

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

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

YEAR ENDED JUNE 30, 2007

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

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

**To the Members of the
California Infrastructure and Economic Development Bank
Sacramento, California**

We have audited the accompanying 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, 2007, as listed in the table of contents. These financial statements are the responsibility of 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements of the I-Bank are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the State of California that applies to the transactions of the I-Bank. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2007, 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.

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, 2007, and the changes in its financial position and 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 on pages 2 through 7 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

October 12, 2007



**CALIFORNIA INFRASTRUCTURE AND
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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007 (collectively, the CIEDB Fund and the Guarantee Trust Fund are the Funds).

To provide additional funding for the Infrastructure State Revolving Fund (ISRF) Program, the I-Bank issued revenue bonds on March 18, 2004 and December 17, 2005 (2004 and 2005 ISRF Bonds). This audited financial report for the I-Bank is required under continuing disclosure agreements related to the 2004 and 2005 ISRF Bonds. This audit covers the financial activities of the I-Bank and both its funds, and is slightly broader in scope than that required in the continuing disclosure agreements, which only required a report for the CIEDB Fund.

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 growth, 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 infrastructure and economic development projects. The I-Bank's current operations are funded solely from fees, interest earnings and ISRF Program loan¹ repayments.

The I-Bank's major programs include the 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 Governmental Revenue Bond Program for governmental entities. Conduit bonds issued by the I-Bank are payable solely from the revenues generated by the underlying borrower, are neither backed nor guaranteed by either the State or the I-Bank, and do not involve the use of I-Bank funds.

ISRF Program Loans have been or are funded with cash, the proceeds of the Infrastructure State Revolving Fund Revenue Bonds, Series 2004 (2004 ISRF Bonds) or the Infrastructure State Revolving Fund Revenue Bonds, Series 2005 (2005 ISRF Bonds).

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



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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Financial Highlights

- Revenue bonds payable was reduced by \$3,135,000 due to principal payments on the 2004 and 2005 ISRF Bonds.
- Net Assets increased by \$8,589,079 from the previous fiscal year to a total of \$250,449,355 due to earnings from operations.
- Total operating revenues were \$15,634,918, an increase of \$3,313,663 from the previous fiscal year, attributable to increases in all revenue categories.
- Investment income was \$4,694,661, an increase of \$1,716,486 from the prior fiscal year.
- Interest on bond debt increased \$1,542,965 to \$4,631,379 from the previous fiscal year. The increase is a result of a full year of interest on the 2005 ISRF Bonds.
- Program support expenses were \$2,325,821 a decrease of \$457,721.
- Operating income was \$8,589,079 an increase of \$2,213,789 from the previous fiscal year. The increase is due to increases in all revenue categories.

Using this Annual Financial Report

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.

Overview of Financial Statements

This MD&A is an introduction to the I-Bank financial statements and accompanying notes. The financial statements of the I-Bank are presented as a special purpose governmental entity engaged primarily in financing activities providing loans to local governmental entities, providing conduit revenue bond financing to private businesses, nonprofit entities, and other state and local governmental entities, as well as the authority to provide credit enhancements such as guarantees. The financial statements provide both short-term and long-term information about the Funds' financial position with which the reader can assess the I-Bank's fiscal condition as of the end of the fiscal year. The financial statements have been prepared using the accrual basis of accounting. The financial statements 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 past 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 and investing activities, and net cash provided by operating activities.



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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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.

Net Assets

The I-Bank net assets as of June 30, 2007, were \$250,449,355, all of which were restricted. Net assets increased by \$8,589,079 from the previous fiscal year, directly as a result of earnings from operations.

Table A-1

	2006-2007	2005-2006	% change
Current Assets	\$115,103,864	\$107,567,035	7.0%
Non-Current Assets	\$299,581,900	\$320,332,573	-6.5%
Total Assets	\$414,685,764	\$427,899,608	-3.1%
Current Liabilities	\$40,551,780	\$57,369,271	-29.3%
Non-Current Liabilities	\$123,684,629	\$128,670,061	-3.9%
Total Liabilities	\$164,236,409	\$186,039,332	-11.7%
Net Assets	\$250,449,355	\$241,860,276	3.6%
Total Liabilities and Net Assets	\$414,685,764	\$427,899,608	-3.1%

