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Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with generally accepted accounting principles (GAAP). The provisions of Governmental Accounting Standards Board (GASB) Technical Bulletin No. 99-1, Disclosures about Year 2000 Issues, an amendment of Technical Bulletin 98-1, have been implemented in this report. The provisions of GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, have been implemented in this report for the deferred compensation program for primary government employees.

A. Reporting Entity

As required by GASB Statement No. 14, The Financial Reporting Entity, these financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, account groups, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. GASB Statement No. 14 does not modify the fiduciary fund reporting requirements of the primary government. As a result, funds such as the Public Employees' Retirement Fund and the State Teachers' Retirement Fund are reported in the appropriate fiduciary funds. Component units are organizations that are legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The decision to include a potential component unit in the State's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Following is information on blended and discretely presented component units for the State.

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

Building authorities are blended component units because they have been created through the use of Joint Exercise of Powers Agreements with various cities to finance the construction of state buildings. The building authorities are reported as capital projects funds. As a result, the $784 million of capital lease arrangements between the building authorities and the State have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Copies of the financial statements of the building authorities may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

Discretely presented component units are reported in separate columns in the combined financial statements. Discretely presented component units are legally separate from the primary government, and mostly provide services to entities and individuals outside the State. For ease of presentation, discretely presented component units, other than the University of California, are included in the statements under the heading of special purpose authorities.

The University of California was founded in 1868 as a public, state-supported, land grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California. The University of California is a component unit of the State because the State appoints a voting majority of the Regents of the University of California, and expenditures for the support of various University of California programs and capital outlay are appropriated by the annual Budget Act.

Copies of the University of California's separately issued financial statements may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

Special purpose authorities are presented in three separate categories for condensed financial statement reporting purposes: State Compensation Insurance Fund (SCIF), California Housing Finance Agency (CHFA), and Non-Major Component Units. SCIF and CHFA are considered major component units while all other special purpose authority component units are shown as Non-Major Component Units.

The SCIF is a self-supporting enterprise created to offer insurance protection to employers at the lowest possible cost. It operates in competition with other insurance carriers to provide services to the State, counties, cities, school districts, or other public corporations. It is a component unit of the State because the State appoints all five voting members of the SCIF's governing board and has the authority to approve or modify the SCIF's budget. Copies of the SCIF's financial statements for the year ended December 31, 1998, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

The CHFA was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. The CHFA's purpose is to meet the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of the CHFA's governing board and has the authority to approve or modify its budget. Copies of the CHFA's financial statements may be obtained from the California Housing Finance Agency, 1121 L Street, Sacramento, California 95814.

State legislation created various other Non-Major Component Units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. These entities are considered component units because the majority of governing board members are appointed by, or are members of, the primary government. Copies of the financial statements of these component units may be obtained from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876. The Non-Major Component Units are:

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

The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements (Effective January 1, 1999, the *California Economic Development Financing Authority* merged with the *California Infrastructure and Economic Development Bank.);*

The *California Pollution Control Financing Authority*, which provides financing for pollution control facilities;

The *California Health Facilities Financing Authority*, which provides financing for the construction, equipping, or acquiring of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities;

The *California School Finance Authority*, which provides loans to school and community college districts to assist in obtaining equipment and facilities;

The *District Agricultural Associations*, which exhibit all of the industries, industrial enterprises, resources, and products of the state;

The *San Joaquin River Conservancy*, which was created to acquire and manage public lands within the San Joaquin River Parkway; and

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

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

The State participates in a joint venture with the Capitol Area Development Authority (CADA). The CADA was created in 1978 by the Joint Exercise of Powers Agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. The CADA is a public entity, separate from the primary government and the City, and is administered by a board of five members: two appointed by the primary government, two appointed by the City, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in the CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence the CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes the CADA's operations by leasing land to the CADA without consideration; however, the primary government is not obligated to do so. Since the primary government does not have an equity interest in the CADA, the CADA's financial information is not included in the financial statements of this report. Separately issued financial statements can be obtained from the Capitol Area Development Authority, 1530 Capitol Avenue, Sacramento, California 95814.

Effective November 1, 1997, the University of California, San Francisco (UCSF) Medical Center (a portion of a discretely presented component unit) and Stanford Health Services, which manages and operates Stanford University's medical center, merged through the formation of UCSF Stanford Health Care, a separate non-profit corporation (the Corporation). The Corporation is governed by a seventeen member Board of Directors consisting of representatives from both universities, selected officers of the new corporation, and three independent directors. The primary purpose of the Corporation is to support, benefit, and further the charitable, scientific, and educational purposes of the Schools of Medicine at UCSF and Stanford. The UC's investment in the Corporation is accounted for as a joint venture using the equity method of accounting. The UC's interest in the earnings of the Corporation is recorded as revenue within the current unrestricted fund and as an increase in the UC's assets. Equity distributions are recorded as a reduction in the UC's assets.

Substantially all of the medical center and clinical practice assets and liabilities of both the UCSF Medical Center and Stanford Health Services were either contributed or leased to the Corporation. The

UC leased real property to the Corporation under long-term leases for a nominal annual rent and all personal property for terms ranging from 5 to 20 years, with bargain purchase options available at the end of the lease term. Such amounts have been accounted for as part of the investment in the Corporation.

Under the terms of the agreement, the Corporation's income or losses are allocated equally between the UC and Stanford University. The agreement provides for the Corporation's Board of Directors to annually determine whether to distribute a portion of operating income as academic contributions to each university. During the year ended June 30, 1999, the UC's share of the Corporation's loss was $17 million and the Corporation distributed $1 million to the UC.

The UC also entered into certain operating agreements with the Corporation, primarily for the use of UC employees, facilities, and technical expertise. The UC recorded revenue of $261 million under these agreements during the fiscal year ended June 30, 1999. In addition to the operating agreements, the UC may manage a portion of the investments of the Corporation. The fair value of these investments totaled $199 million at June 30, 1999.

Information on the finances of the Corporation may be obtained from the University of California, Financial Management, 1111 Franklin Street, 10th Floor, Oakland, California 94607-5200.

The **Bay Area Toll Authority**, which is not part of the State's reporting entity, was created by the California Legislature in 1997 to administer the base $1 toll on toll revenues collected from the San Francisco Bay Area's seven state-owned toll bridges and to have program oversight related to certain bridge construction projects. Additional information on the Bay Area Toll Authority may be obtained from the Metropolitan Transportation Commission, 101 Eighth Street, Oakland, California 94607.

B. Fund Accounting

The financial statements of the State are organized and operated on the basis of funds, account groups, and component units. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds that are not recorded directly in those funds. A component unit is an organization which is legally separate from the State but for which the State is financially accountable, or for which the nature and significance of their relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete.

The financial activities of the State accounted for in the accompanying financial statements are classified as follows.

Governmental Fund Types are used primarily to account for services provided to the general public without charging directly for those services. The State has three governmental fund types.

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

Special Revenue Funds account for transactions related to resources obtained from specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for transactions related to resources obtained and used to acquire or construct major capital facilities.

Proprietary Fund Types present financial data on activities that are similar to those found in the private sector. Users are charged for the goods or services provided. For its proprietary funds, the State applies all applicable GASB pronouncements, pursuant to GASB Statement No. 20, as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless the FASB Statements and Interpretations conflict with or contradict GASB pronouncements. However, with one exception, the State has elected not to apply FASB Statements and Interpretations issued after November 30, 1989. The exception is Prison Industries, an internal service fund, which has elected to follow FASB pronouncements issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements. The State has two proprietary fund types.

Enterprise Funds account for goods or services provided to the general public on a continuing basis when (1) the State intends that all or most of the cost involved is to be financed by user charges, or (2) periodic measurement of the results of operations is appropriate for management control, accountability, capital maintenance, public policy, or other purposes.

Internal Service Funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis.

Fiduciary Fund Types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The State has four fiduciary fund types.

Expendable Trust Funds account for assets held in a trustee capacity when principal, income, and earnings on principal may be expended in the course of a fund's designated operations.

Pension Trust Funds account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems.

Agency Funds account for assets held by the State, which acts as an agent for individuals, private organizations, other governments, or other funds. They are custodial in nature and do not measure the results of operations.

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

Account Groups are used to establish control over and accountability for the government's general fixed assets and general long-term obligations. The State has two account groups.

The *General Fixed Assets Account Group* accounts for governmental fixed assets not reported in a proprietary fund or a trust fund.

The *General Long-Term Obligations Account Group* accounts for unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

Discretely Presented Component Units are reported in separate columns in the combined financial statements to emphasize that they are legally separate from the primary government. The discretely presented component units are classified as the University of California and as special purpose authorities. The University of California's financial statements are prepared in conformity with GAAP using the American Institute of Certified Public Accountants College Guide Model. As a result, the University of California's activities are accounted for in the following funds: Current Funds; Loan Funds; Endowment and Similar Funds; Plant Funds; Agency Funds; and Retirement System Funds. Special purpose authorities account for their activities as enterprise funds.

C. Measurement Focus and Basis of Accounting

Governmental Fund Types and **Expendable Trust Funds** are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unreserved fund balance is a measure of available spendable resources.

The accounts of the governmental fund types and expendable trust funds are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and bank and corporation taxes), as sales are made (consumption and use taxes), and as the taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Other revenue sources are recorded when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months.

Compensated absences are accounted for on a modified accrual basis of accounting. Except for expenditures in the General Fund for earned leave of academic-year faculty, compensated absences expenditures are not accrued since it is not anticipated that compensated absences will be used in excess of a normal year's accumulation.

Agency Funds are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the modified accrual basis of accounting.

Proprietary Fund Types, the Investment Trust Fund, and Pension Trust Funds are accounted for on the flow of economic resources measurement focus.

The accounts of the proprietary fund types, the investment trust fund, and pension trust funds are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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

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

Discretely Presented Component Units, which are classified as the University of California and special purpose authorities, are accounted for on the flow of current resources and flow of economic resources measurement focus, respectively. All use the full accrual basis of accounting.

D. Food Stamps

The distribution of food stamp benefits is recognized as revenue and expenditures in a special revenue fund, as required by GAAP. Revenue and expenditures are recognized when the benefits are distributed to the recipients. Food stamp balances held by the counties are reported as an asset and offset by deferred revenue. Revenues, expenditures, and balances of food stamp benefits are measured based on face value.

E. Inventories

Inventories are primarily stated at either the lower of average cost or market, or at cost utilizing the weighted average valuation method. In governmental fund types, inventories are recorded as expenditures when purchased. In proprietary fund types, inventories are expensed when consumed.

The discretely presented component units have inventory policies similar to the primary government's.

F. Net Investment in Direct Financing Leases

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. The payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the construction of facilities and energy efficiency projects. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the primary government agency, University of California, or local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments.

G. Deferred Charges

The deferred charges account in the enterprise fund type primarily represents operating and maintenance costs and unrecovered capital costs that will be recognized as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as deferred charges. These charges are recognized when billed in future years under the terms of water supply contracts.

H. Fixed Assets

The **General Fixed Assets Account Group** includes capital assets that are not assets of any specific fund, but rather of the primary government as a whole. Most of these assets arise from the expenditure of the financial resources of governmental funds and expendable trust funds used to acquire or construct them. The General Fixed Assets Account Group does not include fixed assets of proprietary funds or pension trust funds. These fixed assets are accounted for in their respective funds.

The General Fixed Assets Account Group is presented in the financial statements at cost or estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. Interest during construction has not been capitalized. Also, public domain or "infrastructure" fixed assets are not capitalized. Accumulated depreciation is not recorded in the General Fixed Assets Account Group. Purchased fixed assets are stated at historical cost. Tangible and intangible property are capitalized if the property has a normal useful life of at least one year and an acquisition cost of at least $5,000.

Proprietary Fund Type fixed assets, consisting of property, plant, and equipment, are stated at cost at the date of acquisition, less accumulated depreciation. They are depreciated over their estimated useful or service lives, ranging from two to 100 years, using the straight-line method of depreciation. Dormitory facilities, which represent 16.2% of the fixed assets of the enterprise funds, are not depreciated.

The fixed assets of the **discretely presented component units** are stated at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Depreciation on the majority of the fixed assets of the discretely presented component units is not recorded, which is consistent with GAAP. On July 1, 1998, the University of California increased the threshold for capitalizing fixed assets from $500 to $1,500. Therefore, $273 million of fixed assets with a value of less than $1,500 were written off and are included as a separate line item on the Combined Statement of Changes in Fund Balances.

I. Long-Term Obligations

The primary government reports long-term obligations of governmental funds in the General Long-Term Obligations Account Group. Long-term obligations consist of certain unmatured general obligation bonds, certain unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, the net pension obligation of the pension trust funds, the liability for employees' compensated absences and workers' compensation claims, amounts owed for lawsuits, and the primary government's share of the University of California pension liability.

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

J. Compensated Absences

In the governmental funds, only the amounts of compensated absences that normally would be liquidated with expendable available financial resources are accrued at year end, such as costs of academic-year faculty. The costs of the academic-year faculty represent services rendered over a ten-month period that are paid over a 12-month period. The balance of the amounts owed for services rendered is reported as a current liability in the General Fund. Unless it is anticipated that compensated absences will be used in excess of a normal year's accumulation, no additional liabilities are accrued. As a result, the unpaid liability for governmental funds is recorded in the General Long-Term Obligations Account Group. Accumulated sick-leave balances are not included in the compensated absences because they do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued when incurred in proprietary funds. In the discretely presented component units, the compensated absences are accounted for in a similar manner as the proprietary funds in the primary government.

