CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

INDEPENDENT AUDITOR'S REPORT, MANAGEMENT'S DISCUSSION AND ANALYSIS, AND BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

FOR THE YEAR ENDED JUNE 30, 2010

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To the Board of Directors of the
California Infrastructure and Economic Development Bank
Sacramento, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the California Infrastructure and Economic Development Bank (I-Bank), a component unit of the State of California, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the I-Bank's management. Our responsibility is to express an opinion on these financial statements based on 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the I-Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the I-Bank as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
October 6, 2010

CALIFORNIA INFRASTRUCTURE AND
ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Introduction

The following Management's Discussion & Analysis (MD&A) provides an overview to the financial statements of the California Infrastructure and Economic Development Bank (I-Bank), a description of its activities and an analysis of the financial position of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund) for fiscal year ended June 30, 2010 (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Funds). The information presented in this section should be read in conjunction with the financial statements and notes that follow this section.

The I-Bank and Current Programs

The I-Bank is a State of California (State) financing authority whose mission is to finance public infrastructure and private development that promote economic development, revitalize communities and enhance quality of life throughout California. The I-Bank has broad statutory powers to issue revenue bonds and provide loans, lease financing and other forms of financing, including the provision of credit enhancements, for a wide variety of public infrastructure and economic development projects. The I-Bank's current operations are funded solely from fees, interest earnings and Infrastructure State Revolving Fund (ISRF) Program loan[1] repayments. The I-Bank is a component unit of the State of California (State) and the I-Bank's financial statements are included in the State's Comprehensive Annual Financial Report.

The I-Bank's major programs include the Infrastructure State Revolving Fund (ISRF) Program, which is a revolving loan program that provides low-cost financing to local government entities for sixteen categories of public infrastructure projects, and a variety of conduit revenue bond financing programs, including the Industrial Development Bond Program for manufacturing and processing companies, the 501(c)(3) Revenue Bond Program for nonprofit public benefit corporations, State School Fund Bond Program and the Public Agency Revenue Bond Program for governmental entities. Conduit bonds issued by the I-Bank are a limited obligation of the I-Bank payable solely from the revenues generated by the underlying borrower.

Financial Highlights 2009-2010

- Net assets increased by $3,422,688 to $266,811,356 during the fiscal year due to earnings from operations and investment income.
- Total pledged and non-pledged loans receivable increased during the fiscal year by $19,705,161 due to completed loan closings during the fiscal year.
- Total operating revenues were $12,525,270 for the fiscal year, an increase of $376,238 or 3.10% from the previous fiscal year. The increase in operating revenues represents the net of an increase in interest on loans receivable and a decrease in administration fees.

- Total operating expenses were $9,491,093 during the fiscal year compared to $9,173,166 for the prior fiscal year, an increase of 3.47%. The increase in operating expenses is mostly due to an increase in interest on bond debt.
- Interest on bond debt was $5,846,017 during the fiscal year, an increase of $393,315 or 7.21% over the prior fiscal year. The increase is attributable to additional bond interest expense related to the 2008 ISRF Program bonds that were issued during the previous year.
- Investment income, a nonoperating revenue, was $388,511 for the fiscal year, a decline of $1,576,716 from the prior fiscal year, principally due to the decline in the market investment earnings rates.

Using this Annual Financial Report

This MD&A is a discussion of many aspects of I-Bank operations and financial status. The information has been compiled from I-Bank's financial statements and accompanying notes that are part of this audit report.

The financial statements have been prepared using the accrual basis of accounting and include the following three statements:

- The *Statement of Net Assets* presents information on the assets and liabilities of the Funds and the I-Bank, with the difference between the assets and the liabilities reported as net assets. Over time, increases or decreases in net assets are expected to serve as a useful indicator of whether the financial position of the Funds are improving or deteriorating.
- The *Statement of Revenues, Expenses and Changes in Net Assets* presents information reflecting how the net assets of the Funds and the I-Bank changed during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statement of Cash Flows* reports the cash flows from operating activities, noncapital financing activities and investing activities, and the resulting impacts to cash and cash equivalents for the fiscal year.

The financial statements included in this annual financial report are those of the I-Bank. As discussed in Note 1, The Financial Reporting Entity, the basic financial statements herein are intended to present the financial position, change in financial position and cash flows of only the I-Bank. The financial statements do not purport to present the financial position of any other reporting entity.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

Statement of Net Assets

Net assets were $266,811,356 as of June 30, 2010, all of which were restricted. Net assets increased by $3,422,688 from the previous fiscal year directly as a result of positive earnings from operating and nonoperating activities.

The following table presents a condensed, combined statement of net assets as of June 30, 2010 and 2009, and the dollar and percentage change from the prior year:

	2009-2010	2008-2009	$ Change	% Change
Cash and equivalents--restricted	$ 113,447,173	$ 125,709,510	$ (12,262,337)	-9.75%
Program loans receivable	331,209,650	311,504,489	19,705,161	6.33%
Other assets	5,938,389	5,583,167	355,222	6.36%
Total Assets	**$ 450,595,212**	**$ 442,797,166**	**$ 7,798,046**	**1.76%**
Accounts payable	$ 283,193	$ 262,751	$ 20,442	7.78%
Revenue bonds payable	140,710,150	145,839,491	(5,129,341)	-3.52%
Other liabilities	5,151,115	4,901,871	249,244	5.08%
Undisbursed loan commitments	37,639,398	28,404,385	9,235,013	32.51%
Total Liabilities	**183,783,856**	**179,408,498**	**4,375,358**	**2.44%**
Net Assets	**266,811,356**	**263,388,668**	**3,422,688**	**1.30%**
Total Liabilities and Net Assets	**$ 450,595,212**	**$ 442,797,166**	**$ 7,798,046**	**1.76%**

Assets

Total assets increased by $7.8 million over the prior year. Cash and equivalents--restricted decreased as a result of the continued loan disbursements during the fiscal year.

ISRF Program loans receivable (both pledged and non-pledged) totaled $331,209,650 as of June 30, 2010, an increase of $19,705,161 over the prior year due to completed loan closings during the fiscal year.

Liabilities

Total liabilities were $183,783,856 as of June 30, 2010, an increase of 2.44% over the prior fiscal year. The increase in liabilities was impacted by an increase in undisbursed loan commitments, which represents the activity associated with ISRF Program loan disbursements during the fiscal year.