Changes in Net Assets

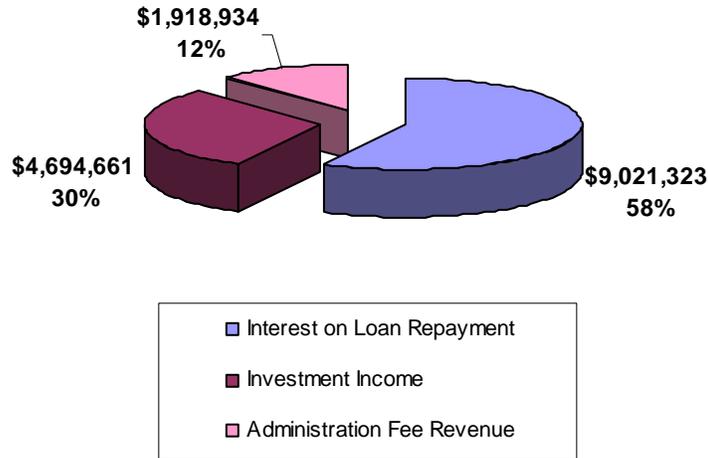
The I-Bank's operating revenues for the fiscal year ending June 30, 2007, were \$15,634,918, a 26.9% increase from the previous fiscal year. The increase in operating revenue occurred in all revenue categories. The chart below reflects revenue by source and its related percent of total operating revenues:



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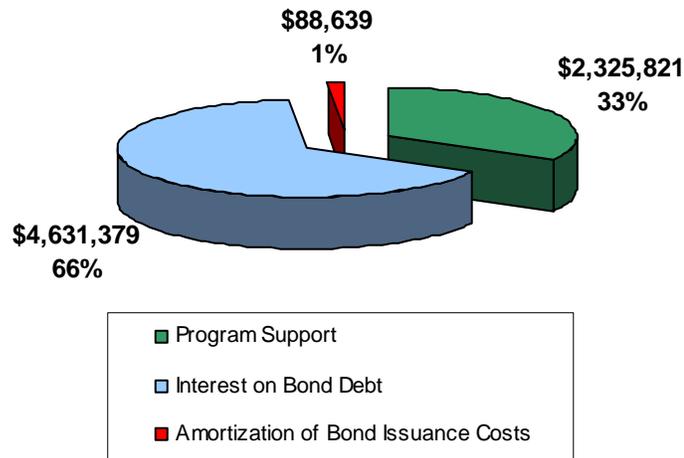
**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Revenues by Source



Operating expenses for the fiscal year ending June 30, 2007 were \$7,045,839, an 18.5% increase from the previous fiscal year. The increased expenses are a result of increased interest expense on bond debt, including a full year's interest expense on the 2005 ISRF Bond. The following chart reflects expenses by source and its related percent of total operating expenses:

Operating Expenses by Category





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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Operating income for the fiscal year ending June 30, 2007, was \$8,589,079, an increase of 34.7% over the prior fiscal year. The following table summarizes the operating activity for the fiscal year:

Table A-2

	2006-2007	2005-2006	% change
Operating Revenues	\$15,634,918	\$12,321,255	26.9%
Operating Expenses	\$7,045,839	\$5,945,965	18.5%
Operating Income	\$8,589,079	\$6,375,290	34.7%
Net Assets, Beginning of year	\$241,860,276	\$235,484,986	2.7%
Net Assets, End of year	\$250,449,355	\$241,860,276	3.6%

Budgetary Information

All I-Bank funds are continuously appropriated without regard to fiscal year to support the I-Bank with the exception of funds for general administration, which must annually be approved by the State Legislature. Continuous appropriation authority means that no further appropriations are necessary to expend funds held in the State Treasury. However, not all I-Bank funds are held in the State Treasury. The bond trustee for the 2004 and 2005 ISRF Bonds (defined below) holds money outside the State Treasury.

Debt Administration

I-Bank administers the ISRF Program, which is 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 and \$52.80 million in December 2005 to provide additional funding for ISRF Program loans. Both the 2004 and 2005 ISRF Bonds were sold without a credit enhancement, and were rated AA, Aa2, and AA by Fitch Ratings, Moody's Investors Service and Standard & Poor's, respectively. Several existing ISRF Program loans that were funded from previous State General Fund appropriations were pledged to the repayment of the 2004 ISRF Bonds. Several existing ISRF Program loans that were funded from previous State General Fund appropriations or from the proceeds of the 2004 ISRF Bonds were pledged to the repayment of the 2005 ISRF Bonds.