K. Fund Equity

Fund equity accounts present the difference between assets and liabilities of a fund. The fund equity accounts consist of *contributed capital* and *retained earnings* for proprietary funds and certain component units, *investment in general fixed assets* for the General Fixed Assets Account Group and certain component units, and *fund balance* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is "transferred" to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Retained earnings are divided into two sections: *reserved for regulatory requirements* and *unreserved*. The reserved for regulatory requirements represents a segregation of the retained earnings in enterprise funds and certain component units for amounts that are unavailable for general use as a result of specific legal requirements. Unreserved retained earnings represent the accumulated earnings of proprietary funds and certain component units that are not reserved for any specific purpose.

The fund balances for governmental funds and trust funds are divided into two sections: *reserved* and *unreserved-undesignated*. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balances that are legally segregated for specific uses. The reserves of the fund balance for governmental funds, trust funds, and component units are as follows:

Reserved for encumbrances represents goods and services that are ordered, but not received, by the end of the year.

Reserved for local agencies represents amounts held on behalf of local governments and local public agencies in the Local Agency Investment Fund, an investment trust fund.

Reserved for advances and loans receivable represents advances to other funds and the non-current portion of loans receivable that do not represent expendable available financial resources.

Reserved for employees' pension benefits represents reserves of the pension trust funds and the University of California, a discretely presented component unit. These reserves include accumulated contributions made by employees and employers, and undistributed interest and investment earnings.

Reserved for continuing appropriations represents the unencumbered balance of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

Reserved for other specific purposes includes trust and agency fund amounts of the Unemployment Fund, Deferred Compensation Plan Fund, other expendable trust funds, and the University of California, a discretely presented component unit, that are not available for future appropriations other than those for which the funds were established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds and certain component units.

Investment in general fixed assets represents the fixed assets of the governmental funds and expendable trust funds reported in the General Fixed Assets Account Group and the fixed assets of the University of California, a discretely presented component unit, that are restricted for specific purposes.

L. Restatement of Beginning Fund Equity

The beginning fund balance of the special revenue funds has been increased by $54 million as a result of the changing relationship between the trial courts and the State. As a result of Chapter 850 of the Statutes of 1997, the financial information of the trial courts is required to be included in the CAFR.

The beginning fund balance of the capital projects funds has been increased by $7 million as a result of reclassifying the San Bernardino State Building Authority Fund from an agency fund to a capital projects fund.

The beginning retained earnings in the enterprise funds has been increased by $141 million as a result of errors made in the prior year financial statements and the recognition of long-term notes receivable and correction of recorded liabilities.

The beginning fund balance of the expendable trust funds has been increased by $4.0 billion as a result of GASB Statement No. 32, which reclassified the Deferred Compensation Program (IRC 457) for the primary government from an agency fund to an expendable trust fund, and as a result of the Volunteer Firefighters' Length of Service Award Fund being reclassified from an expendable trust fund to a pension trust fund.

The beginning net assets of the pension trust funds have been increased by $2 million as a result of reclassifying the Volunteer Firefighters' Length of Service Award Fund from an expendable trust fund to a pension trust fund.

M. Guaranty Deposits

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

N. Memorandum Only Total Columns

Total columns captioned "memorandum only" do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

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

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control at the appropriation level for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders by the Governor.

Amendments to the initial budget for the year ended June 30 were legally made, and are included in the budget data in the financial statements. The amendments had the effect of increasing spending authority and expenditures for the year.

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

Legislative appropriations are based on when commitments for goods and services are incurred. However, for financial reporting purposes, the State reports expenditures based on the year goods and services are received. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis – Budget and Actual includes all the current year expenditures for governmental cost funds and their related appropriations that are legislatively authorized annually, continually, or by project.

B. Legal Compliance

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

Financial activities are mainly controlled at the appropriation level but can vary depending on the presentation and wording contained in the Budget Act. Certain items that are established at the category, program, component, or element levels can be adjusted by the Department of Finance. While the financial activities are controlled at various levels, the legal level of budgetary control has been established in the Budget Act at the appropriation level for the annual operating budget.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Non-GAAP Budgetary Basis – Budget and Actual is not presented in this document at the legal level of budgetary control, as such a presentation would be extremely lengthy and cumbersome. The State of California prepares a separate report, the *Budgetary/Legal Basis Annual Report Supplement*, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's Codification of Governmental Accounting and Financial Reporting Standards Section 2400.112. The Statement of Appropriations, Expenditures, and Balances and the Comparative Statement of Actual and Budgeted Expenditures include the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of this report is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250-5876.

C. Reconciliation of Budgetary Basis with GAAP Basis

The State annually reports its financial condition based on GAAP (GAAP basis) and on the State's budgetary provisions (budgetary basis). The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis – Budget and Actual is compiled on the budgetary basis. The differences between budgetary basis fund balances and the fund equity prepared in accordance with GAAP are explained and reconciled in the following paragraphs and Table 1.

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

Perspective Difference

Fund classification: On a budgetary basis, the State's funds are classified as either governmental cost funds or nongovernmental cost funds. The governmental cost funds consist of the General Fund and other governmental cost funds into which revenues from taxes, licenses, and fees that support the general operations of the State are deposited. The nongovernmental cost funds are not subject to annual appropriated budgets and consist of funds into which monies derived from sources other than general and special taxes, licenses, fees, or other state revenues are deposited. On a GAAP basis, the financial information is classified as governmental, proprietary, or fiduciary funds, or as component units.

Basis Difference

Advances and loans receivable: Loans made to other funds or to other governments are normally recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets. The General Fund had education loans outstanding as of June 30, 1999, of $635 million, which will be forgiven and charged to expenditures in the year of appropriation on a budgetary basis. On a GAAP basis, these education loans were charged to expenditures for the year ended June 30, 1996, the year that the agreement was made to forgive the loans. The adjustments related to advances and loans caused a decrease to the fund balance of $590 million in the General Fund and an increase to the fund balance of $1.5 billion in special revenue funds, $363 million in enterprise funds, and $581 million in trust and agency funds.

Escheat property: A liability for the estimated amount of escheat property ultimately expected to be reclaimed and paid is not reported on a budgetary basis, while it is required to be reported on a GAAP basis. This adjustment caused a $484 million decrease to the General Fund balance.

Authorized and unissued bonds: General obligation bonds that are not self-liquidating are recorded as additions to the fund balance for the special revenue and capital projects funds on the budgetary basis when voters authorize the sale of bonds. However, in accordance with GAAP, only the bonds issued during the year are recorded as additions to the fund balance. The adjustments related to authorized and unissued bonds caused a decrease to fund balance of $10.9 billion in special revenue funds and $723 million in capital projects funds.

Provision for long-term obligations: On the budgetary basis, a provision for long-term obligations is used to offset certain bonds payable. However, in accordance with GAAP, this account is not used for enterprise funds. This adjustment caused a $2.8 billion decrease to the enterprise fund balance.

Encumbrances: The State does not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis. The adjustments related to encumbrances caused an increase to the fund balance of $516 million in special revenue funds.

Fixed assets: For certain enterprise programs, the budgetary basis uses the modified accrual basis of accounting for fixed assets, which expenses fixed asset costs. In accordance with GAAP, fixed assets for enterprise funds should be capitalized and depreciated using the accrual basis of accounting. This adjustment caused a $1.4 billion increase to the enterprise fund balance.

Fair value of investments: The increase in Lottery Fund investments for adjustments to fair value does not result in a corresponding increase in a liability on the budgetary basis. However, on a GAAP basis, the liability is increased since the investments will be used for lottery prizes and annuities. This adjustment caused a $203 million decrease to the enterprise fund balance.

Fund balances in agency funds: Fund balances are reported in agency funds on the budgetary basis. In accordance with GAAP, agency funds do not have a fund balance since they account for assets held solely in a custodial capacity. Accordingly, assets in agency funds are always matched with liabilities to the owners of these assets. This adjustment caused a $21.5 billion decrease to the agency fund balance.

California accounting practices for insurance: The financial statements of the State Compensation Insurance Fund (SCIF) on a budgetary basis are prepared in conformity with accounting practices prescribed by the Department of Insurance of the State of California. The principal differences between this method and GAAP are that investments are carried at amortized cost rather than fair value and policy acquisition costs are charged to current operations rather than being deferred. This adjustment caused a $374 million increase to the discretely presented component units fund balance.

Other: Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. The other adjustments caused an increase in fund balance of $135 million in special revenue funds, $17 million in trust and agency funds, and $1 million in component units and a decrease in fund balance of $155 million in the General Fund, $35 million in capital projects funds, $50 million in enterprise funds, and $3 million in internal service funds.

Timing Difference

Liabilities budgeted in subsequent years: The primary government does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused a net decrease to the fund balance of $347 million in the General Fund and $120 million in special revenue funds.

Entity Difference

Entities not included in the State's accounting system: There are some discretely presented component units that are not included in the budgetary basis accounting system, but are included on a GAAP basis. This adjustment caused a $64.1 billion increase to the component units fund balance, of which $63.8 billion is related to the University of California.

Table 1

Reconciliation of Budgetary Basis Fund Balances and GAAP Basis Fund Equity

June 30, 1999
(Amounts in thousands)

	Total Budgetary Fund Classifications	Primary Government						Component Units
		Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	
		General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	
Perspective Difference								
Budgetary / Legal Basis Annual Report								
General Fund	$ 3,907,671	$ 3,907,671	$ —	$ —	$ —	$ —	$ —	$ —
Other Governmental Cost Funds	6,033,497	—	5,858,359	37,764	1,299	14,922	121,153	—
Non-Governmental Cost Funds	325,986,701	—	11,357,345	776,587	4,913,624	620,184	305,967,217	2,351,744
Total Budgetary Fund Balances Reclassified into GAAP Statement Fund Structure	**$ 335,927,869**	**3,907,671**	**17,215,704**	**814,351**	**4,914,923**	**635,106**	**306,088,370**	**2,351,744**
Basis Difference								
Advances and loans receivable		(590,248)	1,523,237	—	362,501	—	581,043	—
Escheat property		(483,893)	—	—	—	—	—	—
Authorized and unissued bonds		—	(10,907,292)	(723,332)	—	—	—	—
Provision for long-term obligations		—	—	—	(2,802,828)	—	—	—
Encumbrances		—	515,592	—	—	—	—	—
Fixed assets		—	—	—	1,407,289	—	—	—
Fair value of investments		—	—	—	(203,336)	—	—	—
Fund balances in agency funds		—	—	—	—	—	(21,516,392)	—
California accounting practices for insurance		—	—	—	—	—	—	374,044
Other		(154,805)	134,938	(35,196)	(49,764)	(2,580)	17,302	1,310
Timing Difference								
Liabilities budgeted in subsequent years		(347,466)	(119,803)	—	—	—	—	—
Entity Difference								
Entities not included in State's accounting system		—	—	—	—	—	—	64,075,496
GAAP Fund Equity, June 30, 1999		**$ 2,331,259**	**$ 8,362,376**	**$ 55,823**	**$ 3,628,785**	**$ 632,526**	**$ 285,170,323**	**$ 66,802,594**

NOTE 3. DEPOSITS AND INVESTMENTS

As required by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, the State reports investments at fair value.

State statutes authorize investments in certain types of securities. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). There is a single portfolio of investments with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner as described below. In addition, certain programs have the authority to separately invest their funds.

The State's pooled investment program and certain other programs of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to have investments in United States government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments.

The State Treasurer's Office administers a pooled investment program for the primary government and for certain special purpose authorities. As of June 30, the special purpose authorities' cash and pooled investments were approximately 3% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. The State Treasurer's Office maintains cash deposits with certain banks that do not earn interest income. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the pooled investment program's accounts.

All demand and time deposits, totaling approximately $2.3 billion, which were held by financial institutions as of June 30, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or by an agent of the State Treasurer's Office in the State's name. The California Government Code requires collateral pledged for demand and time deposits to be deposited with the State Treasurer.

As of June 30, the State Treasurer's Office had amounts on deposit with fiscal agents totaling approximately $24 million. These deposits are related to principal and interest payments due to bondholders. The majority of these deposits are insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

The State Treasurer's Office reports its investments at fair value. The fair value of all securities in the State Treasurer's Office pooled investment program is based on quoted market prices. As of June 30, the average remaining life of the securities in the pooled money investment program administered by the State Treasurer's Office was approximately 210 days.

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

The value of the deposits of the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 1999, this difference was immaterial to the valuation of the program. The pool is run with a "dollar-in, dollar-out" participation. There are no share value adjustments to reflect changes in fair value.

Certain funds have elected to participate in the pooled money investment program, even though they have the authority to make their own investments. Others may be required by legislation to participate in the program. As a result, the deposits of these funds or accounts may be considered involuntary. However, they are part of the State's reporting entity. The remaining participation in the pool, the Local Agency Investment Fund, is all voluntary.