Revenue bonds payable include three series of ISRF Program bonds issued to leverage the ISRF Program (ISRF Program Bonds). The I-Bank issued $51.37 million in revenue bonds in March 2004, $52.80 million in December 2005, and $48.37 million in September 2008, to provide additional funding for ISRF

Program loans. The ISRF Program Bonds were sold without a credit enhancement, and were initially rated AA, Aa2, and AA by Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively. Upon the issuance of the 2008 ISRF Program Bonds, Fitch Ratings and Standard & Poor's raised the ratings on the ISRF Program Bonds to AA+, citing proactive and strong program oversight and management, and thorough ongoing surveillance of existing loans as key factors to the high credit ratings on the bonds. The ratings on the ISRF Program Bonds were not recalibrated by any of the rating agencies during the fiscal year.

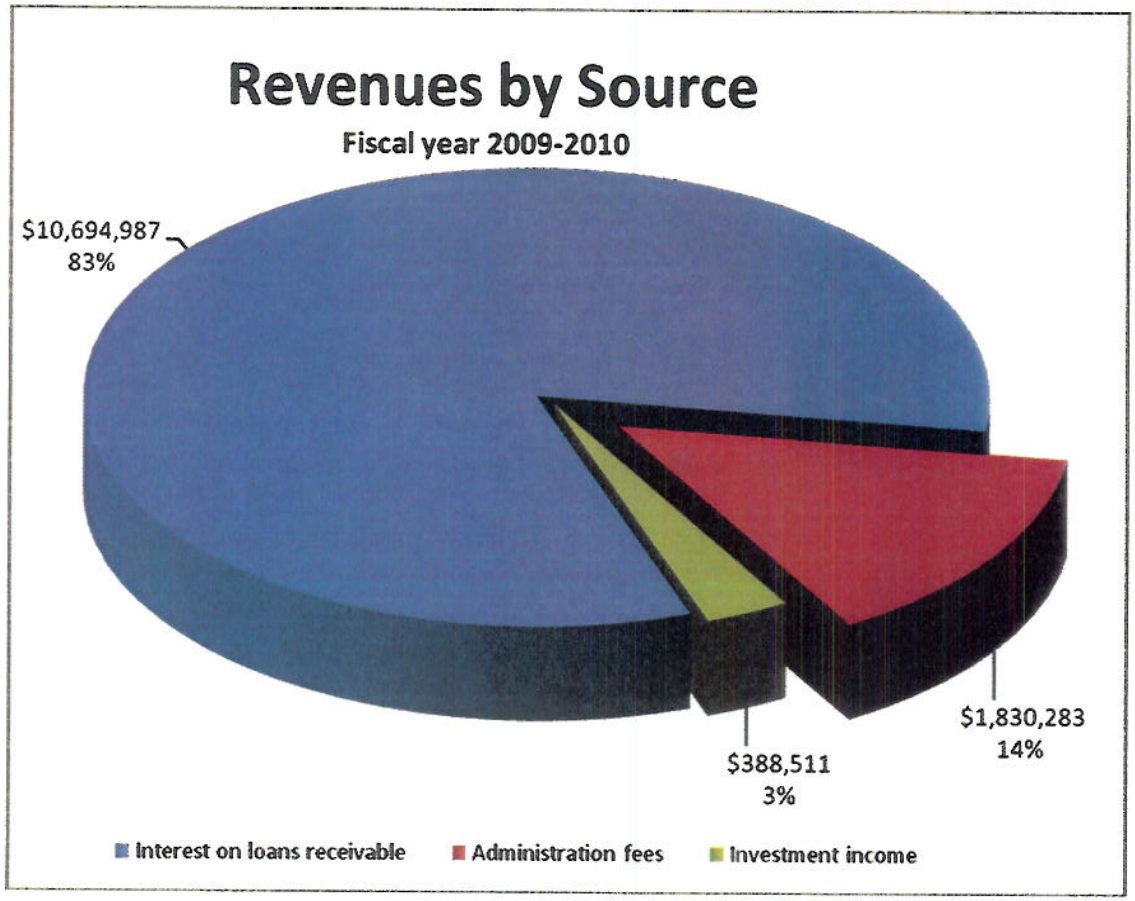
Statement of Revenue, Expenses, and Changes in Net Assets

Operating income was $3,034,177 for the fiscal year ending June 30, 2010. The following table presents the condensed, combined statement of revenues, expenses, and changes in net assets for the 2009-2010 and 2008-2009 fiscal years:

	2009-2010	2008-2009	$ Change	% Change
Total operating revenues	$ 12,525,270	$ 12,149,032	$ 376,238	3.10%
Total operating expenses	9,491,093	9,173,166	317,927	3.47%
Operating income	3,034,177	2,975,866	58,311	1.96%
Nonoperating revenue	388,511	1,965,227	(1,576,716)	-80.23%
Change in net assets	**3,422,688**	**4,941,093**	**(1,518,405)**	**-30.73%**
Net Assets, Beginning of year	**263,388,668**	**258,447,575**	**4,941,093**	**1.91%**
Net Assets, End of year	**$ 266,811,356**	**$ 263,388,668**	**$ 3,422,688**	**1.30%**