The I-Bank also issues conduit bonds including Industrial Development Bonds, 501(c) (3) Revenue Bonds for nonprofit entities, State School Fund Bonds, and bonds for other state and local governmental entities. During the fiscal year, the I-Bank served as the conduit issuer for \$814 million of bonds. Conduit bonds do not constitute a debt or liability of the State or of any political subdivision of the State, other than a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower, nor are a pledge of the faith and credit of the State or any political subdivision thereof, including the I-Bank. As such, the balance of outstanding conduit bonds is not reflected on the I-Bank's financial statements.



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**MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Economic Conditions and Outlook

In general, the State's economy and the fiscal status of its General Fund did not have an impact on the Funds during the fiscal year. 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.

All ISRF Program loans were paid as agreed during the fiscal year, and continued timely repayment of all loans is expected. The ISRF Program continues to receive applications for financing. To ensure that sufficient funds are available for future ISRF Program borrowers, the I-Bank anticipates issuing a third series of revenue bonds for the ISRF Program in the 2007/2008 fiscal year.

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, 1001 I Street, Sacramento, California 95814.

**CALIFORNIA INFRASTRUCTURE AND
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**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 57,868,434	\$ 22,342,300	\$ 80,210,734
Investments - restricted	24,134,489		24,134,489
Pledged loans receivable - disbursed	5,878,702		5,878,702
Non-pledged loans receivable - disbursed	599,670		599,670
Interest and other receivables	3,989,636	290,633	4,280,269
Total current assets	<u>92,470,931</u>	<u>22,632,933</u>	<u>115,103,864</u>
NON-CURRENT ASSETS			
Investments - restricted	21,875,633		21,875,633
Pledged loans receivable - disbursed	197,820,212		197,820,212
Pledged loans receivable - undisbursed	57,017,233		57,017,233
Non-pledged loans receivable - disbursed	21,674,595		21,674,595
Unamortized bond issuance costs	1,194,227		1,194,227
Total non-current assets	<u>299,581,900</u>		<u>299,581,900</u>
TOTAL ASSETS	<u>\$ 392,052,831</u>	<u>\$ 22,632,933</u>	<u>\$ 414,685,764</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 187,547		\$ 187,547
Revenue bonds payable	2,745,000		2,745,000
Undisbursed loan commitments	36,554,175		36,554,175
Bond interest payable	1,065,058		1,065,058
Total current liabilities	<u>40,551,780</u>		<u>40,551,780</u>
NON-CURRENT LIABILITIES			
Undisbursed loan commitments	20,409,296		20,409,296
Deferred loan origination fees	2,197,079		2,197,079
Deferred interest income	312,500		312,500
Revenue bonds payable	100,765,754		100,765,754
Total non-current liabilities	<u>123,684,629</u>		<u>123,684,629</u>
Total liabilities	<u>164,236,409</u>		<u>164,236,409</u>
NET ASSETS			
Restricted - Expendable:			
Statute	<u>227,816,422</u>	<u>\$ 22,632,933</u>	<u>250,449,355</u>
TOTAL NET ASSETS	<u>227,816,422</u>	<u>22,632,933</u>	<u>250,449,355</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 392,052,831</u>	<u>\$ 22,632,933</u>	<u>\$ 414,685,764</u>

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

**CALIFORNIA INFRASTRUCTURE AND
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2007**

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
OPERATING REVENUES			
Interest on loan repayments	\$ 9,021,323		\$ 9,021,323
Investment income	3,576,573	\$ 1,118,088	4,694,661
Administration fee revenue	1,918,934		1,918,934
Total operating revenues	<u>14,516,830</u>	<u>1,118,088</u>	<u>15,634,918</u>
OPERATING EXPENSES			
Program support	2,325,821		2,325,821
Interest on bond debt	4,631,379		4,631,379
Amortization of bond issuance costs	88,639		88,639
Total operating expenses	<u>7,045,839</u>		<u>7,045,839</u>
OPERATING INCOME	7,470,991	1,118,088	8,589,079
NET ASSETS, Beginning of year	<u>220,345,431</u>	<u>21,514,845</u>	<u>241,860,276</u>
NET ASSETS, End of year	<u>\$ 227,816,422</u>	<u>\$ 22,632,933</u>	<u>\$ 250,449,355</u>

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

**CALIFORNIA INFRASTRUCTURE AND
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**STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007**

