** \$ 6,020,352

Amounts reported for governmental activities in the statement of activities are different because:

The net effect of transactions involving the purchase and disposal of capital assets are reported as increases to net assets in the government-wide financial statements. 128,747

Government funds report capital outlays as expenditures; however, capital assets are capitalized and depreciated in the government-wide financial statements. Accordingly, depreciation expense is reported in the government-wide statement (See Note 3, to the financial statements for a breakdown of depreciation expense). (791,354)

Some expenditures reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Changes related to liabilities include accrual of compensated absences estimated to be paid in more than a year. 483,430

**Net Change in Net Assets – Governmental Activities** \$ 5,841,175

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of reporting entity** – The accompanying financial statements include the account balances and results of operations of the State of California Assembly (“Assembly”). The Assembly, the State of California Senate (“Senate”), and the Joint Senate and Assembly are collectively referred herein to as the Legislature. The Legislature was established with the adoption of the California constitution in 1849 and consists of 80 members of the Assembly and 40 members of the Senate who are elected by the voters of the State of California (“State”). The Legislature makes laws for the people of the State, approves the State budget, and proposes amendments to the California constitution.

The Assembly is an integral part of the State of California and is included as a governmental fund in the State’s *Comprehensive Annual Financial Report*.

**Fund accounting** – The accounts of the Assembly are organized in accordance with principles of fund accounting under standards issued by the Governmental Accounting Standards Board (“GASB”). Fund accounting is the process by which resources for various purposes are classified for accounting and reporting purposes into funds established in accordance with their nature and purpose. The operations of the Assembly are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, expenditures and transfers. The Assembly has no proprietary or fiduciary funds and has a single program.

**Government-wide financial statements** – The statement of net assets and the statement of activities (“Government-Wide Financial Statements”) display information about the Assembly as a whole. The Government-Wide Financial Statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Net asset is the excess of liabilities over assets. Net assets invested in capital assets represent the cost of capital assets less accumulated depreciation.

**Fund financial statements** – The balance sheet and statement of revenue, expenditures and changes in fund balance (“Fund Financial Statements”) present the accounts and transactions of the fund that comprises the accounts of the Assembly. The Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues, if any, and other financing sources are recognized as soon as they become both measurable and available. Expenditures are recorded when a liability is incurred.

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash in State Treasury** – The Assembly is required to maintain substantially all of its cash with the California State Treasury (“Treasury”). The Treasury pools the cash with that of other state and local agencies for investment purposes. By statute, any interest earned on pooled cash and investments in the Assembly’s fund is credited to the State’s General Fund and is not reflected in the Assembly’s financial statements. Also, the Assembly is not subject to reductions of its deposit balance in the event of market losses on the pooled investments.

**Prepaid expenditures** – Prepaid expenditures consist primarily of unused postage, advance retirement payments, prepaid State Unemployment Insurance, prepaid health insurance, and advance rent payments.

**Capital assets** – In the Government-Wide Financial Statements, property and equipment are accounted for as capital assets. The Assembly’s capitalization policy is to record in the Government-Wide Financial Statements automobiles, furniture and equipment with a cost greater than \$5,000 and an estimated useful life of at least five years. Capital assets consist of automobiles, office furniture and office equipment and are recorded at historical cost. Depreciation is computed and recorded by the straight-line method on capital assets using an estimated useful life of five years. Certain land and buildings used by the Assembly and Senate are held in the Joint Assembly and Senate fund and, accordingly, are excluded from both the Government-Wide and Fund Financial Statements of the Assembly and Senate.

In the Fund Financial Statements, capital outlay is recorded as expenditures when the assets are purchased. Depreciation is not provided for in the Fund Financial Statements.

Upon disposal of capital assets, historical cost is removed from the Government-Wide Financial Statements and the difference between proceeds from sales and depreciated cost basis is recorded in other expenditures. In the Fund Financial Statements, proceeds from sales of capital assets are recorded as a reduction of expenditures.

**Liability for compensated absences** – The Assembly’s employees earn vacation and sick leave in varying amounts which may be used or accumulated to certain amounts. Unused vacation is paid upon severance of employment whether by resignation, retirement, termination or death. Unused sick leave is not paid upon severance of employment.

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Liability for compensated absences (continued)** – In the government-wide statement of net assets all unused vacation liabilities incurred are recorded as liabilities. The portion expected to be paid in connection with severances of employment estimated to occur in the upcoming fiscal year are classified as current liabilities and the remainder is classified as non-current liabilities. In the Fund Financial Statements, a liability is recorded for only vacation amounts that have matured as of the end of the fiscal year as the result of employee resignations, retirements, terminations or deaths. Sick leave is recorded as an expenditure in the period taken since such benefits neither vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employees retire.