Operating Revenues

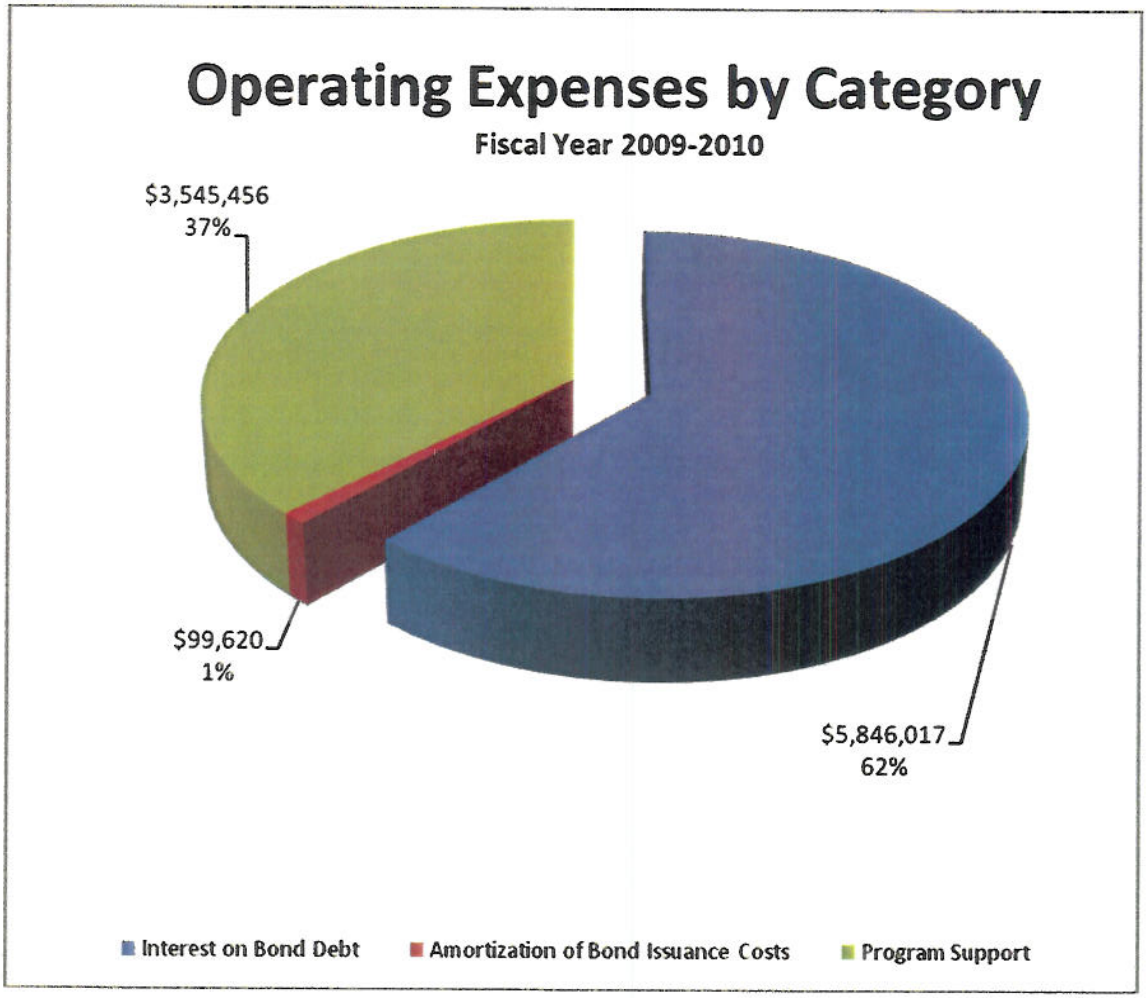
The following chart presents Operating and Nonoperating revenues by source:



Total operating revenues include interest on loans receivable and administration fees, and grew 3.10% over the prior fiscal year due principally to an increase in loans receivable interest earnings due to increased loans outstanding. Nonoperating revenues include investment income of $388,511 for the fiscal year. Investment income trended downward during the fiscal year, principally due to cash and equivalents being conservatively invested in money market funds or the State's Surplus Money Investment Fund (SMIF) during the fiscal year, with both investments reflecting sharp decreases in interest earnings rates from the previous year and no loss of principal.

Operating Expenses

The following chart presents Operating Expenses by category:



Total operating expenses were $9,491,093 during the fiscal year, a 3.47% increase from the prior fiscal year.

The interest on bond debt of $5,846,017 represents the largest operating expense category and accounts for 62% of total operating expenses, and is $393,315 greater than the prior fiscal year. The increase is directly related to additional bond interest expenses associated with the 2008 ISRF Program Bonds that were issued during the previous year.

Budgetary Information

With the exception of funds for program support, which must be annually approved by the State Legislature, all I-Bank funds in the Funds are continuously appropriated without regard to fiscal year. Continuous appropriation authority means that no further appropriations are necessary to expend funds held in either the CIEDB Fund or the Guarantee Trust Fund.

Debt Administration

I-Bank administers the ISRF Program, a leveraged revolving loan program. Initial ISRF Program loans were funded with previous State General Fund appropriations. The I-Bank issued $51.37 million in revenue bonds in March 2004, $52.80 million in December 2005, and $48.37 million in September 2008 to provide additional funding for ISRF Program loans. Upon the issuance of the 2008 ISRF Program Bonds, Fitch Ratings and Standard & Poor's raised the ratings on the ISRF Program Bonds to AA+, citing proactive and strong program oversight and management, and thorough ongoing surveillance of existing loans as key factors to the high credit ratings on the bonds. Moody's Investor Service continues to rate the ISRF Program Bonds at Aa2.

Existing ISRF Program loans are either funded from previous State General Fund appropriations, interest earnings and the repayment of principal on ISRF Program loans receivable, investment earnings, administration fee revenue, or the proceeds of previously issued ISRF Program Bonds. The ISRF Program Bonds are structured under a master-series model, and are a limited obligation of the I-Bank payable solely from and secured by pledged ISRF Program loans. The Liabilities section of the MD&A and Note 5 of the Notes to the Financial Statements contain a description of the outstanding ISRF Program Bonds. No new ISRF Program Bonds were issued during the fiscal year, while principal payments on the ISRF Program Bonds reduced the outstanding balance by $4,695,000 during the year.

The I-Bank also issues conduit bonds including Industrial Development Bonds for certain privately-owned manufacturing and processing businesses, 501(c)(3) Revenue Bonds for nonprofit entities, State School Fund Bonds for financially troubled public school districts, and Public Agency Revenue Bonds for other state and local governmental entities. During the fiscal year, the I-Bank served as the issuer for over $985,885,000 of conduit revenue bonds. Conduit bonds are a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower. As such, except for administration fee revenue related to the conduit bond programs, conduit bond financial information is not reflected in the I-Bank's financial statements.

Economic Conditions and Outlook

The California Department of Finance in its July-August 2010 *California Economic Indicators*, reported that the National Bureau of Economic Research has yet to officially announce when the recession ended, but that the current general consensus among economists is that on a technical basis a recovery started sometime in the summer of 2009, however the economy has not yet come roaring back. The report also indicates that while various Federal stimulus measures halted the economy's freefall and "goosed"

economic growth through the early months of 2010, it appears that by mid-2010, a moderation in various economic indicators could portend the recovery might stall and the national economy could suffer a "double dip" which would also be mirrored in California. The report further questions the sustainability of the federal government's economic stimulus measures through the rest of 2010 and beyond. The continuing general depressed economy, continuing state and local government budget challenges, slow recovery in the financial markets and ultimate impacts of Federal financial stimulus measures will have unknown impacts to California's economy and to the I-Bank's financial position in the next fiscal year. However, Infrastructure State Revolving Fund Program loan activity, conduit bond activity and investment earnings are expected to continue to be depressed in the 2010-2011 fiscal year. While ISRF Program local government borrowers still experience budget challenges, all ISRF Program loans were paid as agreed during the fiscal year and continued timely repayment of all loans is expected.