	California Infrastructure and Economic Development Bank Fund	California Infrastructure Guarantee Trust Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from investments	\$ 3,277,497	\$ 1,067,332	\$ 4,344,829
Cash received from interest on loan repayments	8,787,433		8,787,433
Cash received from administration fees	1,918,934		1,918,934
Receipt of deferred loan origination fees	210,715		210,715
Receipt of loan repayments	6,421,068		6,421,068
Principal payment on bond debt	(3,135,000)		(3,135,000)
Payment of interest on bond debt	(4,649,924)		(4,649,924)
Payment of outstanding loan commitments	(38,945,671)		(38,945,671)
Payment of administrative expenses	(2,344,981)		(2,344,981)
Net cash provided (used) by operating activities	<u>(28,459,929)</u>	<u>1,067,332</u>	<u>(27,392,597)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investments	(29,316,955)		(29,316,955)
Proceeds from sale of investments	77,087,119		77,087,119
Net cash provided by investing activities	<u>47,770,164</u>		<u>47,770,164</u>
NET INCREASE IN CASH AND EQUIVALENTS	19,310,235	1,067,332	20,377,567
CASH AND EQUIVALENTS, June 30, 2006	<u>38,558,199</u>	<u>21,274,968</u>	<u>59,833,167</u>
CASH AND EQUIVALENTS, June 30, 2007	<u>\$ 57,868,434</u>	<u>\$ 22,342,300</u>	<u>\$ 80,210,734</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 7,470,991	\$ 1,118,088	\$ 8,589,079
Adjustments to reconcile to net cash provided (used) by operating activities:			
Amortization of bond issuance costs	88,639		88,639
Amortization of bond premium	(171,067)		(171,067)
Amortization of deferred loan origination	(108,062)		(108,062)
Changes in assets and liabilities:			
Other receivables	(520,466)	(50,756)	(571,222)
Loans receivable	(32,470,841)		(32,470,841)
Undisbursed loans receivable	18,774,671		18,774,671
Bond interest payable	152,522		152,522
Accounts payable	(19,160)		(19,160)
Revenue Bonds Payable	(3,135,000)		(3,135,000)
Undisbursed loan commitments	(18,828,433)		(18,828,433)
Deferred loan origination	318,777		318,777
Deferred interest income	(12,500)		(12,500)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (28,459,929)</u>	<u>\$ 1,067,332</u>	<u>\$ (27,392,597)</u>

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

**CALIFORNIA INFRASTRUCTURE AND
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 growth, 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 also serves as a conduit issuer of revenue bonds, loans, and commercial paper for private, nonprofit and other governmental entities.

To provide additional funding for the ISRF Program, the I-Bank issued:

- The Infrastructure State Revolving Fund Revenue Bonds, Series 2004 (2004 ISRF Bonds) pursuant to a Series Indenture, dated as of March 1, 2004 (2004 Series Indenture) and a Master Indenture, dated as of March 1, 2004 (Master Indenture). The 2004 ISRF Bonds are secured by a pledge of specified collateral (2004 Collateral) under the 2004 Series Indenture.
- The Infrastructure State Revolving Fund Revenue Bonds, Series 2005 (2005 ISRF Bonds) were issued by the I-Bank pursuant to a Series Indenture, dated as of December 1, 2005 (2005 Series Indenture) and the Master Indenture. The 2005 ISRF Bonds are secured by a pledge of specified collateral (2005 Collateral) under the 2005 Series Indenture.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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). The financial statements of the Funds do not purport to, and do not, present fairly the financial position of the State of California and the change in its financial position and its cash flow for the year ended, but are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the business-type activities of the State of California that is attributable to the transactions of the I-Bank and the Funds as of June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

Monies in the Funds are held within the California State Treasury or by the bond trustee for the 2004 and 2005 ISRF Bonds (Trustee).

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 sub accounts 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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The primary operating revenue of the I-Bank is financing income, representing interest on indebtedness received from borrowers. The I-Bank also recognizes as operating revenue the income on investments and fees charged to ISRF Program borrowers and conduit bond borrowers. Operating expenses primarily include interest expense on the 2004 and 2005 ISRF Bonds and program support expenses.

C. CASH FLOW PRESENTATION

The statement of cash flows is provided in accordance with the provisions of GASB Statement No. 9 (GASB 9), *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34 (GASB 34), *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. In accordance with GASB 9 and GASB 34, the direct method was used to report net cash flows from operating activities.

D. CASH, CASH EQUIVALENTS AND INVESTMENTS

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.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as of July 1, 1997*, establishes fair value standards for investments in participating interest earnings investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the I-Bank reports investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

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.

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E. 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 2004 ISRF Bonds, the 2005 ISRF 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. One non-pledged Loan receivable includes only the disbursed amount drawn by the borrower for reimbursement or payment of project costs, and does not include the balance available to be drawn by the borrower. 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 2004 ISRF 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 2004 and 2005 ISRF Bonds, Loans have been funded from the proceeds of the 2004 or 2005 ISRF Bonds and/or from proceeds of Loan repayments, fee revenue and investment income.