**Environmental remediation** – The Assembly monitors situations involving potential pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution remediation activities such as site assessments and cleanups, at least annually. As of June 30, 2011, there were no triggering events that would cause the Assembly to record a liability for pollution remediation.

**Budget** – The Governor recommends a budget for approval by the Legislature each fiscal year. The appropriations on behalf of the Assembly contained in the budget, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders; no amendments were made to the budget for the fiscal year ended June 30, 2011. The Assembly is responsible for exercising budgetary control and ensuring that appropriations on its behalf are not overspent. Any unexpended balance of annual appropriations is continuously appropriated and available for future expenditures of the Assembly in excess of its annual budgets.

**Change in financial statement presentation** – During the fiscal year ended June 30, 2011, the Assembly implemented Governmental Accounting Standards Board (“GASB”) Statement No. 54 (“GASB 54”), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 redefined and revised fund balance classifications under a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

**STATE OF CALIFORNIA ASSEMBLY  
(A GOVERNMENTAL FUND OF THE STATE OF CALIFORNIA)  
NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in financial statement presentation (continued)** – The fund balance classifications for balance sheet presentation (a component of the Fund Financial Statements) provided by GASB 54 are as follows:

- *Nonspendable fund balance* – Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The prepaid items recorded in the Assembly’s balance sheet are not in spendable form as they are not expected to be converted to cash. Accordingly, an equivalent portion of fund balance is shown as nonspendable.
- *Restricted fund balance* – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Assembly does not have any restricted fund balances as of June 30, 2011.
- *Committed fund balance* – Amounts that can only be used for specific purposes determined by formal action of the government’s highest level of decision-making authority that remain binding unless the commitments are removed in the same manner. The Assembly’s fund balance, other than the nonspendable portion, is classified as committed funds.
- *Assigned fund balance* – Amounts that are constrained by the Assembly’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose. The Assembly does not have any assigned fund balances as of June 30, 2011.
- *Unassigned fund balance* – The residual amount of fund balances not classified in other fund balance categories. The Assembly does not have any unassigned fund balances as of June 30, 2011.

The California Government Code (“Government Code”) provides for annual appropriations from the unrestricted revenues of the State General Fund to be used by the Assembly for salaries and expenses of Assembly members as well as for the Assembly’s operating costs or other uses determined by the Assembly’s Committee on Rules. The Government Code also provides for continuous appropriation of any unexpended balance of annual appropriations. Such unexpended continuously appropriated funds are available for future expenditures of the Assembly in excess of future annual budgeted amounts. These funds are committed because a change in the use of the fund would require legislation, which is the highest level of decision making authority.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in financial statement presentation (continued)** – Adoption of this accounting principle had no effect on total fund balances but did result in retroactive reclassifications of fund balances as of June 30, 2010 to the newly established fund balance categories. The fund balance formerly reserved for prepaid expenditures (\$17,746,209 at June 30, 2010) was reclassified to nonspendable fund balance. The fund balance formerly reserved for encumbrances (\$16,127,571 at June 30, 2010) and the formerly unreserved fund balance (\$2,168,163 at June 30, 2010) were reclassified, collectively, as committed fund balance (\$18,295,734 at June 30, 2010).

**Net asset restrictions** – For the statement of net assets (a component of the Government-Wide Financial Statements) the Assembly’s net assets are classified into the following categories:

- *Invested in capital assets:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted – non-expendable:* Net assets subject to externally imposed conditions that the Assembly retains them in perpetuity; the Assembly does not have any net assets in this category as of June 30, 2011.
- *Restricted - expendable:* Net assets subject to externally imposed conditions that can be fulfilled by the actions of the Assembly or by the passage of time; the Assembly does not have any net assets in this category as of June 30, 2011.
- *Unrestricted:* All other categories of net assets; in addition, unrestricted net assets may be designated for use by management or the Assembly’s Committee on Rules.

The Assembly has adopted a policy of generally utilizing restricted – expendable funds, prior to unrestricted funds, when an expense is incurred for purposes for which both are available.

**Transfers** – Transfers-in represent State General Fund transfers to finance payment of expenditures of the Assembly. Transfers-out represent transfers to other state agencies. By statute, a portion of the Assembly’s annual appropriation is transferred to the Joint Senate and Assembly to fund half of the costs of activities benefiting both the Senate and Assembly. The other half of those costs is funded by transfers from the Senate. During the year ended June 30, 2011, the Assembly also elected to transfer additional amounts to other state agencies to pay expenses of programs not funded from other sources.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of estimates in financial statements** – In preparing financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH IN STATE TREASURY**

Cash at June 30, 2011, consisted of the following:

Pooled cash:	
Cash in State Treasury	\$20,253,108

Pooled cash is carried at cost which is equal to its redemption value. It is not practical to determine the investment risk, collateral, or insurance coverage for the Assembly's share of these pooled investments. Information about the pooled investments is included in the State of California's annual financial statements.