Certain funds, which have deposits in the State Treasurer's pooled investment program, do not receive the interest earnings on their deposits. The earnings on the investments related to those funds are legally required to be assigned to the State's General Fund. A major portion of the $309 million interest revenue received by the General Fund from the pooled money investment program comes from these funds.

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

The State Treasurer's Office reports participant fair value as a ratio of amortized cost on a quarterly basis, with the June 30 valuation being externally audited. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

The fair value, the ranges of interest rates, and the maturity dates of each major investment classification in the State Treasurer's pooled investment program are summarized in Table 4.

Tables 2 and 3 present summary financial statements of the Local Agency Investment Fund (LAIF), an Investment Trust Fund.

Table 2

Condensed Statement of Net Assets – LAIF
June 30, 1999
(Amounts in thousands)

Assets	
Cash and pooled investments	$ 14,156,789
Due from other funds	188,508
Total Assets	**$ 14,345,297**
Liabilities	
Due to other funds	$ 595
Due to other governments	187,913
Other liabilities	1,965
Total liabilities	**190,473**
Net Assets Held in Trust for Pool Participants	**$ 14,154,824**

Table 3

Condensed Statement of Changes in Net Assets – LAIF
Year Ended June 30, 1999
(Amounts in thousands)

Changes in Net Assets Resulting from Operations	$ 751,108
Distributions to Participants	(751,108)
Changes in Net Assets Resulting from Depositor Transactions	2,422,297
Total Change in Net Assets	**2,422,297**
Net Assets Held in Trust for Pool Participants, July 1, 1998	**11,732,527**
Net Assets Held in Trust for Pool Participants, June 30, 1999	**$ 14,154,824**

As of June 30, floating rate notes and mortgage-backed assets comprised less than 4.8% of the pooled investments. For the floating rate notes in the portfolio, the interest received by the State Treasurer's pooled investment program will rise or fall as the underlying index rate rises or falls. The structure of the floating rate notes in the State Treasurer's pooled investment program portfolio is such that it hedges the portfolio against the risk of increasing interest rates. The mortgage-backed securities are called real estate mortgage investment conduits (REMICs). A REMIC is a security backed by a pool of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule.

The California Government Code allows the State Treasurer's Office to enter into reverse repurchase agreements as part of its pooled investment program. A reverse repurchase agreement is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the State Treasurer's Office or provide securities or cash of equal value, the State Treasurer's pooled investment program will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During the year ended June 30, the State Treasurer's Office entered into 58 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $5.5 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. As of June 30, the State Treasurer's Office did not have any reverse repurchase agreements outstanding.

Enterprise funds, internal service funds, trust and agency funds, a special revenue fund, and a building authority in the capital projects funds also make separate investments, which are presented at fair value. The California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) had $284.5 billion in these separately invested funds.

CalPERS and CalSTRS exercise their authority under the State Constitution to invest in stocks, bonds, mortgages, real estate, and other investments.

The fair value of CalPERS' investments in securities is generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at that fair value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount.

CalPERS' mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments.

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options of approximately $141 million were held for investment purposes as of June 30, 1999. Gains and losses on futures and options are determined based upon quoted market values and recorded in the statement of changes in net assets. Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. As of June 30, 1999, CalPERS had approximately $144 million net exposure to loss from forward foreign currency exchange transactions related to the $35.8 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

The fair value of investments for CalSTRS is generally based on published market prices and quotations from major investment firms. In the case of debt securities acquired through private placements, management computes fair value based on market yields and average maturity dates of comparable quoted securities. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Real estate equity investment fair value represents the most recent appraisals. Short-term investments are reported at cost, or amortized cost, which approximates fair value.

Purchases and sales of debt securities, equity securities, and short term investments by CalSTRS are recorded on the trade date. Real estate equity transactions are recorded on the settlement date.

The State Constitution, state statutes, and agency policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. Third party securities lending agents have been contracted to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by the lender or the borrower. Collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively. As of June 30, 1999, there was no credit risk of exposure to borrowers because the amount of collateral held exceeded the amounts owed to the borrowers. Collateral securities received are not permitted to be pledged or sold unless the borrower defaults. The contracts with the securities lending agents require them to indemnify CalPERS and CalSTRS if the borrowers fail to return the securities (or if the collateral is not sufficient to replace the securities lent) or if the borrower fails to pay for income distributions by the securities' issuers while the securities are on loan.

For CalPERS, the average term of the overall loans managed by its two securities lending agents was 44 days and 56 days, respectively. In accordance with CalPERS investment guidelines, the cash collateral was invested in short-term investment funds that at June 30, 1999, had weighted average maturities of 234 days and 56 days, respectively.

For CalSTRS, cash collateral received on each security loan was invested in short-term investments that at June 30, 1999, had a weighted-average maturity of less that 90 days.

As of June 30, the State, including discretely presented component units, had investments in securities lending agreements, real estate, investment contracts, mutual funds, and other investments totaling $60.9 billion. These investments are not subject to classification. All remaining investments reported as of June 30 are categorized in three categories of credit risk:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or by an agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or by an agent but not in the State's name.

The types of investments reported at year end are representative of the types of investments made during the year. Furthermore, the credit risk associated with the investments reported at year end is representative of the credit risk associated with investments made during the year.

Table 4 presents the risk categories of the primary government as of June 30.

Table 4

Schedule of Investments – Primary Government
June 30, 1999
(Amounts in thousands)

	Interest Rates	Maturity	Category 1	Category 2	Category 3	Total Fair Value
Pooled Investments *						
U.S. government securities	4.06 – 5.81	1 day – 5 years+	$ 13,518,791	$ —	$ —	$ 13,518,791
Negotiable certificates of deposit	4.88 – 5.60	1 day – 1 year	5,553,884	—	—	5,553,884
Commercial paper	4.80 – 5.50	1 day – 180 days	10,062,569	—	—	10,062,569
Corporate bonds	4.85 – 6.04	1 day – 5 years+	2,302,491	—	—	2,302,491
Bank notes	4.88 – 5.60	1 day – 1 year	1,265,047	—	—	1,265,047
Total Pooled Investments			**32,702,782**	**—**	**—**	**32,702,782**
Separately Invested Funds Subject to Categorization						
Equity securities			156,091,802	—	—	156,091,802
Securities lending collateral			27,071,713	—	—	27,071,713
Mortgage loans and notes			17,973,441	—	—	17,973,441
U.S. government and agencies			9,701,994	74,057	—	9,776,051
Debt securities – STRS			18,560,015	—	—	18,560,015
Corporate bonds			6,456,647	—	—	6,456,647
Commercial paper			1,659,911	—	—	1,659,911
Other investments			7,301,608	157	262	7,302,027
Total Separately Invested Funds Subject To Categorization			**244,817,131**	**74,214**	**262**	**244,891,607**
Separately Invested Funds Not Subject to Categorization						
Investments held by broker-dealers under securities loans with cash collateral						26,416,644
Real estate						9,759,007
Venture capital and private equity funds						4,774,018
Investment contracts						3,234,166
Mutual funds						2,198,786
Mortgage loans						295,683
Other						2,610,460
Total Separately Invested Funds Not Subject to Categorization						**49,288,764**
Total Investments			**$ 277,519,913**	**$ 74,214**	**$ 262**	**$ 326,883,153**

* Approximately 3% of the pooled investments are investments of special purpose authorities which are discretely presented component units. For special purpose authorities' separately invested funds, see Table 6.

The investments of the University of California, a discretely presented component unit, are stated at fair value. All of the University's investments recorded in each fund group are associated with the University of California Retirement System (UCRS), General Endowment Pool (GEP), High Income Pool (HIP), or Short Term Investment Pool (STIP) or are separately invested. Investments authorized by the Regents for the UCRS, GEP, HIP, and other separate investments include equities and fixed income securities. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, along with alternative equities. Alternative equities include venture capital partnerships, buy-out funds, and emerging market funds. Where donor agreements place constraints on allowable investments, assets associated with endowment and similar funds are invested in accordance with the terms of the agreements. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five years. In addition, the Regents have also authorized loans with terms up to 30 years, primarily to faculty members, under the University's Mortgage Origination Program.

The GEP and HIP are balanced portfolios in which a large number of individual endowment funds participate in order to benefit from diversification and economies of scale. The net assets of the endowment and similar funds group are invested in either the GEP, HIP, or STIP or are separately invested. The separately invested funds cannot be pooled due to investment restrictions or income requirements. All of the University of California's fund groups participate in the STIP. Current funds to provide for the payroll, operating expenses, and construction expenditures of all campuses and medical centers are invested in the STIP until expended.

The UCRS contains funds associated with the University of California's defined benefit and defined contribution plans.

The University of California participates in a securities lending program as a means to augment income. Securities are lent to brokerage firms for which collateral is received in excess of the fair value of such investments during the period of the loan. Collateral may be cash or securities issued by the U. S. Government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the University unless the borrower defaults. Loans of domestic equities and all fixed income securities are initially collateralized at 102% of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105%. All borrowers are required to provide additional collateral by the next business day if the value falls to less than 100% of the fair value of securities lent. The University receives interest and dividends during the loan period as well as a fee from the brokerage firm. Securities on loan for cash collateral are not considered to be categorized. As of June 30, the University had no credit risk exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its custodial bank against any losses incurred as a result of borrower default.

Securities loans immediately terminate upon notice by either the University or the borrower. Cash collateral is invested by the University's lending agent, as an agent for the University, in a short term investment pool in the University's name with guidelines approved by the Treasurer of the Regents. As of June 30, the securities in this pool had a weighted average maturity of 164 days. Table 5 presents risk categories of the University of California investments as of June 30.

Table 5

Schedule of Investments – University of California – Discretely Presented Component Unit
June 30, 1999
(Amounts in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
Separately Invested Funds Subject to Categorization				
Equity securities	$ 27,169,386	$ —	$ —	$ 27,169,386
Securities lending collateral	8,327,714	—	—	8,327,714
U.S. government and agency securities	5,354,401	—	—	5,354,401
Corporate bonds	7,184,691	—	—	7,184,691
Other investments	3,235,911	—	—	3,235,911
Total Separately Invested Funds Subject to Categorization	**51,272,103**	**—**	**—**	**51,272,103**
Separately Invested Funds Not Subject to Categorization				
Investments held by broker-dealers under securities loans with cash collateral				8,203,001
Venture capital and private equity funds				1,739,212
Insurance contracts				236,446
Mortgage loans				247,299
Other investments				185,843
Total Separately Invested Funds Not Subject to Categorization				**10,611,801**
Total Investments	**$ 51,272,103**	**$ —**	**$ —**	**$ 61,883,904**

The cash and pooled investments of the special purpose authorities, which are discretely presented component units, are primarily invested in the State Treasurer's pooled investment program. Additionally, state law, bond resolutions, and investment policy resolutions allow the authorities to invest in United States government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, and other investments.

The California Housing Finance Agency (CHFA), a discretely presented component unit, entered into interest rate caps and swap options to manage its interest rate exposure in connection with certain fixed rate loans and loan commitments that are financed with pending fixed or variable rate bond issues. As of June 30, 1999, the CHFA had interest rate cap and interest rate swap option agreements on notional amounts of $171 million. All underlying bonds have been redeemed and the agreements, although available to the CHFA to offset certain interest rate exposures, ceased to be hedging transactions and are reported at fair value as of June 30, 1999 as investments. Revenues and expenses related to these transactions are recognized as incurred. The CHFA is potentially exposed to loss in the event the counterparties are unable to perform to the terms of the agreements. However, the CHFA does not anticipate nonperformance by the counterparties.

Table 6 presents the risk categories of the special purpose authorities investments outside of the State Treasurer's pooled investment program, as of June 30, 1999. Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1998. The SCIF represents 83% of the fair value of the authorities' investments.

Table 6

Schedule of Investments – Special Purpose Authorities – Discretely Presented Component Units *
June 30, 1999
(Amounts in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
Separately Invested Funds Subject to Categorization				
U.S. government securities	$ 2,509,308	$ —	$ —	$ 2,509,308
Corporate bonds	2,939,201	—	—	2,939,201
Mortgage loans and notes	884,332	—	—	884,332
Commercial paper	29,912	—	—	29,912
Investment agreements	—	172,641	—	172,641
Other investments	69,326	—	—	69,326
Total Separately Invested Funds Subject to Categorization	**6,432,079**	**172,641**	**—**	**6,604,720**
Separately Invested Funds Not Subject to Categorization				
Investment agreements				998,152
Mutual funds				26,112
Total Separately Invested Funds Not Subject to Categorization				**1,024,264**
Total Investments	**$ 6,432,079**	**$ 172,641**	**$ —**	**$ 7,628,984**

* For special purpose authorities' pooled investments, see Table 4.

NOTE 4. DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS, ADVANCES AND LOANS RECEIVABLE, ADVANCES FROM OTHER FUNDS, DUE FROM PRIMARY GOVERNMENT, AND DUE TO COMPONENT UNITS

The balances of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 7. The total Advances and Loans Receivable of $11.1 billion is more than the total Advances from Other Funds of $1.0 billion because $10.1 billion of loans to other governmental entities and individuals are included in the loans receivable amounts.