Borrowers with Loans pledged to either the 2004 or 2005 Series Indenture or Master Indenture are responsible for making principal and interest payments directly to the Trustee pursuant to their amortization schedule regardless of the amount disbursed. For borrowers with undisbursed amounts, a portion of the borrower's interest payments is offset by credits given to the borrower for actual interest earned by the I-Bank on undisbursed funds at a rate not to exceed the stated rate of interest on the borrower's Loan.

Loans in existence prior to March 18, 2004, and not pledged to either the 2004 or 2005 Series Indenture or the Master Indenture as of the end of the fiscal year were charged interest only on disbursed funds and do not receive a credit for interest earned on undisbursed funds.

Generally, the first principal payment on a Loan is due at or around the expected project construction completion date, which is typically two to three years after the loan approval date. 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.

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F. RESTRICTED INVESTMENTS

Under the terms of the 2004 and 2005 Series Indenture and the Master Indenture, separate restricted accounts were established with the Trustee. With the exception of the Cross Collateral Account and the Equity Account described below, each series indenture established the following set of accounts:

Revenue Fund – Amounts in the Revenue Fund consists of repayments from pledged Loans as well any amounts transferred from the Master Indenture and all interest, profits and other income received from the investment of monies held in the Revenue Fund or other accounts established under the series indenture except the Rebate account.

Debt Service Account – Amounts in the Debt Service Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest, principal and mandatory sinking account payments on the bonds when due and payable.

Reserve Account – Amounts in the Reserve Account are used and withdrawn by the Trustee solely for the purpose of curing any deficiency in the Debt Service Account.

Administrative Expense Account – Amounts in the Administrative Expense Account are used to pay administrative expenses of the I-Bank related to the respective series as they become due and payable.

Cost of Issuance Account – Amounts in the Cost of Issuance Account were used by the I-Bank to pay the associated costs of issuing the bonds.

Obligation Account – The net proceeds of the bonds were deposited into the Obligation Account. When the Trustee receives instructions from the I-Bank stating that a pledged Loan has been fully executed by a borrower, the Trustee then transfers the amount of such Loan from the Obligation Account to a separate borrower subaccount (Obligation Subaccount) that the Trustee establishes and maintains within the Obligation Account. Monies on deposit in each borrower's Obligation Subaccount will be disbursed to the borrower upon receipt by the Trustee of a requisition from the I-Bank.

Cross Collateral Account – Amounts in the Cross Collateral Account consist of Master Indenture Revenues received by the Trustee. Master Indenture Revenues include repayments from Loans pledged to the Master Indenture, excess revenue transfers from each series indenture issued under the Master Indenture, and all interest, profits and other income received from the investment of monies held in accounts established under the Master Indenture. Amounts held in the Cross Collateral Account are available to cure a deficiency or a cumulative deficiency with respect to any series of bonds secured by the Master Indenture.

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Equity Account – Two days after a debt service payment date on any series of bonds issued under the Master Indenture, the Trustee transfers the balance of the amounts on deposit in the Cross Collateral Account to the Equity Account. Amounts on deposit in the Equity Account shall be held therein by the Trustee until the Trustee receives instructions from the I-Bank to transfer the requested amounts to the CIEDB Fund within the State’s centralized treasury system for any lawful purpose of the I-Bank. To the extent there are amounts on deposit in the Equity Account and there are insufficient funds to pay debt service on any series of bonds issued under the Master Indenture, the Trustee shall use such amounts to cure a deficiency or a cumulative deficiency with respect to any bonds secured by the Master Indenture.

G. ISSUANCE COSTS

Costs associated with the issuance of each series of the ISRF 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.

H. 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 2004 or 2005 ISRF Bonds. The 2004 and 2005 ISRF Bonds are subject to mandatory and optional redemption prior to their stated maturity. The 2004 and 2005 ISRF 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 2004 and 2005 Collateral pledged by the I-Bank.

I. 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 charged. The I-Bank also charges an application, bond issuance and an annual fee to entities for which it serves as the conduit issuer of bonds. Conduit bond fees are recognized as revenue when charged.

J. INVESTMENT INCOME

Investment income is considered operating revenue because the 2004 and 2005 ISRF Bonds were issued for the purpose of financing infrastructure projects. A portion of this financing comes from investment earnings.