**NOTE 3 – CAPITAL ASSETS**

The changes in capital assets during the year ended June 30, 2011 were as follows:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2011</u>
Automobiles	\$ 4,452,924	\$ 300,949	\$ (924,950)	\$ 3,828,923
Furniture and equipment	<u>3,809,541</u>	<u>                    </u>	<u>                    </u>	<u>3,809,541</u>
Total capital assets	8,262,465	300,949	(924,950)	7,638,464
Less accumulated depreciation	<u>6,268,175</u>	<u>791,354</u>	<u>(752,748)</u>	<u>6,306,781</u>
Capital assets, net	<u><u>\$ 1,994,290</u></u>	<u><u>\$ (490,405)</u></u>	<u><u>\$ (172,202)</u></u>	<u><u>\$ 1,331,683</u></u>

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**NOTE 4 – LEASE COMMITMENTS**

The Assembly leases facilities (generally used as office space for Assembly members) under operating lease agreements, some of which are subject to future escalation. Lease cancellation may occur upon the death of an Assembly member using the facilities, or within 60 days notice from the Assembly Rules Committee. Minimum lease payments under operating leases are summarized below:

<u>Fiscal Year Ending June 30,</u>	<u>Operating Leases</u>
2012	\$ 3,047,459
2013	1,851,659
2014	158,911
2015	<u>95,954</u>
Total minimum lease payments	<u><u>\$ 5,153,983</u></u>

Rent expenditures for the year ended June 30, 2011 were approximately \$3,207,000.

**NOTE 5 – CHANGES IN COMPENSATED ABSENCES**

A schedule of changes in the liability for compensated absences for the year ended June 30, 2011 is shown below:

Balance, June 30, 2010	\$ 7,588,790
Plus additions	3,830,748
Less payments	<u>(4,311,592)</u>
Balance, June 30, 2011	<u><u>\$ 7,107,946</u></u>
Portion estimated to be payable within one year	<u><u>\$ 1,935,580</u></u>

**STATE OF CALIFORNIA ASSEMBLY  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 – TRANSFERS-OUT**

Transfers to the Joint Legislative Budget Committee represent the amounts required of the Assembly, in accordance with the budget, to fund joint operations of the Assembly and Senate, primarily the Office of the Legislative Analyst.

The Assembly elected to use accumulated fund balances to pay expenditures of certain other state agencies that were not sufficiently funded from other sources. Accordingly, transfers to other state agencies represent funding for activities including: State Capitol tour guides, the Assembly Fellowship program at California State University, CalWORKS Stage 3 child care services, planning and providing emergency fire suppression and detection activities, and services in connection with the State Capitol and other state legislative facilities and property throughout the State of California.

**NOTE 7 – ENCUMBRANCES**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrances are used in budget control as a reduction of available budget amount. The Assembly has entered into contracts to purchase goods and services from various vendors. Of the committed fund balance at June 30, 2011, \$17,655,865 is encumbered for transfers to other agencies and \$2,142,529 is encumbered for other operating expenditures of the Assembly, and will be payable upon future performance under these contracts. Encumbrances outstanding at year-end do not constitute expenditures or liabilities.

**NOTE 8 – EMPLOYEE BENEFIT PLANS**

**Legislators' Retirement Fund**

*Plan Description:* The California Public Employees' Retirement System ("CalPERS") administers the Legislators' Retirement Fund ("LRF"), which is a single-employer pension plan that provides defined benefits to various categories of members: constitutional officers, members of the legislature, and legislative statutory officers. The eligible membership of the LRF includes state legislators serving in the Legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. For the fiscal year ended June 30, 2011, no statutory contribution was required, based on the June 30, 2009 valuation.

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**NOTE 8 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**Legislators' Retirement Fund (continued)**

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

Subsequent to November 1, 1990, no newly appointed legislators are eligible to participate in the LRF. Currently, the only members in the LRF are 8 active and 10 inactive constitutional officers (including the Insurance Commissioner and members of the Board of Equalization), 2 active and 15 inactive members of the legislature, and 4 active legislative statutory officers.