Table 7

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due from Primary Government, and Due to Component Units

June 30, 1999 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
General Fund	$ 5,498,027	$ 2,073,164	$ 419,443	$ 483,893	$ —	$ 69,804
Special Revenue						
Federal	704,564	3,800,311	41,354	—	—	—
Transportation Construction	1,229,739	104,358	6,160	—	—	121
Transportation Safety	77,389	371,498	—	—	—	—
Business and Professions Regulatory and Licensing	56,723	46,061	1,434	—	—	—
Environmental and Natural Resources	104,166	81,796	1,429,732	49,132	—	—
Financing to Local Governments	116,506	129,004	—	—	—	—
Cigarette and Tobacco Tax	257,794	204,122	—	—	—	92,259
Local Revenue	193,908	32,552	—	—	—	—
Unemployment Programs	569,774	70,020	—	—	—	—
Financing to the Public	550	20,165	33,810	—	—	—
Trial Courts	91,596	60,770	9,015	502	—	—
Other Special Revenue	106,046	56,588	1,732	12,015	—	3,639
Total Special Revenue	**3,508,755**	**4,977,245**	**1,523,237**	**61,649**	**—**	**96,019**
Capital Projects						
Prison Construction	1,236	271	—	—	—	—
Higher Education Construction	1,482	42,859	—	—	—	—
Natural Resources Acquisition and Enhancement	30,612	177	—	—	—	—
Building Authorities	110,170	62,566	—	—	—	—
Other Capital Projects	2,593	533	—	—	—	—
Total Capital Projects	**146,093**	**106,406**	**—**	**—**	**—**	**—**
Enterprise						
Housing Loan	10,725	407	2,042,766	22,072	—	—
Water Resources	71,787	34,698	69,860	6	—	—
School Building Aid	—	—	160,047	—	—	—
Toll Facilities	1,163	17,255	16,802	6,160	—	—
California State University	20,995	17,612	2,803	2,803	—	—
Leasing of Public Assets	130,430	10,011	—	—	—	—
State Lottery	9,107	252,566	—	—	—	—
Health Facilities Construction Loan Insurance	3,887	218	67,077	—	—	—
Public Employees' Benefits	38	875	—	—	—	—
Other Enterprise	11,701	4,780	231,635	4,232	—	—
Total Enterprise	**259,833**	**338,422**	**2,590,990**	**35,273**	**—**	**—**
Internal Service						
Architecture Revolving	97,876	4,431	—	—	—	—
Service Revolving	74,271	134,405	—	—	—	—
Prison Industries	12,954	1,783	—	—	—	—
Stephen P. Teale Data Center	19,044	297	—	—	—	—
Health and Welfare Data Center	38,884	—	—	—	—	—
Water Resources Revolving	54,525	—	—	94,517	—	—
Public Employees' Health Care	2,879	6,971	—	—	—	—
Equipment Service	14,795	26,932	—	—	—	—
Other Internal Service	140	7,857	—	1,434	—	—
Total Internal Service	**315,368**	**182,676**	**—**	**95,951**	**—**	**—**

(Continued)

Table 7 (continued)

Schedule of Due from Other Funds, Due to Other Funds, Advances and Loans Receivable, Advances from Other Funds, Due From Primary Government, and Due to Component Units

June 30, 1999 (Amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances and Loans Receivable	Advances from Other Funds	Due from Primary Government	Due to Component Units
Expendable Trust						
Unemployment	35,576	92,725	—	—	—	—
School Employees	1,689	5,532	—	—	—	—
Unemployment Compensation Disability	30,811	14,961	—	—	—	—
California State University and Colleges Trust	15,365	31,127	—	—	—	—
Student Loan	—	649	—	—	—	—
Housing Loan	2,293	203	581,043	—	—	—
Unclaimed Property	—	4,922	483,893	—	—	—
Deferred Compensation Plan	36	577	—	—	—	—
Other Expendable Trust	20,587	3,345	—	—	—	900
Total Expendable Trust	**106,357**	**154,041**	**1,064,936**	**—**	**—**	**900**
Pension Trust						
Public Employees' Retirement	8,311	—	—	—	—	—
State Teachers' Retirement	6,822	5,193	—	—	—	—
Judges' Retirement	—	354	—	—	—	—
Judges' Retirement II	—	172	—	—	—	—
Legislators' Retirement	—	199	—	—	—	—
Volunteer Firefighters'	—	10	—	—	—	—
Total Pension Trust	**15,133**	**5,928**	**—**	**—**	**—**	**—**
Agency						
Revenue Collecting and Disbursing	5,144,032	6,735,026	295,956	295,956	—	—
Deposit	14,942	526,110	21,011	—	—	—
Departmental Trust	3,551	280	—	—	—	—
Other Agency	231,014	331,720	—	—	—	3,674
Total Agency	**5,393,539**	**7,593,136**	**316,967**	**295,956**	**—**	**3,674**
Investment Trust						
Local Agency Investment	188,508	595	—	—	—	—
Total Investment Trust	**188,508**	**595**	**—**	**—**	**—**	**—**
University of California						
Current Funds	104	122,672	—	—	166,664	—
Loan Funds	—	2,000	—	—	—	—
Endowment and Similar Funds	21,015	—	—	—	—	—
Plant Funds	1,316	19,335	—	—	—	—
Retirement System Funds	121,572	—	—	—	—	—
Total University of California	**144,007**	**144,007**	**—**	**—**	**166,664**	**—**
Special Purpose Authorities						
California Housing Finance Agency	—	—	5,153,597	—	—	—
Non-Major Component Units	—	—	—	—	3,733	—
Total Special Purpose Authorities	**—**	**—**	**5,153,597**	**—**	**3,733**	**—**
Total	**$ 15,575,620**	**$ 15,575,620**	**$ 11,069,170**	**$ 972,722**	**$ 170,397**	**$ 170,397**

(Concluded)

NOTE 5. RESTRICTED ASSETS

Table 8 presents a summary of the legal restrictions on assets as of June 30. The restricted assets of the primary government are in the enterprise funds, except for $1 million in the internal service funds.

Table 8

Schedule of Restricted Assets
June 30, 1999
(Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Primary Government				
Debt service	$ 716,981	$ 812,320	$ 516	$ 1,321
Construction	446,525	4,317	1,007	—
Deposits	4,425	—	—	—
Equipment repair and replacement	40,928	—	1,066	200
Operations	188	—	—	—
Other	9,879	—	—	—
Total Primary Government	**1,218,926**	**816,637**	**2,589**	**1,521**
Discretely Presented Component Units				
University of California				
Risk insurance	—	203,417	—	—
Debt service requirements	—	181,936	—	—
Plant acquisition, construction, and renovation	—	23,142	—	—
Plant renewal and replacement	—	442	—	—
Special Purpose Authorities				
Debt service	386,993	1,228,921	—	—
District fairs	23			
Total Discretely Presented Component Units	**387,016**	**1,637,858**	**—**	**—**
Total All Restricted Assets	**$ 1,605,942**	**$ 2,454,495**	**$ 2,589**	**$ 1,521**

NOTE 6. NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board, an agency that accounts for its activities as an enterprise fund, has entered into lease-purchase agreements with various other primary government agencies, the University of California, and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board.

The minimum lease payments to be received by the State Public Works Board for the primary government are summarized in Table 9.

Table 9

Schedule of Minimum Lease Payments to be Received by the State Public Works Board for the Primary Government
(Amounts in thousands)

Year Ending June 30	Primary Government Agencies	University of California	Local Agencies	Total
2000	$ 385,637	$ 109,826	$ 66,500	$ 561,963
2001	367,100	107,586	68,591	543,277
2002	358,894	105,987	66,887	531,768
2003	360,974	105,168	63,715	529,857
2004	357,092	105,264	65,869	528,225
Thereafter	4,003,782	1,373,282	627,088	6,004,152
Total Minimum Lease Payments	**5,833,479**	**1,907,113**	**958,650**	**8,699,242**
Less unearned income	2,517,330	847,119	396,497	3,760,946
Net Investment in Direct Financing Leases	**$ 3,316,149**	**$ 1,059,994**	**$ 562,153**	**$ 4,938,296**

NOTE 7. FIXED ASSETS

Table 10 is a summary of changes in the General Fixed Assets Account Group for the year ended June 30. Included in the General Fixed Asset Account Group are fixed assets related to capital leases totaling $3.9 billion.

Table 10

Schedule of Changes in General Fixed Assets
(Amounts in thousands)

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
Land	$ 1,999,004	$ 72,591	$ 25,615	$ 2,045,980
Structures and improvements	11,410,439	513,825	36,967	11,887,297
Equipment	1,814,596	285,774	143,901	1,956,469
Construction in progress	1,547,446	619,673	611,338	1,555,781
Total	**$ 16,771,485**	**$ 1,491,863**	**$ 817,821**	**$ 17,445,527**

Table 11 summarizes the proprietary fund fixed assets of enterprise funds and internal service funds, and the fixed assets of the discretely presented component units as of June 30.

Table 11

Schedule of Fixed Assets for Proprietary Funds and Discretely Presented Component Units
June 30, 1999
(Amounts in thousands)

Primary Government	Enterprise	Internal Service
State water projects	$ 4,482,759	$ —
Toll facilities	1,148,072	—
Other land, improvements, buildings and equipment	992,353	1,063,487
Construction in progress	198,529	3,442
Total Primary Government Fixed Assets	**6,821,713**	**1,066,929**
Less: accumulated depreciation	1,936,209	552,269
Net Primary Government Fixed Assets	**$ 4,885,504**	**$ 514,660**

Discretely Presented Component Units	University of California	Special Purpose Authorities
Real estate		
Buildings and improvements	$ 8,608,110	$ 515,514
Land	308,995	44,642
Furniture and equipment	3,066,805	162,516
Libraries and collections	2,329,849	—
Construction in progress	888,684	797
Total Discretely Presented Component Unit Fixed Assets	**15,202,443**	**723,469**
Less: accumulated depreciation	—	190,339
Net Discretely Presented Component Unit Fixed Assets	**$ 15,202,443**	**$ 533,130**

NOTE 8. LONG-TERM OBLIGATIONS

As of June 30, the primary government had long-term obligations totaling $23.9 billion. These obligations are not expected to be financed from current resources in the governmental funds. Long-term obligations consist of the liability for employees' compensated absences, certificates of participation and commercial paper, long-term capital lease obligations, unmatured general obligation bonds, unmatured revenue bonds, and other liabilities. The other liabilities consist of $765 million for workers' compensation claims, $684 million for net pension obligations, $425 million owed for lawsuits, and the University of California pension liability of $101 million. These other liabilities do not have any required payment schedules, or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 95% will be paid by the General Fund and 5% by special revenue funds. The changes in the General Long-Term Obligations Account Group during the year ended June 30, 1999, are summarized in Table 12.

Table 12

Schedule of Changes in General Long-Term Obligations
(Amounts in thousands)

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
Compensated absences payable	$ 1,003,960	$ 695,964	$ 642,021	$ 1,057,903
Certificates of participation and commercial paper	1,141,511	1,539,929	2,255,796	425,644
Capital lease obligations	3,546,867	83,295	189,959	3,440,203
General obligation bonds payable	14,894,090	2,295,926	1,022,986	16,167,030
Revenue bonds payable	759,440	62,220	11,360	810,300
Other liabilities	1,684,680	551,209	261,391	1,974,498
Totals	**$ 23,030,548**	**$ 5,228,543**	**$ 4,383,513**	**$ 23,875,578**

NOTE 9. COMPENSATED ABSENCES

As of June 30, the estimated liability for compensated absences related to accumulated vacation and annual leave totaled approximately $1.6 billion. Of this amount, $1.1 billion is reported in the General Long-Term Obligations Account Group, $65 million is reported in the proprietary fund types, $130 million is reported in the General Fund, and $350 million is reported in the discretely presented component units.

NOTE 10. CERTIFICATES OF PARTICIPATION

Debt service requirements for certificates of participation, which are financed by lease payments from the special revenue funds and the General Fund, are shown in Table 13.

Table 13

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

Year Ending June 30	Principal	Interest	Total
2000	$ 7,516	$ 6,729	$ 14,245
2001	7,644	6,252	13,896
2002	7,395	6,487	13,882
2003	7,645	6,224	13,869
2004	7,711	6,139	13,850
Thereafter	70,733	56,614	127,347
Total	**$ 108,644**	**$ 88,445**	**$ 197,089**

Debt service requirements for certificates of participation for the University of California, a discretely presented component unit, are shown in Table 14.

Table 14

Schedule of Debt Service Requirements for Certificates of Participation – University of California – Discretely Presented Component Unit
(Amounts in thousands)

Year Ending June 30	Principal	Interest	Total
2000	$ 8,285	$ 15,979	$ 24,264
2001	10,800	16,150	26,950
2002	10,045	15,692	25,737
2003	10,570	15,175	25,745
2004	11,205	14,482	25,687
Thereafter	262,245	150,215	412,460
Total	**$ 313,150**	**$ 227,693**	**$ 540,843**

Prior Year Defeasance: In prior years, the primary government has defeased certificates of participation by placing the proceeds of new certificates in an irrevocable trust account to provide for all future debt service payments on the old certificates. Accordingly, the assets of the trust accounts and the liability for the defeased certificates are not included in the State's financial statements. At June 30, 1999, approximately $69 million of prior year certificates of participation outstanding are considered defeased.

In prior years, the University of California, a discretely presented component unit, defeased certain certificates of participation. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liability for the defeased certificates of participation are not included in the State's financial statements. As of June 30, 1999, the outstanding balance of defeased certificates of participation for the University of California was approximately $174 million.