The I-Bank does not receive any on-going State General Fund support and its programs continued to provide revenues sufficient to support operating expenses.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the finances of the I-Bank and the Funds. Questions concerning the information provided in this report or requests for additional information should be addressed to Stanton C. Hazelroth, Executive Director, California Infrastructure and Economic Development Bank, 980 9th Street, Suite 900, Sacramento, California 95814.

[1] "Loan" is generically used to refer to a loan, a lease or an installment sale agreement.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF NET ASSETS
JUNE 30, 2010

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents - restricted	$ 89,167,152	$ 24,280,021	$ 113,447,173
Pledged loans receivable - disbursed	10,861,258		10,861,258
Non-pledged loans receivable - disbursed	671,313		671,313
Interest and other receivables	4,474,332	33,811	4,508,143
Total current assets	105,174,055	24,313,832	129,487,887
NON-CURRENT ASSETS			
Pledged loans receivable - disbursed	262,306,650		262,306,650
Pledged loans receivable - undisbursed	37,639,398		37,639,398
Non-pledged loans receivable - disbursed	19,731,031		19,731,031
Unamortized bond issuance costs	1,430,246		1,430,246
Total non-current assets	321,107,325		321,107,325
TOTAL ASSETS	$ 426,281,380	$ 24,313,832	$ 450,595,212
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	$ 283,193		$ 283,193
Bond performance deposit liability	36,750		36,750
Other liabilities	170,131		170,131
Revenue bonds payable	5,135,000		5,135,000
Undisbursed loan commitments	11,880,584		11,880,584
Bond interest payable	1,560,738		1,560,738
Total current liabilities	19,066,396		19,066,396
NON-CURRENT LIABILITIES			
Postemployment benefit obligation	498,000		498,000
Undisbursed loan commitments	25,758,814		25,758,814
Deferred loan origination fees	2,610,496		2,610,496
Deferred interest income	275,000		275,000
Revenue bonds payable	135,575,150		135,575,150
Total non-current liabilities	164,717,460		164,717,460
Total liabilities	183,783,856		183,783,856
NET ASSETS			
Restricted - Expendable:			
Statute	242,497,524	$ 24,313,832	266,811,356
Total net assets	242,497,524	24,313,832	266,811,356
TOTAL LIABILITIES AND NET ASSETS	$ 426,281,380	$ 24,313,832	$ 450,595,212

The accompanying notes are an integral part of these financial statements.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
OPERATING REVENUES			
Interest on loans receivable	$ 10,694,987		$ 10,694,987
Administration fees	1,830,283		1,830,283
Total operating revenues	12,525,270		12,525,270
OPERATING EXPENSES			
Interest on bond debt	5,846,017		5,846,017
Amortization of bond issuance costs	99,620		99,620
Program support	3,545,456		3,545,456
Total operating expenses	9,491,093		9,491,093
OPERATING INCOME	3,034,177		3,034,177
NONOPERATING REVENUE			
Investment income	231,437	$ 157,074	388,511
Total nonoperating revenue	231,437	157,074	388,511
Change in net assets	3,265,614	157,074	3,422,688
NET ASSETS, Beginning of year	239,231,910	24,156,758	263,388,668
NET ASSETS, End of year	$ 242,497,524	$ 24,313,832	$ 266,811,356

The accompanying notes are an integral part of these financial statements.

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(A Component Unit of the State of California)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of interest on loans receivable	$ 10,153,789		$ 10,153,789
Receipt of administration fees	1,692,062		1,692,062
Receipt of loan origination fees	271,208		271,208
Receipt of principal on loans receivable	10,721,844		10,721,844
Payment of outstanding loan commitments	(21,191,992)		(21,191,992)
Payment of program support	(3,355,178)		(3,355,178)
Net cash used for operating activities	(1,708,267)		(1,708,267)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Payment of principal on bond debt	(4,695,000)		(4,695,000)
Payment of interest on bond debt	(6,317,764)		(6,317,764)
Net cash used for noncapital financing activities	(11,012,764)		(11,012,764)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of interest on investments	244,754	$ 213,940	458,694
Net cash provided by investing activities	244,754	213,940	458,694
CHANGE IN CASH AND EQUIVALENTS	(12,476,277)	213,940	(12,262,337)
CASH AND EQUIVALENTS, Beginning of year	101,643,429	24,066,081	125,709,510
CASH AND EQUIVALENTS, End of year	$ 89,167,152	$ 24,280,021	$ 113,447,173
RECONCILIATION OF OPERATING INCOME TO NET CASH USED FOR OPERATING ACTIVITIES			
Operating income	$ 3,034,177		$ 3,034,177
Adjustments to reconcile operating income to net cash used for operating activities:			
Amortization of bond issuance costs	99,620		99,620
Interest on bond debt	5,846,017		5,846,017
Changes in assets and liabilities:			
Loans receivable	(19,705,161)		(19,705,161)
Interest and other receivables	(525,025)		(525,025)
Accounts payable	20,442		20,442
Bond performance deposit liability	(19,925)		(19,925)
Other liabilities	35,761		35,761
Postemployment benefit obligation	154,000		154,000
Undisbursed loan commitments	9,235,013		9,235,013
Deferred loan origination	132,987		132,987
Deferred interest income	(16,173)		(16,173)
NET CASH USED FOR OPERATING ACTIVITIES	$ (1,708,267)		$ (1,708,267)
NONCASH FINANCING AND INVESTING ACTIVITIES			
Amortization of bond premiums	$ 434,341		$ 434,341

The accompanying notes are an integral part of these financial statements.

1. THE FINANCIAL REPORTING ENTITY

The California Infrastructure and Economic Development Bank (I-Bank), a component unit of the State of California (State), is a public instrumentality of the State, organized and existing pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act, constituting Division 1 of Title 6.7 of the California Government Code commencing with Section 63000 (Act). The I-Bank has broad powers to provide financing for a wide array of infrastructure and economic development projects. The general mission of the I-Bank is to finance public infrastructure and private development that promote economic development, revitalize communities and enhance the quality of life throughout California. The I-Bank is governed by a five-member Board of Directors (Board) consisting of the Secretary of the Business, Transportation and Housing Agency, who serves as the chair, the Director of the Department of Finance, the State Treasurer, the Secretary of the State and Consumer Services Agency and an appointee of the Governor.