K. PROGRAM SUPPORT

Program support expenses represent administrative expenses of the I-Bank. For the fiscal year ended June 30, 2007, program support expenses were \$2,325,821.

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L. CLASSIFICATION OF NET ASSETS

Restricted net assets represent amounts restricted due to external restrictions imposed by creditors, laws or regulations of the government, and restrictions imposed by law through constitutional provisions or enabling legislation or for programs established by the I-Bank.

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.

M. 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, CASH EQUIVALENTS AND INVESTMENTS

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 and GASB Technical Bulletin 94-1, regarding cash deposits, investments, and derivatives, can be found in the June 30, 2007, Comprehensive Annual Financial Report of the State.

The I-Bank reports investments at fair value or cost, which is the contract value for non-participating guaranteed investment agreements and repurchase agreements. Where applicable, fair values are based upon market quotes from national security exchanges.

Due to the specified nature of the I-Bank's activities as established in the Act, all cash, cash equivalents and investments are considered restricted at June 30, 2007, since these funds cannot be spent for any purpose other than as established in the Act.

Investments are made pursuant to an investment policy adopted by the Board in March, 2006 (Investment Policy). 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. As was the practice prior to March 2006, and continuing 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, including proceeds from the sale of any bonds, in any eligible securities specified in Government Code Section 16430 as the I-Bank shall designate. The I-Bank may direct the Treasurer to deposit monies 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.

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Government Code Section 5922(d) provides 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 2004 and 2005 Series Indenture and Master Indenture shall be invested and reinvested by the Trustee in permitted investments, as that term is defined in the 2004 and 2005 Series 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) and 63250(d) 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 2004 or 2005 Series Indentures or the Master Indenture, but rather the general provisions of the California Government Code or the Investment Policy.

Authorized Investments

Authorized Investment Type	Maximum Maturity¹	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating³
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 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. Standard & Poor's (S&P), Moody's Investors Services (Moody's), and Fitch Ratings, Inc. (Fitch)(collectively, Rating Agencies).

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Investments Authorized by the 2004 or 2005 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 2004 or 2005 Series Indentures or the Master Indenture. Such investments are referenced in the Investment Policy, which references Government Code Section 5922(d).

Authorized Investments

Authorized Investment Type	Maximum Maturity¹	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
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 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 ³
Guaranteed Investment Contract	5 Years	N/A	N/A	AA ⁴
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. The entity must be rated in top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
4. The senior long-term debt of the provider shall be rated within the top two rating categories by S&P, Moody's and Fitch, if rated by Fitch; or such investments collateralized by Permitted Investments of the type and in the amounts consistent with maintaining the then-current ratings on the 2005 Bonds by each of the Rating Agencies, but in all events the senior long-term debt of such providers shall be rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch.

Cash and equivalents at June 30, 2007 were as follows:

	Credit Rating S&P/Moody's	Fair Value
Deposits in Money Market Accounts	AAA/Aaa	\$ 31,506,491
Deposits in Surplus Money Investment Fund	Not Rated	<u>48,704,243</u>
Total cash and equivalents		<u>\$ 80,210,734</u>

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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. Investments in SMIF are stated at fair value.

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.

<u>Investment</u>		<u>Maturity Date</u>
Surplus Money Investment Fund	\$ 48,704,243	0.42 years
Money Market Funds	31,506,491	0.25 years
2004 ISRF Guaranteed Investment Agreement:		
2004 Reserve Account	3,534,443	October 1, 2032
2004 Debt Service and Revenue Accounts	1,100,292	October 1, 2032
2005 ISRF Repurchase Agreement:		
2005 Obligation Account	37,462,056	December 1, 2008
2005 ISRF Guaranteed Investment Agreement:		
2005 Reserve Account	<u>3,913,331</u>	October 1, 2033
Total	\$ <u>126,220,856</u>	

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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 2004 or 2005 ISRF Series Indenture along with the investment's actual rating as of year end for each investment type.

		<u>Minimum Legal Rating</u>	<u>Rating as of Fiscal Year End</u>
Surplus Money Investment Fund	\$ 48,704,243	N/A	Not Rated
Money Market Funds	31,506,491	A	AAA/Aaa
2004 ISRF Guaranteed Investment Agreement	4,634,735	AA/Aa/AA	AA/Aa2
2005 ISRF Repurchase Agreement	37,462,056	A ¹	AA1-/AA
2005 ISRF Guaranteed Investment Agreement	<u>3,913,331</u>	AA/Aa/AA ²	AAA/Aaaa
	<u>\$ 126,220,856</u>		

1. The entity must be rated in top three rating categories, ignoring modifiers, by S&P, Moody's and Fitch, if rated by Fitch.
2. The senior long-term debt of the provider shall be rated within the top two rating categories by S&P, Moody's and Fitch, if rated by Fitch; or such investments collateralized by Permitted Investments of the type and in the amounts consistent with maintaining the then-current ratings on the 2005 Bonds by each of the Rating Agencies, but in all events the senior long-term debt of such providers shall be rated in the top three rating categories by S&P, Moody's and Fitch, if rated by Fitch.