NOTE 11. COMMERCIAL PAPER AND OTHER BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program of up to $2.0 billion and an enterprise fund commercial paper program for the Department of Water Resources of up to $100 million. Under these programs, commercial paper may be issued at prevailing rates for periods not to exceed 270 days from the date of issuance.

To provide liquidity for the programs, a revolving credit agreement has been entered into with commercial banks equal to the authorized amount of commercial paper.

The current agreement, negotiated on December 31, 1998, established the existing $2 billion limit on the amount of outstanding notes under the general obligation commercial paper program effective March 1, 1999. As of June 30, 1999, the general obligation commercial paper program had $317 million in outstanding commercial paper notes and the enterprise fund commercial paper program had $14 million in outstanding notes.

The proceeds from the issuance of commercial paper are restricted primarily to construction costs of general obligation bond program projects and of certain water projects. Because the general obligation commercial paper is retired by long-term general obligation debt, it is recorded in the General Long-Term Obligations Account Group.

The University of California, a discretely presented component unit, has mortgages and other borrowings consisting of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are secured by real property. Included in mortgages and other borrowings, which total approximately $181 million, are various unsecured financing agreements with commercial banks that total approximately $51 million.

The University of California established a $550 million commercial paper program with tax-exempt and taxable components. The program is supported by either the legally available unrestricted cash balance in the University of California's Short Term Investment Pool, or by a revolving line of credit and term loan agreement with a syndicate of banking institutions. Commercial paper has been issued to provide for interim financing of construction and related equipment and medical center working capital requirements. Commercial paper is not secured by any encumbrance, mortgage, or other pledge of property and does not constitute a general obligation of the University of California Regents. At June 30, 1999, outstanding tax-exempt and taxable commercial paper was $430 million and $120 million, respectively.

NOTE 12. LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30 is approximately $7.0 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most primary government leases are classified as operating leases, in accordance with the applicable standards, and contain clauses providing for termination. It is expected that in the normal course of business most of these operating leases will be replaced by similar leases.

The total present value of minimum lease payments for the primary government is composed of approximately $3.4 billion in the General Long-Term Obligations Account Group and $74 million in internal service funds. Lease expenditures for the year ended June 30 amounted to approximately $622 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board, an enterprise fund agency, amounting to a present value of net minimum lease payments of $3.3 billion. This amount represents 94% of the total present value of minimum lease payments of the primary government. Also included in the capital lease commitments are some lease-purchase agreements to acquire equipment.

The capital lease commitments do not include $784 million of lease-purchase agreements with building authorities that are blended component units. These building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the leases, title will pass to the primary government. The costs of the buildings are reported in the General Fixed Assets Account Group and the revenue bonds and certificates of participation outstanding associated with the buildings are reported in the General Long-Term Obligations Account Group. Accordingly, the lease receivables or capital lease obligations associated with these buildings are not included in the financial statements pursuant to GASB Statement No. 14.

Future minimum lease commitments of the primary government are summarized in Table 15.

Table 15

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

Year Ending June 30	Operating Leases	Capital Leases: General Long–Term Obligations	Capital Leases: Internal Service Funds	Total
2000	$ 221,323	$ 403,316	$ 9,333	$ 633,972
2001	180,034	382,506	9,638	572,178
2002	132,006	372,916	9,638	514,560
2003	74,917	375,006	9,582	459,505
2004	43,508	371,136	8,970	423,614
Thereafter	127,513	4,214,763	57,881	4,400,157
Total Minimum Lease Payments	**$ 779,301**	**6,119,643**	**105,042**	**$ 7,003,986**
Less amount representing interest		2,679,440	30,668	
Present Value of Net Minimum Lease Payments		**$ 3,440,203**	**$ 74,374**	

The aggregate amount of discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 1999, is approximately $2.4 billion. Table 16 presents the future minimum lease commitments for the University of California and the special purpose authorities, as of June 30. Operating lease expenditures for the year ended June 30 amounted to approximately $129 million for discretely presented component units.

Table 16

Schedule of Future Minimum Lease Commitments – Discretely Presented Component Units
(Amounts in thousands)

Year Ending June 30	University of California: Capital	University of California: Operating	Special Purpose Authorities: Capital	Special Purpose Authorities: Operating	Total
2000	$ 131,529	$ 54,850	$ 45	$ 22,949	$ 209,373
2001	124,988	47,577	40	17,369	189,974
2002	113,306	39,816	36	9,638	162,796
2003	108,713	33,049	10	7,143	148,915
2004	100,571	54,864	—	2,889	158,324
Thereafter	1,455,163	106,723	—	6,538	1,568,424
Total Minimum Lease Payments	**2,034,270**	**$ 336,879**	**131**	**$ 66,526**	**$ 2,437,806**
Less amount representing interest	784,253		21		
Present Value of Net Minimum Lease Payments	**$ 1,250,017**		**$ 110**		

NOTE 13. COMMITMENTS

The primary government has made commitments of $2.9 billion for certain highway construction projects. These commitments are not included in the reserve for encumbrances in the special revenue funds because the future expenditures related to these commitments are expected to be reimbursed from local governments and proceeds of approved federal grants. The ultimate liability will not accrue to the State.

As of June 30, the primary government had other commitments totaling $2.0 billion that are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, and rail system construction totaling approximately $1.3 billion. The total commitments also include approximately $585 million for the construction of water projects and the purchase of power, and up to $131 million for the operation and maintenance of the lottery's automated gaming system. The commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued.

As of June 30, the University of California and special purpose authorities, discretely presented component units, had other commitments that are not included as a liability on the balance sheet. The University of California had authorized construction projects totaling $1.6 billion. Special purpose authorities had outstanding commitments to provide $230 million for loans under various housing revenue bond programs.

NOTE 14. GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds majority of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education. The General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service provided on their behalf.

General obligation bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such funds.

As of June 30, $13.2 billion of general obligation bonds had been authorized but not issued. This amount includes $4.7 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. Of this amount, $317 million in general obligation indebtedness has been issued in the form of commercial paper notes, but not yet retired by long-term bonds.

Table 17 summarizes the changes in general obligation bond debt for the year ended June 30.

Table 17

Schedule of Changes in General Obligation Bond Debt
(Amounts in thousands)

	General Long–Term Obligations	Enterprise Funds	Total
Balance, July 1, 1998	$ 14,894,090	$ 4,016,865	$ 18,910,955
Additions	2,295,926	—	2,295,926
Deductions	(1,022,986)	(300,750)	(1,323,736)
Balance, June 30, 1999	**$ 16,167,030**	**$ 3,716,115**	**$ 19,883,145**

Table 18 shows the debt service requirements for all general obligation bonds, including interest of $11.6 billion, as of June 30, 1999.

Table 18

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

Year Ending June 30	General Long–Term Obligations	Enterprise Funds
2000	$ 2,001,170	$ 355,528
2001	1,955,911	350,241
2002	1,903,240	366,633
2003	1,811,740	330,352
2004	1,670,272	342,478
Thereafter	15,780,428	4,627,241
Total	**$ 25,122,761**	**$ 6,372,473**

Current Year Defeasances: On October 21, 1998, the primary government issued approximately $271 million in various purpose general obligation refunding bonds (the “1998 Bonds”) for an advance refunding of approximately $269 million in outstanding general obligation bonds maturing in years 2006 to 2014 (the “1998 Refunded Bonds”). The primary government invested the net proceeds of approximately $295 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1998 Refunded Bonds. As a result, the 1998 Refunded Bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Obligations Account Group. This advance refunding was undertaken to reduce total debt service payments through March 1, 2014, by approximately $21 million and to obtain an economic gain (the difference between the present value of the debt service payments on the 1998 Bonds and the 1998 Refunded Bonds) of approximately $14 million.

On March 11, 1999, the primary government issued approximately $87 million in general obligation refunding bonds (the "1999 Bonds"), for an advance refunding of approximately $87 million of outstanding general obligation bonds maturing in years 2005 to 2014 (the "1999 Refunded Bonds"). The State Treasurer invested the net proceeds of approximately $93 million in U.S. government securities and placed the securities in an irrevocable trust to pay debt service on the 1999 Refunded Bonds. As a result, the 1999 Refunded Bonds are considered to be defeased and the related liabilities have been removed from the General Long-Term Obligations Accounts Group. The refunding will decrease the primary government's debt service payments through March 1, 2014 by approximately $4 million. The refunding also resulted in an economic gain (the difference between the present value of the debt service payments on the 1999 Bonds and the 1999 Refunded Bonds) of approximately $3 million.

During the year ended June 30, 1999, the primary government issued approximately $351 million in veterans general obligation bonds, the proceeds of which were used to immediately refund previously issued veterans general obligation bonds of approximately $351 million. In addition, approximately $134 million of veterans general obligation bonds were refunded by veterans Home Purchase Revenue bonds (See Note 15 Revenue Bonds).

Prior Year Defeasance: In prior years, the primary government has placed the proceeds of the refunded bonds in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on the defeased bonds. The assets of the trust accounts and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 1999, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.2 billion.

NOTE 15. REVENUE BONDS

Revenue bonds that are directly related to, and expected to be paid from, the resources of enterprise funds are included within the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of the authorities and agencies listed in the next section of this note. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance are issued for Water Resources, California State University, and Leasing of Public Assets. Revenue bonds are also issued to make loans to finance the acquisition of farms and homes by California veterans. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals.

Certain building authorities, under state law, may issue revenue bonds. These revenue bonds are included in the General Long-Term Obligations Account Group. These bonds are issued for the purpose of acquiring and constructing buildings for public education purposes and for the purpose of constructing state office buildings. Leases with state agencies pay the principal and interest on the revenue bonds issued by the building authorities. The primary government has no legal liability for the payment of principal and interest on these revenue bonds.

The University of California, a discretely presented component unit, issues revenue bonds to finance the construction, renovation, and acquisition of certain facilities and equipment.

Under state law, a special purpose authority, which is a discretely presented component unit, issues revenue bonds to make loans to finance housing developments and to finance the acquisition of homes by low to moderate income families. When the housing developments and home loans are fully paid, the housing developments and homes become the property of private individuals or entities.

Table 19 shows revenue bonds outstanding as of June 30.

Table 19

Schedule of Revenue Bonds Outstanding
June 30, 1999
(Amounts in thousands)

Primary Government	
Enterprise Funds	
Housing Loan	$ 404,215
Water Resources	2,454,672
California State University	543,983
Leasing of Public Assets	5,504,652
Total Enterprise Funds	**8,907,522**
General Long-Term Obligations	
Building Authorities	
California State University	30,680
Los Angeles	153,605
San Francisco	392,505
San Bernardino	62,220
Oakland	157,820
Riverside	13,470
Total General Long-Term Obligations	**810,300**
Total Primary Government	**9,717,822**
Discretely Presented Component Units	
University of California	2,504,395
Special Purpose Authorities	6,001,366
Total Discretely Presented Component Units	**8,505,761**
Total	**$ 18,223,583**

Table 20 shows the debt service requirements as of June 30, 1999. The debt service requirements primarily represent bond principal payments. Table 20 also includes certain unamortized refunding costs, premiums, discounts, and other costs not included in Table 19.

Table 20

Schedule of Revenue Bond Debt Service Requirements
(Amounts in thousands)

	Primary Government		Discretely
Year Ending June 30	**General Long–Term Obligations**	**Enterprise Funds**	**Presented Component Units**
2000	$ 25,495	$ 332,997	$ 212,163
2001	27,380	355,700	169,322
2002	28,650	335,076	192,012
2003	29,940	340,915	204,407
2004	31,350	339,835	211,632
Thereafter	667,485	7,534,762	7,532,978
Total	**$ 810,300**	**$ 9,239,285**	**$ 8,522,514**

Current Year Defeasances: For the year ended June 30, 1999, the primary government issued approximately $35 million in revenue bonds for Leasing of Public Assets to refund approximately $35 million of outstanding lease revenue bonds. The net proceeds of approximately $3 million, after payment of $51,709 for the original discount, underwriter discount, insurance, and other bond issuance costs, and receipts of approximately $8 million for original bond premium together with other available moneys of approximately $1 million were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced the primary government's aggregate debt service by approximately $1 million over the next three years and resulted in an economic gain of $146,501.

The primary government also issued approximately $185 million in revenue bonds for Leasing of Public Assets to advance refund approximately $180 million of outstanding lease revenue bonds. The net proceeds of approximately $188 million, after payment of approximately $2 million in underwriter discount, original bond discount, insurance, and other bond issuance costs, and receipt of approximately $6 million for original bond premium together with other available moneys of $9 million were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced the primary government's aggregate debt service payments by $18 million over the next 20 years and resulted in an economic gain of $6 million.