The I-Bank issues loans to municipal entities pursuant to the Infrastructure State Revolving Fund (ISRF) Program. The ISRF Program provides low-cost financing to local government entities for a variety of infrastructure projects throughout the State. Eligible ISRF Program borrowers include cities, counties, redevelopment agencies, special districts, assessment districts, joint power authorities and non-profit corporations formed by local government entities. The I-Bank has issued three series of revenue bonds (ISRF Program Bonds) to provide additional funding for the ISRF Program. Each series of bonds is issued under a master indenture (Master Indenture) and its own series indenture (Series Indenture). The I-Bank also serves as a conduit issuer of revenue bonds, loans, and commercial paper for private, nonprofit and other governmental entities (Conduit Bond Programs).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION / FUND FINANCIAL STATEMENTS

The basic financial statements of the I-Bank include the financial activities of the California Infrastructure and Economic Development Bank Fund (CIEDB Fund) and the California Infrastructure Guarantee Trust Fund (Guarantee Trust Fund) (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Funds).

Monies in the Funds are held within the California State Treasury or by the bond trustee for the ISRF Program Bonds (Trustee).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. BASIS OF PRESENTATION / FUND FINANCIAL STATEMENTS (Continued)

CIEDB Fund – The CIEDB Fund is continuously appropriated without regard to fiscal year for the support of the I-Bank and is available for expenditure for the purposes stated in the Act. However, monies in the CIEDB Fund are available for expenditure for general administration only upon appropriation by the State Legislature. The CIEDB Fund is an enterprise fund.

Guarantee Trust Fund – The Guarantee Trust Fund is continuously appropriated to the I-Bank without regard to fiscal year for the purpose of guaranteeing all or a portion of the accounts and subaccounts within the CIEDB Fund, any contracts or obligations of the I-Bank or a sponsor, as that term is defined in the Act, and all or a part of any series of bonds issued by the I-Bank, by a special purpose trust, or by a sponsor. Monies may be transferred between the CIEDB Fund and the Guarantee Trust Fund when appropriate to accomplish the financing objectives of the I-Bank. The Guarantee Trust Fund is an enterprise fund.

B. ACCOUNTING PRINCIPLES

The accompanying financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting in accordance with generally accepted accounting principles. The Funds are maintained by the I-Bank in accordance with the principles of fund accounting. The I-Bank management has elected under Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting,* to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The I-Bank management has elected the option, under GASB Statement No. 20, not to apply all FASB Statements and Interpretations issued after November 30, 1989.

The I-Bank distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing financial services in connection with I-Bank's principal ongoing operations. The primary operating revenue of the I-Bank is financing income, representing interest on indebtedness received from ISRF Program borrowers. The I-Bank also recognizes as operating revenue the fees charged to ISRF Program borrowers and Conduit Bond Programs borrowers. Operating expenses primarily include interest expense on the ISRF Program Bonds and program support expenses. Investment income is reported as nonoperating revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. CASH AND EQUIVALENTS

The I-Bank considers all short-term investments with an original maturity of three months or less to be cash equivalents. Cash and investments held in either the State's Surplus Money Investment Fund (SMIF), an internal investment pool, or money market funds held by the Trustee are considered to be highly liquid and cash equivalents. All investments are stated at fair value.

In accordance with GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for deposits and investment risks are specified relating to the following risks: interest rate, credit, custodial credit, concentrations of credit and foreign currency. In addition, other disclosures are specified including, but not limited to, the use of certain methods to present deposits and investments, highly sensitive investments and credit quality at year-end.

D. LOANS RECEIVABLE

The I-Bank enters into loan agreements, installment sale agreements and lease agreements (Loans) for the purpose of financing public infrastructure pursuant to the ISRF Program. A majority of the Loans are pledged to the ISRF Program Bonds or the Master Indenture. Loans receivable includes pledged and non-pledged loans. Pledged and non-pledged Loans receivable consists of two components – the disbursed and the undisbursed amount of Loans. The disbursed amount of pledged Loans receivable includes amounts drawn by the borrower for reimbursement or payment of project costs. The undisbursed amount of pledged Loans receivable includes the balance available to be drawn by the borrowers and draws submitted for payment but unpaid at year-end, and is offset by a liability for outstanding undisbursed loan commitments. The current portion of undisbursed pledged and non-pledged loan commitments is an estimate and is generally based upon projections provided by borrowers. These estimates are subject to change due to unforeseen weather conditions, construction delays related to change orders, delayed material shipment, subcontractor performance problems and other factors that cannot be reasonably predicted.

Prior to the issuance of the ISRF Program Bonds, Loans were funded solely by General Fund appropriations received from the State, Loan repayments, fee revenue and investment income. Since the issuance of the ISRF Program Bonds, Loans have been funded from the proceeds of the ISRF Program Bonds and/or from proceeds of Loan repayments, fee revenue and investment income.

There is no provision for uncollectible accounts as all Loans are current, and management believes all Loans will be repaid according to the scheduled terms. However, one Master Indenture pledged loan borrower has filed for bankruptcy protection.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. ISSUANCE COSTS

Costs associated with the issuance of each series of the ISRF Program Bonds included bond counsel fees, trustee fees, rating agency fees, underwriting costs, financial advisor fees and other miscellaneous expenses. Bond issuance costs are amortized using the straight-line method.

F. BONDS PAYABLE

Revenue bonds payable are stated at their unpaid balance plus any remaining unamortized premiums. Bond premiums are amortized using the effective-interest method over the terms of the respective ISRF Program Bonds. The ISRF Program Bonds are subject to mandatory and optional redemption prior to their stated maturity. The ISRF Program Bonds are not obligations of the State, and the taxing power of the State is not pledged for their payments. The obligation of the I-Bank to make such payments is a limited obligation, payable solely from the ISRF Program Bonds Collateral pledged by the I-Bank.

G. LOAN AND CONDUIT BOND FEES

The I-Bank charges an origination fee and an annual servicing fee to ISRF Program borrowers. The origination fee is due no later than the date of the borrower's first disbursement and reported as deferred revenue when billed. The origination fee is recognized as revenue on a straight line basis over the life of the corresponding Loan. The annual servicing fee is recognized as income when earned. The I-Bank also charges an application, bond issuance and an annual fee to Conduit Bond Programs borrowers. Conduit bond fees are recognized as revenue when earned.

H. CLASSIFICATION OF NET ASSETS

Restricted net assets represent amounts restricted due to external restrictions imposed by creditors, laws or regulations of other governments, and restrictions imposed by law through constitutional provisions or enabling legislation.