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, 2007, the I-Bank's had no funds on deposit.

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. The I-Bank's Investment Policy contains requirements for the collateralization of all investment agreements.

As of June 30, 2007, \$46,010,122 of the I-Bank's investments were held in repurchase or investment agreements that are backed by collateral held by the collateral agent. Collateral level varies between 104-105% depending upon type of security. Securities are held by a collateral agent and registered in the name of the Trustee.

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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 additional 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. Investments in any one issuer (other the U.S. Treasury securities, mutual funds, and the Surplus Money Investment Fund) that represent 5% or more of the I-Bank's investments are as follows:

<u>Investment Provider/Investment Type</u>	<u>Reported Amount</u>
AIG Matched Funding Corp./Guaranteed Investment Agreement	\$ 4,634,735
Société Générale, New York Branch/Repurchase Agreement	37,462,056
MBIA, Inc./Guaranteed Investment Agreement	<u>3,913,331</u>
Total	\$ <u>46,010,122</u>

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 the Pledged Loans (i.e., those Loans, that were pledged to the 2004 and 2005 Series Indenture and the Master Indenture by the I-Bank). The I-Bank agreed to make payments to the Trustee in amounts and at times sufficient to repay the 2004 and 2005 ISRF Bonds as they become due. The principal and interest payments received during the fiscal year from these 2004 and 2005 Pledged Loans are used to make the semi-annual debt service payments on the 2004 and 2005 ISRF Bonds.

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5. BONDS PAYABLE

The following is a summary of bonds payable at June 30, 2007:

Infrastructure State Revolving Fund Revenue Bonds, Series 2005, bearing 4.00% to 5.00% interest payable semi-annually, final maturity October 1, 2033	\$ 50,960,000
Infrastructure State Revolving Fund Revenue Bonds, Series 2004, bearing 2.00% to 5.00% interest payable semi-annually, final maturity October 1, 2032	48,930,000
Plus: Unamortized Premiums	<u>3,620,754</u>
Net Bonds Payable	<u>\$ 103,510,754</u>

The following is a schedule of the debt service requirements for the 2004 ISRF Bond as of June 30, 2007:

Year Ending June 30, 2007	Principal	Interest	Total Debt Service
2008	\$ 1,315,000	\$ 2,200,393	\$ 3,515,393
2009	1,340,000	2,170,493	3,510,493
2010	1,365,000	2,136,680	3,501,680
2011	1,395,000	2,084,743	3,479,743
2012	1,460,000	2,013,368	3,473,368
2013-2017	8,225,000	9,070,013	17,295,013
2018-2022	9,555,000	7,078,344	16,633,344
2023-2027	10,875,000 ⁽¹⁾	4,539,125	15,414,125
2028-2032	12,420,000 ⁽²⁾	1,572,738	13,992,738
2033	<u>980,000⁽³⁾</u>	<u>20,825</u>	<u>1,000,825</u>
Total	<u>\$ 48,930,000</u>	<u>\$ 32,886,722</u>	<u>\$ 81,816,722</u>

⁽¹⁾ Principal payments in the amount of \$2,255,000 are made from sinking fund payments for the 2029 term bonds.

⁽²⁾ Principal payments in the amount of \$10,120,000 and \$2,835,000 are made from sinking fund payments for the 2029 and 2032 term bonds, respectively.

⁽³⁾ Principal payments in the amount of \$2,805,000 are made from sinking fund payments for the 2032 term bonds.

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The following is a schedule of the debt service requirements for the 2005 ISRF Bond as of June 30, 2007:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2008	\$ 1,430,000	\$ 2,358,031	\$ 3,788,031
2009	1,500,000	2,299,431	3,799,431
2010	1,560,000	2,238,231	3,798,231
2011	1,635,000	2,174,331	3,809,331
2012	1,695,000	2,107,731	3,802,731
2013-2017	9,725,000	9,343,206	19,068,206
2018-2022	12,505,000	6,637,906	19,142,906
2023-2027	9,510,000 ⁽⁴⁾	3,816,819	13,326,819
2028-2032	9,390,000 ⁽⁵⁾	1,600,203	10,990,203
2033-2034	2,010,000 ⁽⁶⁾	91,000	2,101,000
Total	\$ 50,960,000	\$ 32,666,889	\$ 83,626,889

⁽⁴⁾ Principal payments in the amount of \$5,020,000 are made from sinking fund payments for the 2028 term bonds.