For the year ended June 30, 1999, the primary government issued approximately $240 million of Home Purchase Revenue Bonds, certain portions of which were used to refund approximately $106 million of outstanding Home Purchase Revenue Bonds and $134 million of outstanding veterans general obligation bonds. Net proceeds were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

In November 1998, the primary government issued $207 million in Central Valley Project (CVP) Water System Revenue Bonds - Series U, a portion of which was used to advance refund $99 million of outstanding bonds. In November 1998, the primary government issued $21 million in CVP Water System Revenue Bonds - Series V, a portion of which was used to advance refund $21 million of outstanding bonds. Although the fiscal year 1998-1999 advance refunding resulted in the recognition of an accounting loss of $5 million, the primary government effectively reduced its aggregate debt service payments by approximately $7 million over the next 30 years and obtained an economic gain of approximately $4 million. The net proceeds of the advance refundings (after payment of underwriting refunding fees, other issuance costs, and deposits to debt service reserve accounts) were used to purchase securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded bonds. As a result, the advance refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

For the year ended June 30, 1999, the California Housing Finance Agency (CHFA), a discretely presented component unit, issued $279 million of single family and multifamily housing bonds, portions of which were used to redeem $273 million in outstanding single family and multifamily housing bonds. The refunding will decrease the debt service cash flow for the housing bonds by approximately $169 million. The refunding also resulted in an economic gain of approximately $82 million. The CHFA considered these debt refundings to be an in-substance defeasance and accordingly, removed the redeemed bonds and related assets from the financial statements.

Prior Year Defeasances: In prior years, the primary government defeased certain bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 1999, the outstanding balance of revenue bonds defeased in prior years was approximately $2.5 billion.

In prior years, the University of California, a discretely presented component unit, defeased certain bonds. Investments that have maturities and interest rates sufficient to fund retirement of defeased liabilities are being held in irrevocable trusts for the debt service payments. Accordingly, the assets of the trust accounts and the liabilities for the defeased bonds are not included in the State's financial statements. As of June 30, 1999, the outstanding balance of University of California revenue bonds defeased in prior years was $866 million.

NOTE 16. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 1999, are presented in Table 21.

Table 21

Schedule of Major Tax Revenues
Year Ended June 30, 1999
(Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 30,862,872	$ —	$ —
Sales and use	18,929,048	3,949,268	—
Bank and corporation	5,421,742	—	—
Unemployment insurance	—	—	2,897,617
Disability insurance	—	—	1,276,691
Insurance	1,272,953	—	—
Inheritance, estate, and gift	1,034,980	—	—
Cigarette and tobacco	150,091	825,391	—
Other	302,810	313,577	38,546
Total	**$ 57,974,496**	**$ 5,088,236**	**$ 4,212,854**

NOTE 17. FUND EQUITY

A. Fund Deficits

The following funds had deficits at June 30, 1999, as shown in Table 22.

Table 22

Schedule of Fund Deficits
June 30, 1999
(Amounts in thousands)

	Special Revenue Funds	Capital Projects Funds	Internal Service Funds
Financing to Local Governments	$ 39,408	$ —	$ —
Local Revenue	2,439	—	—
Higher Education Construction	—	60,018	—
Los Angeles Building Authority	—	34,693	—
Water Resources Revolving	—	—	26,040
Architecture Revolving	—	—	4,650
Total	**$ 41,847**	**$ 94,711**	**$ 30,690**

B. Changes to Contributed Capital

The changes in the State's contributed capital accounts are shown in Table 23.

Table 23

Schedule of Changes in Contributed Capital
(Amounts in thousands)

	Enterprise Funds	Internal Service Funds	Discretely Presented Component Units	Total
Balance, July 1, 1998	$ 195,233	$ 344,184	$ 99	$ 539,516
Government contributions	52,424	1,007	10	53,441
Decreases	—	(8)	—	(8)
Balance, June 30, 1999	**$ 247,657**	**$ 345,183**	**$ 109**	**$ 592,949**

NOTE 18. RISK MANAGEMENT

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

The discounted liability for unpaid self-insured worker's compensation losses is estimated to be $990 million as of June 30, 1999. This estimate is based on an actuarial review of the State's employee worker's compensation program and includes indemnity payments to claimants, as well as all other costs of providing worker's compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, Industrial Disability Leave benefits, and incurred but not reported amounts. The estimated total liability of approximately $1.4 billion is discounted using a 5.0% interest rate. Of the total, $130 million is included in the General Fund, $79 million in the special revenue fund type, $16 million in the proprietary fund types, and $765 million in the General Long-Term Obligations Account Group. Changes in the claims liabilities during the year ended June 30 are shown in Table 24.

The University of California, a discretely presented component unit, is self-insured for medical malpractice, workers' compensation, employee health care, and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred but not reported. The estimated liabilities are based upon an independent actuarial determination of the anticipated future payments, discounted at rates ranging from 6.25% to 8.0%. The special purpose authorities, which are discretely presented component units, do not have any significant liabilities related to self insurance.

Table 24

Schedule of Changes in the Self Insurance Claims
Years Ended June 30
(Amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	1999	**1998**	**1999**	**1998**
Unpaid claims, beginning	$ 886,000	$ 869,000	$ 319,300	$ 324,800
Incurred claims	345,000	240,000	174,600	173,800
Claim payments	(241,000)	(223,000)	(163,900)	(179,300)
Unpaid claims, ending	**$ 990,000**	**$ 886,000**	**$ 330,000**	**$ 319,300**

NOTE 19. SEGMENT INFORMATION

Selected financial information by enterprise fund activity for major segments is shown in Table 25. The primary sources of enterprise fund revenues are as follows.

Housing Loans: Interest charged on contracts of sale of properties to California veterans and to California National Guard members; loan origination fees; and interest on investments.

Water Resources: Charges to local water districts, sale of excess power to public utilities, and interest earned on investments.

School Building Aid: Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities; and income from the rental of portable classrooms to school districts.

Toll Facilities: Toll fees and interest earned on investments.

California State University: Charges to students for housing and parking; student fees for campus unions, health centers, and self-supporting educational programs; and interest earned on investments.

Leasing of Public Assets: Rental charges from the lease of public assets and interest earned on investments.

State Lottery: Sale of lottery tickets.

Health Facilities Construction Loan Insurance: Construction project fees and income from loan insurance premiums and operations or proceeds of sales of property acquired by default of borrowers.

Public Employees' Benefits: Contributions for public employee long-term care plans and fees for managing a deferred compensation program.

Other Enterprise: Canteen revenues and fees charged by various other departments.

Table 25

Schedule of Enterprise Fund Activity by Separate Major Segments

As of and for the Year Ended June 30, 1999
(Amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Health Facilities Construction Loan Insurance	Public Employees' Benefits	Other Enterprise
Operating revenue	$ 223,332	$ 619,187	$ 25,962	$ 3,906	$ 279,467	$ 401,318	$ 2,498,298	$ 37,599	$ 135,770	$ 120,226
Depreciation	1,042	75,176	3,720	17,394	—	—	5,468	—	—	17
Amortization of deferred charges	—	118,871	—	430	—	5,993	1,709	—	—	—
Operating income (loss)	(9,865)	92,390	10,754	(17,010)	41,880	21,170	849,780	17,763	15,583	27,763
Operating transfers in	6,840	—	3,392	—	20,143	838	—	—	—	17,496
Operating transfers out	887	—	—	—	48,725	—	—	—	—	215
Net income (loss)	(5,237)	(80,830)	14,146	(640,014)	9,512	22,008	—	25,214	55,404	60,843
Grants received	—	—	—	—	277	—	—	—	—	—
Grants provided	—	—	—	625,946	—	—	—	—	—	—
Property, plant, and equipment										
Additions	—	126,937	—	9,339	46,885	126,588	2,447	—	—	64
Deductions	1,042	75,176	3,720	17,394	—	—	5,593	14	—	17
Net working capital	1,369,973	185,281	39,142	58,985	482,233	552,739	(41,189)	158,412	381,991	207,670
Total assets	3,502,362	4,932,222	264,072	695,014	1,367,308	5,772,327	3,390,136	238,726	388,454	546,521
Bonds and other long-term liabilities	3,156,830	3,656,067	2,500	6,160	557,537	5,504,652	2,617,075	181,666	312,635	46,764
Total Equity (Deficit)	288,705	1,019,221	261,568	663,911	720,242	160,441	—	51,832	69,356	393,509

NOTE 20. CONDENSED FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

Tables 26 and 27 present summary financial statements of the special purpose authorities, which are the SCIF, the CHFA, and Non-Major Component Units. The financial statements of the University of California, a discretely presented component unit, are presented separately in the combined statements of this report.

The SCIF is a component unit created to offer insurance protection to employers at the lowest possible cost. This information is as of and for the year ended December 31, 1998. The CHFA was created for the purpose of meeting the housing needs of persons and families of low and moderate income. The Non-Major Component Units provide certain services that are not part of the primary government and also provide certain private and public entities with a low-cost source of financing for activities that are deemed to be in the public interest.

Table 26

Condensed Balance Sheet – Special Purpose Authorities – Discretely Presented Component Units

June 30, 1999

(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Assets				
Due from primary government	$ —	$ —	$ 3,733	$ 3,733
Other current assets	1,508,976	534,855	195,985	2,239,816
Investments	6,353,957	1,212,674	62,353	7,628,984
Advances and loans receivable	—	5,153,597	—	5,153,597
Fixed assets	223,372	—	309,758	533,130
Total Assets	**$ 8,086,305**	**$ 6,901,126**	**$ 571,829**	**$ 15,559,260**
Liabilities				
Other current liabilities	$ 1,263,239	$ 334,484	$ 15,137	$ 1,612,860
Benefits payable	4,905,961	—	—	4,905,961
Revenue bonds payable	—	5,902,315	99,051	6,001,366
Contracts and notes payable	—	—	4,056	4,056
Total Liabilities	**6,169,200**	**6,236,799**	**118,244**	**12,524,243**
Fund Equity				
Contributed capital	—	—	109	109
Retained earnings				
Reserved for regulatory requirements	—	592,099	—	592,099
Unreserved	1,917,105	72,228	453,476	2,442,809
Total Fund Equity	**1,917,105**	**664,327**	**453,585**	**3,035,017**
Total Liabilities and Fund Equity	**$ 8,086,305**	**$ 6,901,126**	**$ 571,829**	**$ 15,559,260**

Table 27

Condensed Statement of Revenues, Expenses, and Changes in Retained Earnings – Special Purpose Authorities – Discretely Presented Component Units

Year Ended June 30, 1999
(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Operating Revenues				
Earned premiums (net)..........	$ 1,211,115	$ —	$ —	$ 1,211,115
Other revenue.......................	44,666	384,687	192,364	621,717
Total Operating Revenues...	**1,255,781**	**384,687**	**192,364**	**1,832,832**
Operating Expenses				
Depreciation..........................	8,737	429	3,142	12,308
Benefit payments..................	1,444,727	—	—	1,444,727
Interest expense....................	—	357,512	3,203	360,715
Amortization of deferred charges............................	165,668	1,839	—	167,507
Other operating expenses......	71,265	49,345	135,983	256,593
Total Operating Expenses...	**1,690,397**	**409,125**	**142,328**	**2,241,850**
Operating Income (Loss).....	**(434,616)**	**(24,438)**	**50,036**	**(409,018)**
Nonoperating Revenues (Expenses)				
Investment and interest income.................	581,379	83,718	5,052	670,149
Dividends paid......................	(122,759)	—	—	(122,759)
Other nonoperating revenues (expenses), net..	—	—	(34,436)	(34,436)
Net Nonoperating Revenues (Expenses).....	**458,620**	**83,718**	**(29,384)**	**512,954**
Net Income...........................	**24,004**	**59,280**	**20,652**	**103,936**
Retained Earnings, July 1, 1998.....................	**1,893,101**	**605,047**	**432,824**	**2,930,972**
Retained Earnings, June 30, 1999..................	**$ 1,917,105**	**$ 664,327**	**$ 453,476**	**$ 3,034,908**

NOTE 21. NO COMMITMENT DEBT

Certain debt of the special purpose authorities, which are discretely presented component units, is issued to finance activities such as construction of new facilities and remodeling of existing facilities, as well as acquisition of equipment. This debt is collateralized solely by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, the special purpose authorities had $13.8 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions which involve debt issued by four special purpose trusts that were created by another special purpose authority, called the California Infrastructure and Economic Development Bank. The special purpose trusts are legally separate entities that issued long-term debt for the primary purpose of financing certain costs of assets and obligations that are recoverable by utilities through electric rate charges, but which may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, the special purpose trusts had approximately $5.1 billion of debt outstanding. Similar to the debt of the special purpose authorities, the debt of the special purpose trusts is not a debt of the State.

NOTE 22. CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which normally occur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the primary government before June 30, 1999; legal proceedings that were in progress as of June 30, 1999, and were settled or decided against the primary government as of November 19, 1999; and legal proceedings having a high probability of resulting in a decision against the primary government as of November 19, 1999, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may require it to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the financial statements.

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

The primary government is involved in a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs. The action involves an appeal by the Director of Finance from a 1984 decision by the State Board of Control now succeeded by the Commission on State Mandates (COSM). The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students. The case was then brought to the trial court by the primary government and later remanded to the COSM for redetermination. The COSM has since expanded the claim to include supplemental claims filed by seven other educational institutions. At its November 30, 1998, final hearing on the mandate question, the Commission held that state special education requirements exceed the federal mandate in eight components of the special education program. Currently, the Commission is considering adoption of guidelines while the Department of Finance asserts that the claim should be dismissed since existing state funding for special education far exceeds any costs associated with these relatively minor state-mandated components. The parties have announced their agreement to enter into negotiations to explore possible settlement. Accordingly, the Commission has postponed further proceedings for six months to permit negotiations to move forward. The liability to the primary government, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance to be in excess of $1.5 billion if the State is not credited for its existing funding of the program.