All of the I-Bank's net assets are restricted by statute for programs established by the I-Bank and for programs administered pursuant to the Act.

I. USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH AND EQUIVALENTS

The I-Bank follows GASB Statement No. 40, Deposit and Investment Risk Disclosures. This statement requires the disclosure of the interest rate, credit, custodial credit, concentration of credit and foreign currency risks to the extent that they exist at the date of the statement of net assets. Additional disclosure details required by GASB Statement No. 40 regarding cash deposits, investments, and derivatives, can be found in the June 30, 2010, Comprehensive Annual Financial Report of the State.

Due to the specified nature of the I-Bank's activities as established in the Act, all cash and equivalents are considered restricted at June 30, 2010, since these funds cannot be spent for any purpose other than as established in the Act.

Investments are made pursuant to an investment policy initially adopted by the Board in March, 2006 and as amended and clarified and adopted by the Board on April 27, 2010 (Investment Policy). The Investment Policy is annually reviewed by the Board, and is next scheduled to be reviewed in April, 2011. The Investment Policy provides guidelines for the prudent investment of the Funds while maximizing efficiency and financial return in conformance with all applicable State statutes governing the investment of public funds, with the foremost objectives being safety and liquidity.

Pursuant to the Investment Policy, the I-Bank may, from time to time, direct the State Treasurer (Treasurer) to invest monies in the CIEDB Fund and Guarantee Trust Fund held within the State's centralized treasury system that are not required for its current needs, in any eligible securities specified in Government Code Section 16430 as the I-Bank shall designate. The I-Bank may direct the Treasurer to invest monies in the Guarantee Trust Fund in certain repurchase agreements, investment agreements and subordinated securities as specified in Government Code Section 63062(a). The I-Bank may direct the Treasurer to deposit monies in the Funds in interest-bearing accounts in qualified public depositories as established by State law, including any bank in the State or in any savings and loan association in the State. The I-Bank may alternatively require the transfer of monies in the Funds to the SMIF for investment.

Government Code Sections 63052(e), 63062(b) and 5922(d) provide that bond proceeds and monies set aside and pledged to the repayment of bonds may be invested in securities or obligations described in the indenture for those bonds. Monies held by the Trustee in each of the funds and accounts under the ISRF Program Bonds Series Indenture and Master Indenture shall be invested and reinvested by the Trustee in permitted investments, as that term is defined in the respective indenture, which mature or are subject to redemption by the owner thereof prior to the date such funds are expected to be needed.

Investments Authorized by the California Government Code and the Investment Policy

The table below identifies the investment types that are authorized by Government Code Sections 16430, 5922(d), 63052(d) and (e), and 63062(a) and (b) or the Investment Policy, where more restrictive. The table below also identifies certain provisions of the California Government Code, or the Investment Policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by the Trustee that are governed by the provisions of the ISRF Program Bond Series Indentures or the Master Indenture, but rather the general provisions of the California Government Code or the Investment Policy.

3. CASH AND EQUIVALENTS (Continued)

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating[3]
U.S. Treasury Securities	5 Years	N/A[2]	N/A	N/A
Federal Agency Securities	5 Years	N/A	30%	N/A
State of California Securities	5 Years	N/A	30%	N/A
Local Agency Securities	5 years	30%	10%	N/A
Commercial Paper	180 days	30%	10%	A1/P1/F1
Bankers Acceptances	180 days	40%	10%	N/A
Negotiable Certificates of Deposit	5 Years	N/A	10%	N/A
U.S. SBA or U.S. FHA Securities	5 Years	25%	N/A	N/A
Export-Import Bank Securities	5 Years	10%	N/A	N/A
Guaranteed Student Loan Program Securities	5 Years	10%	N/A	N/A
Development Bank Securities	5 Years	N/A	10%	N/A
Corporate Debt Securities	5 Years	30%	10%	A

1 Where the Investment Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security, other than a collateral security underlying a repurchase agreement or collateral for an investment agreement, which at the time of the investment has a term remaining to maturity in excess of five years.

2 N/A means neither the Government Code nor the Investment Policy sets a limit.

3 A rating by any nationally recognized rating agency will meet this requirement. The nationally recognized rating agencies include Standard & Poor's (S&P), Moody's Investors Services (Moody's), and Fitch Ratings, Inc. (Fitch) (collectively, Rating Agencies).

Investments Authorized by the ISRF Program Bond Series Indentures or the Master Indenture

Investment of debt proceeds and Loan repayments that are held by the Trustee are governed by the provisions of the ISRF Program Bond Series Indentures or the Master Indenture. Such investments are referenced in the Investment Policy, which references Government Code Sections 63052(e) and 5922(d).

3. CASH AND EQUIVALENTS (Continued)

Authorized Investments

Authorized Investment Type	Maximum Maturity[1]	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating[3]
U.S. Treasury Securities	5 Years	N/A[2]	N/A	N/A
Federal Agency Securities	5 Years	N/A	30%	N/A
Commercial Paper	180 Days	30%	10%	A-2/F-2/P-2
Bankers Acceptances	180 Days	N/A	N/A	A-3/F-3/P-3
Negotiable Certificates of Deposit	5 Years	N/A	N/A	A
U.S. SBA or U.S. FHA Securities	5 Years	N/A	N/A	N/A
Export-Import Bank Securities	5 Years	N/A	N/A	N/A
Guaranteed Student Loan Program Securities	5 Years	N/A	N/A	N/A
Development Bank Securities	5 Years	N/A	N/A	N/A
Corporate Debt Securities	5 Years	N/A	N/A	A
Surplus Money Investment Fund	N/A	N/A	N/A	N/A
Repurchase Agreements	5 Years	N/A	N/A	A
Guaranteed Investment Contract	5 Years	N/A	N/A	AA
Collateralized Forward Purchase Agreements	5 Years	N/A	N/A	A
Money Market Funds	N/A	N/A	N/A	Am

1 The Investment Policy authorizes investing bond reserve funds and bond revenue funds beyond five years if prudent in the opinion of the Executive Director.

2 N/A means neither the Government Code nor the Investment Policy sets a limit.

3 As rated by each of S&P, Fitch and Moody's.

Cash and equivalents at June 30, 2010 were as follows:

Deposits in Surplus Money Investment Fund	$ 58,610,161
Deposits in Money Market Funds	54,837,012
Total Cash and Equivalents	**$ 113,447,173**

3. CASH AND EQUIVALENTS (Continued)

The I-Bank has invested excess cash funds held within the State's centralized treasury system in SMIF. All of the resources of SMIF are invested through the Pooled Money Investment Account (PMIA). The PMIA investment program is designated by the Pooled Money Investment Board and is administered by the Treasurer.