*Funding Policy:* The State is responsible for funding the LRF. Funding requirements are charged to the various agencies that have current or past employees that participate in the LRF based on actuarial determinations of the agencies' portion of pension cost. The employer contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. Member contribution rates are defined by law. For the year ended June 30, 2011, employee contributions were not required because the actuarial value of assets exceeds the present value of future benefits for current members. However, some members made contributions towards military service and prior service.

There was no annual pension cost ("APC") because the annual required contribution ("ARC") equaled zero and the interest on the NPO closely approximated the adjustment to the ARC. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses), (b) projected salary increases (including inflation of 3.0%) of 3.25%, and (c) 3.0% cost-of-living adjustment.

*Funded Status:* Separate information as to funded status and funding progress is not separately determined for the Assembly by CalPERS. Accordingly, such information has not been disclosed herein. For information on funded status and funding progress of the LRF as a whole, refer to the State of California's separately issued financial statements. Copies of these financial statements may be obtained by calling (916) 445-2636, by writing to California State Controller, P.O. Box 942850, Sacramento, California 94250, or by logging on to the State Controller's website at [www.sco.ca.gov](http://www.sco.ca.gov).

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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 8 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**California Public Employees' Retirement System**

*Plan Description:* CalPERS is an agent multiple-employer pension plan that provides defined benefits to various categories of members: State Miscellaneous – Tier 1 and Tier 2, State Industrial Tier 1 and Tier 2, Highway Patrol, State Safety, and Peace Officer/Firefighter. Assembly staff members are part of the State Miscellaneous – Tier I and the Peace Officer/Firefighter tiers. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries through its' Public Employees Retirement Fund ("PERF"). A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employees' Retirement Law ("PERL").

*Funding Policy:* Active members in the PERF are required to contribute a percentage of their annual covered salary. The Assembly is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its staff members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the period July 1, 2010 to December 31, 2010 for the State Miscellaneous – Tier I was 19.922% and 28.887% for the Peace Officer/Firefighter tier. The required employer contribution rate for the period January 1, 2011 to June 30, 2011 for the State Miscellaneous – Tier I was 17.528% and 28.556% for the Peace Officer/Firefighter tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS Board of Administration.

*Annual Pension Cost:* For the fiscal years ended June 30, 2011, 2010 and 2009, the Assembly's annual pension cost was approximately \$12,694,000, \$11,523,000, and \$13,999,000, respectively. At June 30, 2011, the prepaid pension cost was approximately \$16,140,000, which represents the excess of contributions over amounts required by the actuarial valuations. The annual pension cost is equal to the required contributions, all of which were paid for the years ended June 30, 2011, 2010, and 2009. The required contribution for the June 30, 2011 fiscal year was determined as part of the June 30, 2009 actuarial valuation (for the required contribution rate from July 1, 2010 through December 31, 2010) and as part of the June 30, 2010 valuation (for the required contribution rate from January 1, 2011 through June 30, 2011) both valuations use the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that vary by duration of service ranging from 3.25% to 13.35% for miscellaneous members and (c) overall payroll growth of 3.25% compounded annually. Both (a) and (b) include an inflation component of 3.00%. The actuarial value of the PERF's assets was determined using a technique that smoothes the effect of short-term volatility in the market value gains and losses over a fifteen-year period. The PERF's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis.

**STATE OF CALIFORNIA ASSEMBLY  
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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 8 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

**California Public Employees' Retirement System (continued)**

*Funded Status:* Separate information as to funded status and funding progress is not separately determined for the Assembly by CalPERS. Accordingly, such information has not been disclosed herein. For information on funded status and funding progress of the PERF as a whole, refer to the State of California's separately issued financial statements. Copies of these financial statements may be obtained by calling (916) 445-2636, by writing to California State Controller, P.O. Box 942850, Sacramento, California 94250, or by logging on to the State Controller's website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Other Post-Employment Benefits:* Legislative employees who retire under the PERF or the LRF receive certain health care and dental benefits for themselves and their survivors. The cost of retiree healthcare is paid by another agency of the State of California and the portion that would be attributable to the Assembly's retired employees is not charged back to the Assembly. Accordingly, no expenditures are reflected in these financial statements for post-retirement health and dental benefits for retired employees and their survivors. Additionally, the Assembly does not accrue a liability for these benefits as the other agency of the State of California that pays the benefits is responsible for reporting the liability that results from application of GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions".

The other post-employment benefits are provided in accordance with California Government Code, Section 22754(g) to all employees who retire from the Assembly on or after attaining certain age and length of service requirements. To be eligible for these benefits, participants in one plan must retire on or after attaining age 50 with at least five years of service, and participants in another plan must retire on or after attaining age 55 with at least ten years of service. In addition, participants must retire within 120 days of separation from employment to be eligible for these benefits.