The primary government is involved in a lawsuit related to contamination at the Stringfellow toxic waste site. In *United States, People of the State of California v. J. B. Stringfellow, Jr., et al.*, the primary government is seeking recovery for past costs of cleanup of the site, a declaration that the defendants are jointly and severally liable for future costs, and an injunction ordering completion of the cleanup. The defendants have filed a counterclaim against the primary government for alleged negligent acts resulting in significant findings of liability against the primary government as owner, operator, and generator of wastes taken to the site. The primary government has appealed the rulings. However, it may request that the court stay the appeal as provided by an Interim Accord. Under this accord, the defendants agreed to waive recovery from the primary government of their past response costs, and the primary government agreed to waive recovery from the defendants of its past costs. In addition, the primary government has agreed to assume responsibility for satisfying the amounts owing to the federal government and for performing all future response actions. This agreement is conditional on the primary government receiving reimbursement from its insurance carriers. Present estimates of the cleanup range from $455 million to $655 million.

The primary government is a defendant in two actions, *Cigarettes Cheaper!, et al. v. Board of Equalization, et. al.,* and *California Assn. of Retail Tobacconists, et al. v. Board of Equalization, et. al.,* that challenge the constitutionality of Proposition 10. The plaintiffs allege that Proposition 10, which increases the excise tax on tobacco products, violates 11 sections of the California Constitution and related provisions of law. The State has filed notice of related cases and contemplates consolidation of the lawsuits. An adverse outcome is possible with a potential refund of $330 million for past year collections, and future losses of $750 million each year thereafter.

The primary government is a defendant in two actions, *F. W. Woolworth Co. and Kinney Shoe Corporation v. Franchise Tax Board,* and *Hunt-Wesson, Inc. v. Franchise Tax Board,* that challenge the constitutionality of the interest offset provisions of Revenue and Taxation Code Section 24344(b). In the Woolworth case, the trial court's judgment favored the Franchise Tax Board. In the Hunt-Wesson case, the trial court's judgment favored the taxpayer. However, this judgement was reversed on appeal. In June 1999, both plaintiffs filed petitions for writ of certiorari in the United States Supreme Court. In August 1999, the Franchise Tax Board filed its opposition to the petitions. On September 28, 1999, the United States Supreme Court granted the petition for writ of certiorari in the Hunt-Wesson case. The granting of certiorari suggests that the court will likely find this tax statute to be unconstitutional. The primary government's potential liability for past collection and interest exposure is $500 million.

The primary government is a defendant in an action, *Ronald Arnett, et al. v. California Public Employees' Retirement System (PERS); California Board of Administration of PERS; et al.*, that challenges Section 21417 of the Government Code pertaining to industrial disability retirement benefits. The plaintiffs allege that Section 21417 makes retirement decisions based upon age, violating the Age Discrimination in Employment Act of 1967. PERS estimated potential damages of $316 million (lump sum) in this case and an unfavorable outcome is possible. On November 15, 1999, the primary government filed a writ of certiorari in the United States Supreme Court asking the Court to review the appellate court's ruling that the plaintiffs had stated a claim for age discrimination based upon disparate impact theory.

The primary government is a defendant in a joint action involving fifty-five counties, *Sonoma County, et al., v. Commission on State Mandates*, seeking recovery of property tax revenues reallocated to school districts. The counties contend that this reallocation of revenues constitutes State mandated costs and therefore is subject to reimbursement. On October 18, 1999, the court ruled in favor of the counties. The primary government has announced its intention to appeal. An unfavorable outcome is possible and would require that the State return approximately $10 billion to the various counties.

The University of California and the special purpose authorities, which are discretely presented component units, are contingently liable in connection with claims and contracts, including those currently in litigation, arising in the normal course of their activities. The outcome of such matters is either not expected to have a material effect on the financial statements or cannot be estimated at this time.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and contracts. The primary government is entitled to these resources only if it complies with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; the primary government may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government may incur a liability to the federal government.

NOTE 23. PENSION TRUSTS

Two retirement systems, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), are included in the primary government. One retirement system, the University of California Retirement System (UCRS), is included in the discretely presented component units. The pension liability for all pension trust funds was determined in accordance with GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers. The amounts of the pension liability for all pension trust funds are presented on Tables 29 and 30 as the net pension obligation (NPO) as of June 30, 1999. Information on the investments of the retirement systems is included in Note 3, Deposits and Investments.

CalPERS administers five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), the Legislators' Retirement Fund (LRF), and the Volunteer Firefighters' Length of Service Award Fund (VFF). CalPERS also administers one defined contribution plan, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF). CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be obtained by writing to the California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

CalPERS uses the accrual basis of accounting. Member contributions are recorded when due except for the VFF and the SPOFF which are funded only by employer contributions. Employer contributions are recorded when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due in accordance with the terms of each plan.

The CalSTRS administers two defined benefit retirement plans within the State Teacher's Retirement Fund (STRF). The two plans are the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CBB Program). CalSTRS also offers, through a third party administrator, a defined contribution plan that meets the requirements of Internal Revenue Code Section 403(b). CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information on these plans. This report may be obtained from the California State Teachers' Retirement System, Audits Division, 7667 Folsom Boulevard, 2nd Floor, Sacramento, California 95826.

CalSTRS uses the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and primary government contributions are recognized when due and the employer or the primary government has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the retirement program.

A. Public Employees' Retirement Fund

1. Fund Information

Plan Description: CalPERS administers the PERF, which is an agent multiple-employer defined benefit retirement plan. Employers participating in the PERF include the primary government and certain special purpose authorities, which are discretely presented component units, 61 school employers, and 1,311 public agencies as of June 30, 1999.

The excess of the actuarial value of assets over the actuarial accrued liability of PERF for the primary government and other participating agencies was $21.9 billion at June 30, 1998. This is a result of the difference between the actuarial value of assets of $128.8 billion and the actuarial accrued liability of $106.9 billion. Contributions are actuarially determined.

2. Employer's Information

Plan Description: The primary government and certain special purpose authorities contribute to the PERF. CalPERS acts as a common investment and administrative agent of the primary government and the other member agencies. The special purpose authorities' participation in PERF is not a material portion of the program. The primary government has six pension plans within the PERF: first-tier miscellaneous, second-tier miscellaneous, industrial, California Highway Patrol, peace officers and firefighters, and other safety members. The payroll for primary government employees covered by the PERF in the year ended June 30, 1999, was approximately $9.8 billion.

All employees who work on a half-time or more basis are eligible to participate in the PERF. The PERF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five or ten years, depending on the plan. All plans provide death, disability, and survivor benefits. The benefit provisions are established by statute.

Funding policy: Benefits are funded by contributions from members and the primary government and earnings from investments. Member and primary government contributions are a percentage of applicable member compensation. Member rates are defined by law and based on the primary government's benefit formula. The primary government contribution rates are determined by periodic actuarial valuations or by state statute.

Employees, with the exception of employees in the second-tier plan, are required to contribute to the fund. The contribution rates of active plan members are based on a percentage of salary over a monthly base compensation amount of $133 to $863. With the exception of employees in the second-tier plan, employees' required contributions vary from 5.0% to 8.0% of their salary over their base compensation amount.

The required employer contribution rates, without group term life insurance benefits, for the primary government are shown in Table 28. The employer contribution rate for employees in the industrial member category who are covered by group term life insurance is 4.58%. This is 0.02% greater than the rate for employees not covered by group term life insurance.

Table 28

Schedule of Required Employer Contribution Rates for the Primary Government by Member Category
Year Ended June 30, 1999

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members			
First tier	8.53 %	0.01 %	8.54 %
Second tier	6.43	0.01	6.44
Industrial	8.90	(4.34)	4.56
California Highway Patrol	13.54	0.00	13.54
Peace officers and firefighters	14.51	(4.92)	9.59
Other safety members	12.10	(2.66)	9.44

For the year ended June 30, 1999, the annual pension cost (APC) and the amount of contributions made by the primary government were each approximately $829 million. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the PERF are performed annually. Information from the last valuation, which was performed as of June 30, 1998, is also shown in Table 29.

B. Judges' Retirement Fund

Plan Description: CalPERS administers the JRF, which is an agent multiple-employer defined benefit retirement plan. The JRF membership includes justices of the Supreme Court and courts of appeal, as well as judges of superior courts, municipal courts, and justice courts appointed or elected prior to November 9, 1994. There are 59 employers participating in the JRF for the year ended June 30, 1999. The payroll for employees covered by the JRF for the year ended June 30, 1999, was approximately $139 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF provides death, disability, and survivor benefits. Benefits for the JRF are established by the Judges' Retirement Law.

Funding Policy: The required contribution rates of active plan members are based on a percentage of salary over a base compensation amount. For the year ended June 30, 1999, the required contribution rate for the JRF was 8.0%.

The contributions of the primary government to the JRF are not actuarially determined. Contributions are pursuant to state statute.

Employer contributions are required to be 8.0% of applicable member compensation. The other funding to meet benefit payment requirements of the JRF is currently provided from the following sources: filing fees, which require varying amounts depending on fee rate and number of filings; investments, which earn the current yield on short term investments; and the primary government's balancing contributions, as required by the Judges' Retirement Law. The balancing contributions are equal to an amount at least equal to the estimated benefits payable during the ensuing fiscal year, less the sum of the estimated member contributions during the ensuing fiscal year and net assets available for benefits at the beginning of the fiscal year ("pay as you go" basis).

The APC and the amount of contributions made to the JRF for the year ended June 30, 1999, were $134 million and $85 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 1999, was $673 million, an increase of $50 million over last year's balance of $623 million. The APC is comprised of $140 million for the annual required contribution (ARC), $37 million interest on the NPO, and $43 million for the adjustment to the ARC. An actuarial valuation of the JRF's assets and liabilities is made annually. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1998, is also shown in Table 29. The aggregate cost method that was used for the June 30, 1998, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 29.

C. Judges' Retirement Fund II

Plan Description: CalPERS administers the JRF II, which is an agent multiple-employer defined benefit retirement plan. The membership of the JRF II includes justices of the same courts as covered by the JRF who were appointed or elected on or subsequent to November 9, 1994. There are 59 employers participating in the JRF II. The payroll for employees covered by the JRF II for the year ended June 30, 1999, was approximately $34 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on members' years of service, age, final compensation, and benefit formula. Vesting occurs after five years. The JRF II provides death, disability, and survivor benefits. Benefits for the JRF II are established by the Judges' Retirement System II Law.

Funding policy: The required contribution rate of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 1999, the required contribution rate for the JRF II was 8.0%. For the year ended June 30, 1999, the primary government's contribution rate for the JRF II was 21.54% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund.

For the year ended June 30, 1999, the APC and the amount of contributions made for the JRF II were approximately $7.3 million and $7.4 million, respectively. The APC and the percentage of APC contributed for the year ended June 30, 1999 are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1998, is also shown in Table 29.

D. Legislators' Retirement Fund

Plan Description: CalPERS administers the LRF, which is a single-employer defined benefit retirement plan. The eligible membership of the LRF includes state legislators serving in the legislature prior to November 1, 1990, constitutional officers, and legislative statutory officers. The payroll for employees covered by the LRF in 1999 was approximately $3 million.

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

The LRF is currently in transition. The number of legislators eligible to participate in the LRF is declining as incumbent legislators leave office and are replaced by new legislators who are not eligible to participate in the program. Eventually, the only active members in the LRF will be approximately 16 constitutional officers (including the Insurance Commissioner and members of the Board of Equalization) and approximately four legislative statutory officers.

Funding Policy: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. For the year ended June 30, 1999, the actual contributions made by employees were approximately 9.9% of covered payroll. For the year ended June 30, 1999, the primary government's statutory funding rate was 18.81% of covered payroll.

The APC and the amount of contributions made by the primary government to the LRF for the year ended June 30, 1999, were zero and $0.7 million, respectively. The NPO of the LRF at June 30, 1999, was $10.7 million, a decrease of $0.7 million over last year's balance of $11.4 million. There was no APC because the ARC equaled zero, and the interest on the NPO of $0.9 million approximated the $0.9 million adjustment to the ARC. The APC, the percentage of APC contributed, and the NPO for the last three years are shown in Table 29. An actuarial valuation of the LRF's assets and liabilities is made annually. Information on the last valuation, which was performed as of June 30, 1998, is also shown in

Table 29. The aggregate cost method that was used for the June 30, 1998, valuation does not identify or separately amortize the unfunded actuarial accrued liability; therefore, this liability is not shown in Table 29.

E. Volunteer Firefighters' Length of Service Award Fund

Plan Description: CalPERS administers the VFF, which is an agent multiple-employer defined benefit retirement plan. The VFF membership includes volunteer firefighters. There are 47 fire departments participating in the VFF for the year ended June 30, 1999.

The excess of the actuarial value of assets over the actuarial accrued liability of VFF was $0.2 million at June 30, 1998. This is a result of the difference between actuarial value of assets of $1.7 million and the actuarial accrued liability of $1.5 million. Contributions are actuarially determined.