Deposit and Investment Risk Disclosures

Interest Rate Risk. Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with a shorter duration. Information about the sensitivity of the fair values of the I-Bank's investments to market interest rate risk fluctuations is provided by the following table that shows the maturity date of each investment.

Investment			Weighted Average to Maturity
Surplus Money Investment Fund	$	58,610,161	203 days
Money Market Funds		54,837,012	32 days
Total Cash and Equivalents	**$**	**113,447,173**	

Credit Risk. Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the table below is the minimum rating required by, and where applicable, the California Government Code, the Investment Policy or the ISRF Program Bond Series Indenture along with the investment's actual rating as of year end for each investment type.

			Minimum Legal Rating	Rating as of Year End
Surplus Money Investment Fund	$	58,610,161	N/A	Not Rated
Money Market Funds		54,837,012	Am	AAAm/Aaa
Total Cash and Equivalents	**$**	**113,447,173**		

Custodial Credit Risk. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, the I-Bank will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2010, the I-Bank had no funds on deposit with a depository financial institution.

3. CASH AND EQUIVALENTS (Continued)

The custodial risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a risk that the I-Bank will not be able to recover the value of its investment or collateral securities that are in the possession of another party. As of June 30, 2010, the I-Bank's SMIF and money market investments were not subject to custodial credit risk.

Concentration of Credit Risk. Concentration of credit risk is the risk associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

The Investment Policy places no limitation as to the percentage of the portfolio that may be invested in the SMIF. Within the investments permitted by Government Code Section 16430, the Investment Policy places limitations on the percentage of deposits and investments that can be invested with any one entity in order to provide sufficient diversification by security type and institution to avoid incurring unreasonable and avoidable risks. As of June 30, 2010, the I-Bank did not hold any investments in any one issuer (other than mutual funds and the Surplus Money Investment Fund) that represent 5% or more of its investments.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Government Code does not allow investment in foreign currency.

4. PLEDGED LOANS RECEIVABLE

Pledged loans receivable consist of Loans that were pledged to the ISRF Program Bonds Series Indentures or the Master Indenture by the I-Bank (Pledged Loans). The principal and interest payments received during the fiscal year from Pledged Loans are paid to the Trustee in amounts and at times sufficient to make the semi-annual debt service payments on the ISRF Program Bonds as they become due.

5. BONDS PAYABLE

The following is a summary of bonds payable at June 30, 2010:

Infrastructure State Revolving Fund Revenue Bonds, Series 2008, bearing 2.60% to 5.00% interest payable semi-annually, final maturity October 1, 2036 (2008 ISRF Program Bonds)	$ 46,605,000
Infrastructure State Revolving Fund Revenue Bonds, Series 2005, bearing 4.00% to 5.00% interest payable semi-annually, final maturity October 1, 2033 (2005 ISRF Program Bonds)	46,470,000
Infrastructure State Revolving Fund Revenue Bonds, Series 2004, bearing 2.00% to 5.00% interest payable semi-annually, final maturity October 1, 2032 (2004 ISRF Programs Bonds)	44,910,000
Plus: Unamortized Premiums	2,725,150
Net ISRF Program Bonds Payable	$ 140,710,150

The following is a schedule of the debt service requirements for the 2004 ISRF Program Bonds as of June 30, 2010:

Year Ending June 30, 2010	Principal	Interest	Total Debt Service
2011	$ 1,395,000	$ 2,084,742	$ 3,479,742
2012	1,460,000	2,013,368	3,473,368
2013	1,530,000	1,938,617	3,468,617
2014	1,600,000	1,876,368	3,476,368
2015	1,640,000	1,826,127	3,466,127
2016-2020	8,955,000	7,960,219	16,915,219
2021-2025	10,315,000	5,597,375	15,912,375
2026-2030	12,375,000[1]	2,801,625	15,176,625
2031-2033	5,640,000[2]	280,713	5,920,713
Total	**$ 44,910,000**	**$ 26,379,154**	**$ 71,289,154**

(1) Principal payments in the amount of $12,375,000 are made from sinking fund payments for the 2029 term bonds.
(2) Principal payments in the amount of $5,640,000 are made from sinking fund payments for the 2032 term bonds.

5. BONDS PAYABLE (Continued)

The following is a schedule of the debt service requirements for the 2005 ISRF Program Bonds as of June 30, 2010:

Year Ending June 30,	Principal	Interest	Total Debt Service
2011	$ 1,635,000	$ 2,174,331	$ 3,809,331
2012	1,695,000	2,107,731	3,802,731
2013	1,780,000	2,038,232	3,818,232
2014	1,845,000	1,965,731	3,810,731
2015	1,935,000	1,880,456	3,815,456
2016-2020	11,270,000	7,813,531	19,083,531
2021-2025	11,285,000[3]	4,819,866	16,104,866
2026-2030	9,610,000[4]	2,530,444	12,140,444
2031-2034	5,415,000[5]	440,875	5,855,875
Total	**$ 46,470,000**	**$ 25,771,197**	**$ 72,241,197**

(3) Principal payments in the amount of $3,255,000 are made from sinking fund payments for the 2028 term bonds.
(4) Principal payments in the amount of $7,590,000 and $2,020,000 are made from sinking fund payments for the 2028 and 2033 term bonds, respectively.
(5) Principal payments in the amount of $5,415,000 are made from sinking fund payments for the 2033 term bonds.

The following is a schedule of the debt service requirements for the 2008 ISRF Program Bond as of June 30, 2010:

Year Ending June 30,	Principal	Interest	Total Debt Service
2011	$ 2,105,000	$ 1,884,729	$ 3,989,729
2012	2,170,000	1,820,604	3,990,604
2013	2,235,000	1,754,528	3,989,528
2014	2,300,000	1,691,104	3,991,104
2015	2,360,000	1,614,004	3,974,004
2016-2020	9,220,000	6,971,067	16,191,067
2021-2025	9,025,000	5,077,628	14,102,628
2026-2030	8,430,000[6]	3,082,581	11,512,581
2031-2035	6,740,000[7]	1,276,019	8,016,019
2036-2037	2,020,000[8]	102,250	2,122,250
Total	**$ 46,605,000**	**$ 25,274,514**	**$ 71,879,514**

(6) Principal payments in the amount of $2,745,000 are made from sinking fund payments for the 2031 term bonds.
(7) Principal payments in the amount of $3,155,000 and $3,585,000 are made from sinking fund payments for the 2031 and 2036 term bonds, respectively.
(8) Principal payments in the amount of $2,020,000 are made from sinking fund payments for the 2036 term bonds.