**NOTE 9 – RELATED PARTY TRANSACTIONS**

The Assembly has significant financial transactions with other State agencies, boards and authorities including, but not limited to, the State Controller's Office, State Treasurer, State General Services, State Printer, Bureau of State Audits, and the Legislative Counsel Bureau. The amount and extent of transactions with related State entities has not been accumulated and cannot be reasonably estimated.

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NOTES TO FINANCIAL STATEMENTS**

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**NOTE 10 – CONTINGENCIES**

The Assembly is exposed to various risks of losses including those related to torts; theft of, damage to, and destruction of assets; automobile comprehensive and liability, workers' compensation, unemployment, errors and omissions; injuries to employees; and natural disasters. The Assembly does not carry insurance for such risks and pays all claim settlements and judgments out of its fund resources. Claims expenditures and liabilities for self-insured risks are generally reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, worker's compensation claims are recorded when paid rather than when incurred because management does not have sufficient information on claims reported or on claims incurred but not reported as of June 30, 2011 to estimate its' liability. While an actuarial determination of workers compensation liabilities is performed by the State of California at the overall statewide level for purposes of reporting the State's liability for workers compensation in the State of California financial statements, a separate actuarial valuation of the liability of the Assembly was not performed.

At June 30, 2011, there is no accrual for uninsured losses as management is not aware of any circumstances where it is probable that a material loss has been incurred.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**STATE OF CALIFORNIA ASSEMBLY**  
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**SCHEDULE OF REVENUE AND EXPENDITURES – BUDGET AND ACTUAL**  
**YEAR ENDED JUNE 30, 2011**

	<b>Budgeted Amounts (Adopted and Final)</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>EXPENDITURES</b>			
Salaries of Assembly Members (and benefits)	\$ 8,714,000	\$ 8,230,487	\$ 483,513
Expenses (Assembly Members per diem)	2,481,000	2,020,656	460,344
Mileage	8,000	-	8,000
Operating expenditures	131,172,000	118,617,626	12,554,374
Automotive expenditures	572,000	242,486	329,514
	<u>142,947,000</u>	<u>129,111,255</u>	<u>13,835,745</u>
<b>TRANSFERS</b>			
Transfers in from the State General Fund	146,716,000	146,716,000	-
Transfer to Joint Legislative Budget Committee	(3,769,000)	(3,769,000)	-
Transfers to other State agencies	-	(12,119,403)	(12,119,403)
	<u>142,947,000</u>	<u>130,827,597</u>	<u>(12,119,403)</u>
Excess of transfers over expenditures – budgetary basis	<u>\$ -</u>	<u>1,716,342</u>	<u>\$ 1,716,342</u>
<b>Adjustments to GAAP Basis:</b>			
Prepaid expenditures – beginning of year		(17,746,210)	
Prepaid expenditures – end of year		22,052,805	
Compensated absences liability:			
Beginning of year		36,032	
End of year		<u>(38,617)</u>	
Net adjustments to GAAP Basis		4,304,010	
Fund balance – beginning		<u>36,041,943</u>	
Fund balance – end		<u>\$ 42,062,295</u>	

**STATE OF CALIFORNIA ASSEMBLY  
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NOTE TO SCHEDULE OF REVENUE AND EXPENDITURES – BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2011**

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Accounting principles generally accepted in the United States of America (“GAAP”) requires the presentation of budgetary comparisons as supplementary information for all governmental fund types adopting an annual operating budget. The actual operating results as reflected in the above *Schedule of Revenue and Expenditures – Budget and Actual* have been adjusted to conform to the budgetary basis of accounting in order to facilitate comparisons with the legally adopted budget and demonstrate legal compliance with budgetary restrictions. Additionally, this schedule includes a reconciliation of the budgetary basis of accounting to GAAP basis.

Accounting principles applied by the Senate for the purpose of developing data for budgetary purposes differ from those used to present financial statements in conformity with GAAP. The primary differences between the budgetary basis of accounting as used by the Senate and GAAP are as follows:

- *Prepaid expenditures* – Prepaid expenditures are recorded as expenditures under the budgetary basis of accounting and as fund assets under GAAP. The assets are subsequently recognized as expenditures in future periods under GAAP.
- *Compensated absences* – Liabilities for compensated vacation absences earned but not paid as of the end of the fiscal year are recorded as expenditures under GAAP but are not recognized as expenditures until actually paid under the budgetary basis of accounting.
- *Transfers-out* – Transfers of resources to other State agencies and other governmental units are classified as offsets to financing sources under the budgetary basis of accounting and as transfers under GAAP.