⁽⁵⁾ Principal payments in the amount of \$5,825,000 and \$4,150,000 are made from sinking fund payments for the 2028 and 2033 term bonds, respectively.

⁽⁶⁾ Principal payments in the amount of \$3,285,000 are made from sinking fund payments for the 2033 term bonds.

Bond activity for the year ended June 30, 2007 was as follows:

	<u>Balance June 30, 2006</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2007</u>	<u>Current Portion June 30, 2007</u>
2004 ISRF Bonds	\$ 50,225,000		\$ 1,295,000	\$ 48,930,000	\$ 1,315,000
2005 ISRF Bonds	52,800,000		1,840,000	50,960,000	1,430,000
Total	\$ 103,025,000		\$ 3,135,000	\$ 99,890,000	\$ 2,745,000

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6. CONDUIT DEBT OBLIGATIONS

The I-Bank has served as the conduit issuer for over 140 bond issues for private, nonprofit and governmental entities. As of June 30, 2007, the aggregate outstanding amount of all conduit bond issues was approximately \$4.9 billion, including 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 excluding the amount of conduit bonds that were issued by special purpose trusts created by the I-Bank. These conduit bonds do not constitute a debt or liability of the State or of any political subdivision of the State, other than a limited obligation of the I-Bank payable solely from the pledged revenues of the conduit borrower, nor a pledge of the faith and credit of the State or any political subdivision thereof. As such, the balance of outstanding conduit bonds is not reflected on the I-Bank's financial statements.

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 provides 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 may be obtained by writing California Public Employees' Retirement Systems, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

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.

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Funding Policy

For the years ended June 30, 2007 and 2006, the State had elected to contribute the full 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 contribution rates for the years ended June 30, 2007 and 2006 were 16.633% and 16.997%, respectively for State Miscellaneous Tier 1 and 16.565% and 16.778%, respectively, for State Miscellaneous Tier 2. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the I-Bank for the fiscal year ended June 30, 2007, are not determinable at the I-Bank level. On April 19, 2005, the Board of Directors of CalPERS adopted a new policy for calculating the actuarial value of assets, spreading market value asset gains and losses over 15 years rather than 3 years, as had been the practice. Additionally CalPERS will now calculate the annual contribution amount with regard to gains and losses as a rolling 30 year amortization. These changes are anticipated to reduce the employer rate of contribution volatility. Additional information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

Post-Employment Benefits Other than Pension

In addition to the pension benefits provided by the State, the State also provides post-retirement health care and dental benefits, in accordance with Section 22754 (g) of the State Government Code, to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care and dental benefits (OPEBs) are currently funded by the State's General Fund on a pay-as-you-go basis. Under Governmental Accounting Standards Board Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, the State will be required to report certain information concerning its OPEBs, including the costs of such benefits and an actuarial computation of the future liability for such benefits, commencing with its financial statements for the 2007-2008 fiscal year. The State Controller engaged an actuarial firm which prepared an estimate of the State's OPEB as of July 1, 2007, which is available from the State Controller's Office. The Governor has appointed a Commission which is scheduled to present a report on the OPEB for the State and local governments by January 1, 2008.

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8. COMMITMENTS AND CONTINGENCIES

In June 2003, the I-Bank approved a preliminary loan guarantee commitment for the Imperial Irrigation District (IID) related to the potential future issuance of revenue bonds by IID, which may finance a water supply project consisting of water conservation measures needed to implement the IID and the San Diego County Water Authority (SDCWA) 45-year water conservation and transfer agreement (Transfer Agreement) for the transfer of up to 200,000 acre-feet per year of water supply to the SDCWA based upon IID water conservation measures. Subsequently, the IID, the SDCWA, the Metropolitan Water District of Southern California and the Coachella Valley Water District negotiated terms of a Quantification Settlement Agreement, which includes a series of agreements regarding the settlement of disputes among the parties arising from the Transfer Agreement and ensures that the State continues to receive the maximum amount of water from the Colorado River. 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 shall expire December 31, 2009, unless extended in writing by the Board.