5. BONDS PAYABLE (Continued)

Bonds payable activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Increases	Decreases	Balance June 30, 2010	Current Portion June 30, 2010
2004 ISRF Program Bonds	$ 46,275,000		$ 1,365,000	$ 44,910,000	$ 1,395,000
2005 ISRF Program Bonds	48,030,000		1,560,000	46,470,000	1,635,000
2008 ISRF Program Bonds	48,375,000		1,770,000	46,605,000	2,105,000
Unamortized Premiums	3,159,491		434,341	2,725,150	
Total	**$ 145,839,491**	**$**	**$ 5,129,341**	**$ 140,710,150**	**$ 5,135,000**

6. CONDUIT BOND INFORMATION AND DEBT OBLIGATIONS

The I-Bank has served as the conduit bond issuer for many private, nonprofit and governmental entities. Conduit bonds are a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower. As such, the balance of outstanding conduit bonds is not reflected on the I-Bank's financial statements.

Conduit Bond information[1]:

- Fees earned from 7/1/09-6/30/10:
  - Application Fees $31,500
  - Issuance Fees $502,197
  - Annual Fees $64,500
- Conduit Bond Support Operating Expenses $945,670[2]
- Amount of conduit bonds authorized but unsold as of 6/30/10 $101,085,000
- Amount of conduit bond debt issued from 7/1/09-6/30/10 $985,885,000
- Amount of conduit bonds outstanding as of 6/30/10 $5.2 billion[3]
- Number of conduit bonds transactions outstanding as of 6/30/10 130

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1 This information is provided pursuant to Government Code section 5872(a).

2 Conduit Bond Support Operating Expenses include expenses such as salaries and benefits, administrative services, rent, utilities, travel, training, equipment and external services.

3 Includes bonds issued by the former California Economic Development Financing Authority, which were assumed by the I-Bank pursuant to Chapter 4, Statutes of 1998, and bonds issued by the California Consumer Power and Conservation Financing Authority, which were assumed by the I-Bank pursuant to Resolution 04-37 adopted by I-Bank Board on September 28, 2004, and excludes conduit bonds that were issued by special purpose trusts created by the I-Bank.

7. RETIREMENT PLAN

Plan Description

All of the employees of the I-Bank participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Comprehensive Annual Financial Report as a pension trust fund. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. CalPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Departments and agencies within the State of California, including the I-Bank, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available on line at www.Calpers.ca.gov.

The pension plan provides retirement benefits, survivor benefits, and death disability benefits based upon the employee's years of credited service, age and final compensation. Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

For the year ended June 30, 2010, the State had elected to contribute the full employer retirement contribution for State Miscellaneous Tier 1 and State Miscellaneous Tier 2 active members.

The I-Bank is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required employer contribution rates for the year ended June 30, 2010 were 16.917% for State Miscellaneous Tier 1 and 16.737% for State Miscellaneous Tier 2. I-Bank's contribution requirement for the year ended June 30, 2010 was $236,515. The employee contribution rates for State Miscellaneous Tier 1 is 5% of salary above $513 per month for employees covered by social security and 6% of salary above $317 per month for employees not covered by social security. State Miscellaneous Tier 2 employees do not contribute. The contribution requirements of the plan members are established by State statute and the employer contribution rates are established and may be amended by CalPERS. Additional information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

7. RETIREMENT PLAN (Continued)

The following table shows the I-Bank's required contributions (annual pension cost) and the percentage contributed for the past three fiscal years:

Period Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2008	$ 212,102	100%
June 30, 2009	249,812	100%
June 30, 2010	236,515	100%

8. OTHER POST-EMPLOYMENT BENEFITS

The State also provides post-employment health care and dental benefits to its employees and their spouses and dependents, when applicable. The employer contribution for health premiums maintains the average 100/90 percent contribution formula established in the Government Code. Under this formula, the State averages the premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. Employees vest for this benefit after serving 10 years with the state. With 10 years of service credit, employees are entitled to 50 percent of the state's full contribution. This rate increases by 5 percent per year and with 20 years of service, the employee is entitled to the full 100/90 formula. The I-Bank participates in the State's plan on a cost sharing basis. The I-Bank recognizes the costs of providing health and dental insurance to annuitants based on the required contribution, which is actuarially determined, and funded on a pay-as-you-go basis. The State's plan does not issue a separate report.

A portion of the State's post-retirement benefit costs have been allocated to the CIEDB Fund as follows:

Annual required contribution	$	233,000
Interest on net OPEB obligation		13,000
Adjustment to annual required contribution		(12,000)
Annual OPEB cost (expense)		234,000
Contributions made		(80,000)
Increase in net OPEB obligation		154,000
Net OPEB obligation – beginning of year		344,000
Net OPEB obligation – end of year	$	498,000

8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The I-Bank's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2010, 2009, and 2008 were as follows:

Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/08	$ 359,000	34%	$ 236,000
6/30/09	170,000	36	344,000
6/30/10	234,000	34	498,000

Additional disclosure detail required by Government Accounting Standards Board Statement No. 45, regarding other post-employment benefits are presented in the State's Comprehensive Annual Financial Report for the year ended June 30, 2009, which are the latest available.

9. COMMITMENTS AND CONTINGENCIES

In June 2003, the Board approved a preliminary loan guarantee commitment for the Imperial Irrigation District (IID). The preliminary loan guarantee commitment established a conditional agreement to guarantee a future issuance of revenue bonds by IID for the purpose of financing a water supply project consisting of water capital improvement conservation measures needed to generate conserved water to sell to the San Diego County Water Authority (SDCWA) pursuant to a 45-year water conservation and transfer agreement entered into by and between IID and SDCWA. During the 2003-2004 fiscal year, the I-Bank transferred $20 million from the CIEDB Fund to the Guarantee Trust Fund in conjunction with the preliminary loan guarantee commitment for the IID. The preliminary loan guarantee commitment was to expire pursuant to its terms on December 31, 2009, unless extended in writing by the Board. On December 15, 2009, the Board clarified the terms of the preliminary loan guarantee commitment and extended its term to December 31, 2010.