F. State Peace Officers' and Firefighters' Defined Contribution Plan Fund

Plan Description: CalPERS administers the SPOFF, which is a defined contribution pension plan. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the United States Code, and is intended to supplement the retirement benefits provided by the PERF to correctional officers employed by the State of California in Bargaining Unit 6.

Funding Policy: Contributions to the plan are funded entirely by the primary government with a contribution rate of 2% of the employee's base pay. Contribution requirements are established and may be amended through a memorandum of understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account. For the year ended June 30, 1999, contributions by the primary government to the SPOFF were approximately $16 million.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to participants will depend only on the amount contributed to participant's account and earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 1999, there were approximately 25,900 participants.

G. State Teachers' Retirement Fund

Plan Description: CalSTRS administers the State Teachers' Retirement Fund (STRF) that includes the Defined Benefit Program (DB Program) and the Cash Balance Benefit Program (CBB Program). These programs are cost-sharing multiple-employer defined benefit retirement plans that provide pension benefits to teachers and certain other employees of the California public school system. Effective January 1, 1999, Senate Bill 2085 authorized the merger of the DB Program and the CBB Program into the STRF.

Membership in the DB Program is mandatory for all employees meeting the eligibility requirements. The DB Program provides benefits based on a member's age, final compensation, and years of service. Vesting occurs after five years. In addition, the retirement program provides benefits to members upon disability and to survivors upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. At June 30, 1999, the DB Program had approximately 1,160 contributing employers. At June 30, 1998, there were approximately 447,000 plan members and 158,000 benefit recipients. The primary government is a non-employer contributor to the DB Program. The payroll for employees covered by the DB Program in 1999 was approximately $15.8 billion.

The CBB Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full time equivalent for the position. Participation in the CBB Program is optional to employers. However, if the employer elects to offer the CBB Program, each eligible employee will automatically be covered by the CBB Program unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire. At June 30, 1999, the CBB Program had 19 contributing school districts and approximately 6,400 contributing participants. Assets of the CBB Program of $5 million are combined with the assets of the DB Program in the STRF.

Funding policy: DB Program benefits are funded by contributions from members, employers, the primary government, and earnings from investments. Member and employer contributions are a percentage of applicable member earnings. The Teachers' Retirement Law governs member rates, employer contribution rates, and primary government contributions.

DB Program contribution rates of members are 8.0% of applicable member earnings. The employer contribution rate is 8.25% of applicable member earnings. The primary government's contribution to the system, under California Education Code Section 22955, "Elder Full Funding Act," is 4.3% of the previous calendar year's member payroll. Subsequent to achieving a fully funded system, the primary government will contribute only the amount necessary to help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs. Beginning July 1, 1999, the primary government shall transfer annually to the DB Program an amount equal to 3.102% of total creditable earnings of the immediately preceding calendar year to fund certain benefit enhancements that became effective January 1, 1999. A statutory contribution rate of 0.307% of payroll under Education Code Section 22952 was eliminated as a separate contribution on October 1, 1998, and incorporated into the rate specified under Section 22955. Beginning October 1, 1998, a statutory contribution rate of 0.524%, adjustable annually in 0.25% increments up to a maximum of 1.505%, of the creditable earnings of the immediately preceding calendar year under Section 22955 was established. This rate is reduced to zero if there is no unfunded obligation or normal cost deficit. As of the June 30, 1998, actuarial valuation, there was no unfunded obligation or normal cost deficit for benefits in place as of July 1, 1990.

For the year ended June 30, 1999, the APC for the DB Program was approximately $1.5 billion, and the employer and primary government contributions were approximately $1.5 billion and $0.2 billion, respectively. The APC and the percentage of APC contributed for the last three years are shown in Table 29. Actuarial valuations of the DB Program are performed biennially. Information from the last valuation is also shown in Table 29.

H. CalSTRS 403(b) Program

Plan Description: CalSTRS administers a 403(b) program through a third party administrator. The 403(b) program is a defined contribution plan and is open to any employee who is eligible to participate. Contributions to the program are voluntary; however, the Internal Revenue Code does impose a maximum amount that can be contributed annually. At June 30, 1999, the 403(b) program had approximately 280 participating employers (school districts) and 1,700 plan members.

Table 29

Actuarial Information – Pension Trusts – Primary Government
June 30, 1999

	Public Employees' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Teachers' Retirement Defined Benefit Program
Last actuarial valuation	June 30, 1998	June 30, 1998	June 30, 1998	June 30, 1998	June 30, 1998
Actuarial cost method	Individual Entry Age Normal	Aggregate Cost	Aggregate Entry Age Normal	Aggregate Cost	Entry Age Normal
Amortization method	Level % of Payroll, Closed	None	Level % of Payroll, Closed	None	Level % of Payroll, Open
Remaining amortization period	31 years	None	3 years	None	None
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value	Smoothed Market Value	Expected Value, 25% Adjustment to Market Value
Actuarial assumption					
Investment rate of return	8.25 %	6.00 %	7.75 %	7.50 %	8.00 %
Projected salary increase	3.5-17.99	3.75	3.75	3.75	5.50
Includes inflation at	3.50	3.50	3.50	3.50	4.50
Post retirement benefit increases	2 or 3	3.75	3.00	3.50	2.00
Annual pension costs (In millions)					
Year ended 6/30/97	$ 1,283	$ 133	$ 3.0	$ 1.9	$ 1,835
Year ended 6/30/98	1,178	133	5.4	2.0	1,911
Year ended 6/30/99	829	134	7.3	0.0	1,473
Percent contribution					
Year ended 6/30/97	124 %	38 %	102 %	130 %	100 %
Year ended 6/30/98	100	42	102	34	105
Year ended 6/30/99	100	63	101	—	115
Net pension obligation (In millions)					
Year ended 6/30/97	$ —	$ 546.1	$ —	$ 10.1	$ —
Year ended 6/30/98	—	623.0	—	11.4	—
Year ended 6/30/99	—	673.0	—	10.7	—
Funding as of last valuation (In millions)					
Actuarial value – assets	$ 52,838	N/A	$ 15.1	N/A	$ 77,290
Actuarial accrued liabilities (AAL) – Entry Age	46,021	N/A	15.0	N/A	74,234
Excess of actuarial value of assets over AAL (EAV)	6,817	N/A	0.1	N/A	3,056
Covered payroll	9,307	N/A	33.9	N/A	15,741
Funded ratio	115 %	N/A	101 %	N/A	104 %
EAV as percent of covered payroll	73 %	N/A	0.2 %	N/A	19 %

I. University of California Retirement System - Discretely Presented Component Unit

The UCRS consists of: the University of California Retirement Plan, a single-employer defined benefit plan funded with University and employee contributions; the Public Employees' Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who elected early retirement under the plan; and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions. Most University career employees participate in UCRS.

The University of California Retirement Plan provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50% time for a year or more. Generally, five years of service are required to be entitled to plan benefits. The maximum monthly benefit is 100% of the employee's highest average compensation over a 36-month period. The amount of the pension benefit is determined by salary rate, age, and years of service credit with certain cost-of-living adjustments.

Members' contributions are accounted for separately and accrue interest at 6% annually. Upon termination, members can elect a refund of their contributions plus accumulated interest. Vested terminated members who are eligible to retire can also elect a lump sum payment equal to the present value of their accrued benefits. Both actions thereby forfeit the member's rights to further accrued benefits.

The annually determined rates for employer contributions as a percentage of payroll are based on recommendations of the consulting actuary and appropriations received from the primary government.

Employee contributions may be required to be made to the University of California Retirement Plan. The rate of employee contributions is established annually as a percentage of covered wages, pursuant to the Regents' funding policy, recommended and certified by an enrolled, independent actuary and approved by the Regents, the plan's trustee. During the year ended June 30, 1999, employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

There were no changes in actuarial assumptions or benefit provisions that significantly affected the actuarial accrued liability or contribution requirements during the year ended June 30, 1999.

The PERS-VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to members of the University of California CalPERS program (UC-PERS) who elected early retirement under provisions of the plan. The University contributed to the CalPERS on behalf of these UC-PERS members.

The cost of contributions made to the plan is borne entirely by the University and the federal Department of Energy laboratories. Over the five-year period ended June 30, 1996, the University and the federal Department of Energy laboratories were required to make contributions to the plan as determined by the plan's consulting actuary, sufficient to maintain the promised benefits and the qualified status of the plan.

The University of California maintains two defined contribution plans providing savings incentives and additional retirement security for all eligible University employees. The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. In addition, the University has established a Tax Deferred 403(b) Plan (the 403(b) Plan). There are no employer contributions to either of these two plans. Participants in the DC Plan and 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Treasurer of the Regents of the University. They may also invest contributions in, and transfer plan accumulations to, certain external mutual funds on a custodial plan basis.

The DC Plan pretax contributions are fully vested and are mandatory for all employees who are members of the University of California Retirement Plan. Monthly employee contributions range from approximately 2% to 4% of covered wages depending upon whether wages are above or below the Social Security wage base. The 403(b) Plan and the DC Plan after-tax options are generally available to all University employees. During the year ended June 30, participants contributed $420 million to these two plans.

Table 30

Actuarial Information – University of California – Discretely Presented Component Unit

June 30, 1999

	University of California Retirement Plan	Voluntary Early Retirement Incentive Plan
Last actuarial valuation	June 30, 1999	June 30, 1999
Actuarial cost method	Entry Age Normal	Unit Credit
Amortization method	Level % of Payroll, Open	N/A
Remaining amortization period	17.5 years	N/A
Asset valuation method	Smoothed Fair Value	Fair Value
Actuarial assumption		
Investment rate of return	7.50 %	7.50 %
Projected salary increase	4.5 to 6.5	N/A
Includes inflation at	4.00	4.00
Annual pension costs (In millions)		
Year ended 6/30/97	$ —	$ —
Year ended 6/30/98	—	—
Year ended 6/30/99	—	—
Percent contribution		
Year ended 6/30/97	N/A	N/A
Year ended 6/30/98	N/A	N/A
Year ended 6/30/99	N/A	N/A
Net pension obligation (In millions)		
Year ended 6/30/97	$ —	$ —
Year ended 6/30/98	—	—
Year ended 6/30/99	—	—
Funding as of last valuation (In millions)		
Actuarial value – assets	$ 32,087	$ 82.8
Actuarial accrued liabilities (AAL)	22,157	43.3
Excess of actuarial value of assets over AAL (EAV)	9,930	39.5
Covered payroll	5,347	N/A
Funded ratio	145 %	191 %
EAV as percent of covered payroll	186 %	N/A

NOTE 24. POST-RETIREMENT HEALTH CARE BENEFITS

Health care and dental benefits are provided by the primary government and certain special purpose authorities, which are discretely presented component units, to annuitants of retirement systems to which the primary government contributes as an employer. The special purpose authorities' participation in these benefits is not a material portion of the program. To be eligible for these benefits, first-tier plan annuitants must retire on or after attaining age 50 with at least five years of service, and second-tier plan annuitants must retire on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from employment to be eligible to receive these benefits. As of June 30, approximately 100,600 annuitants were enrolled to receive health benefits and approximately 80,100 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the primary government generally pays 100% of the health insurance cost for annuitants plus 90% of the additional premium required for the enrollment of family members of annuitants. Although the primary government generally pays 100% of the dental insurance premium for annuitants, the Government Code does not specify the primary government's contribution toward dental insurance costs. The primary government recognizes the cost of providing health and dental insurance to annuitants on a pay-as-you-go basis. The cost of these benefits for the year ended June 30 was approximately $310 million.

Also, the University of California, a discretely presented component unit, provides certain health plan benefits to retired employees in addition to pension benefits. Employees who meet specific requirements may continue their medical and dental benefits into retirement and continue to receive University of California contributions for those benefits. There are approximately 34,000 retirees currently eligible to receive such benefits. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors for the year ended June 30 was approximately $95 million.

NOTE 25. SUBSEQUENT EVENTS

The following information represents significant events that occurred subsequent to June 30, 1999, but prior to the date of the auditors' report.

From July 1, 1999, through November 19, 1999, the primary government issued $1 billion in revenue anticipation notes that will mature on June 30, 2000, $900 million in general obligation bonds that were used to retire previously issued commercial paper, and approximately $238 million in lease revenue bonds.

On August 10, 1999, Standard and Poor's raised its rating on California's General Obligation Bond debt from "A+" to "AA-".

From July 1, 1999, to November 19, 1999, the Regents of the University of California issued approximately $197 million in revenue bonds and the special purpose authorities, which are discretely presented component units, issued approximately $508 million in revenue bonds.

In September 1999, legislation was enacted that provided for enhanced benefits for State and school members of the PERF. Benefit enhancements include increased retirement benefits for active State and school members, various one-time cost-of-living adjustments to State and school retirees, and the opportunity for State Second Tier PERF members to elect participation in the First Tier. The future costs for these benefit enhancements is estimated to be $3.2 billion for State members and $1.7 billion for school members. As the legislation is not effective until January 1, 2000, the benefit enhancements have not been reflected in the June 30, 1999, required supplementary Schedule of Funding Progress.

On November 19, 1999, the Regents of the University of California, a discretely presented component unit, approved the winding up of the UCSF Stanford Health Care merger and the termination of the various merger agreements. They also authorized the President of the University of California either to dissolve UCSF Stanford Health Care or to use a public benefit corporate structure for the purposes of continuing those activities and services that had been provided by the merged entity.