

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

F-500

STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1985

APRIL 1986



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

April 2, 1986

F-500

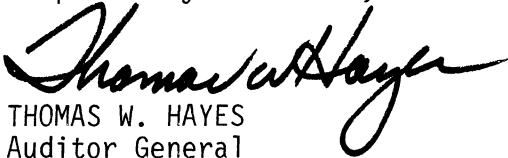
Honorable Art Agnos, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents the financial report of the State of California for the year ended June 30, 1985. This financial report includes an introductory section with an overview prepared by the State Controller; a financial section with the State's General Purpose Financial Statements presented on a basis in conformity with generally accepted accounting principles (GAAP); and a statistical section with important labor, income, and population statistics.

The financial statements show that the General Fund has an excess of revenue over expenditures of \$680 million for the fiscal year ending June 30, 1985. The GAAP statement include all liabilities owed by the State while the legal basis statements used for budgeting do not reflect all liabilities.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

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**INTRODUCTORY SECTION**



KENNETH CORY

Controller of the State of California

SACRAMENTO, CALIFORNIA 95805

March 21, 1986

People of the State of California  
Honorable George Deukmejian,  
Governor  
Honorable David Roberti,  
Senate President pro Tempore  
Honorable Willie L. Brown, Jr.,  
Speaker of the Assembly

Attached are the General Purpose Financial Statements of the State of California prepared in accordance with generally accepted accounting principles (GAAP). This report meets the disclosure standards of the accounting profession and is primarily intended to meet the needs of users outside of state government. My Annual Report, prepared on a legal/budgetary basis which is in compliance with existing state laws and state accounting principles, should continue to be used as a focal point for past executions of the State's budget as well as for future budget planning.

On a legal/budgetary basis, the General Fund, the main operating fund of the State, ended the 1984-85 fiscal year with an undesignated reserve (surplus) of \$1,337,091,578. Pursuant to Section 12.30(e) of the 1984 Budget Act, the Contingency Reserve for Economic Uncertainties was increased to this amount.

The June 30, 1985 reserve is \$1,009,442,146 larger than the reserve of the previous year. If the reserve is allowed to increase in the future, the State of California will be prepared to withstand a sudden decline in the economy. However, estimates prepared by the Department of Finance indicate the portion of the fund balance set aside for economic uncertainties as decreasing from the June 30, 1985 amount. A more prudent policy would allow the reserve to increase during the periods of economic expansion so that funds would be available when they are needed.

A reconciliation between the legal/budgetary fund balance to the GAAP basis fund balance of the General Fund is presented in Note 3 of this report.

My staff and I wish to express our appreciation to all state agencies for their assistance and to the Auditor General's staff for their audit of the financial statements contained in this report.

Cordially,

A handwritten signature in cursive script, appearing to read "Kenneth Cory".

KENNETH CORY  
State Controller

## STATE CONTROLLER'S OVERVIEW

This report presents the General Purpose Financial Statements of the State of California in conformance with generally accepted accounting principles (GAAP). In addition, the State Controller's office is also required by law to publish the State of California Annual Report (the "legal basis financial report"). The legal basis financial report is prepared in accordance with legal and regulatory requirements and is used for reporting on the execution of the State's budget as well as for future budget planning. The accounting records of state agencies are maintained on the legal basis for the primary purpose of maintaining accountability of the State's budget and fiscal legislation; they are the records used as the basis for audit. After the legal basis report is prepared, adjustments are made to prepare the GAAP basis report.

A reconciliation of the two accounting bases for the General Fund, along with an explanation of the primary differences, is provided on pages 38 through 41 of this report. A reconciliation showing the differences between the two accounting bases for the Special Revenue fund balances is provided on page 42 of this report.

The Auditor General is required by statute to issue an auditor's report annually, on the State's General Purpose Financial Statements (GAAP basis report). The auditor's report did not disclose any material errors in either the legal basis or the GAAP basis financial statements. The report of the Auditor General is included in the financial section of this report.

### Current General Obligation Bond Rating and Debt Position

The State's current general obligation bond ratings are as follows:

- Moody's                      Aa
- Standard & Poor's        AA+

The general obligation debt position of the State at June 30, 1985, is provided in Note 10, pages 47 through 49 of the financial section. In accordance with the Constitution, this debt was approved by two-thirds of both houses of the Legislature and by a majority of the electorate voting in a general election or a direct primary.

### General Fund Condition

The State ended the 1984-85 fiscal year with a General Fund Undesignated Reserve (surplus) of \$1.3 billion according to the legal basis of accounting. Pursuant to Section 12.30(e) of the 1984 Budget

Act, the Contingency Reserve for Economic Uncertainties was increased up to this amount. The Contingency Reserve is to be expended only upon reappropriation by the Legislature. There was a Fund Balance - Designated for Economic Uncertainties of \$611.2 million according to the GAAP basis of accounting. The General Fund legal basis and GAAP basis fund balances are reconciled on page 40 of this report.

Article XIII B of the State Constitution

The State is subject to an annual "appropriations limit" imposed by Article XIII B of the State Constitution. This article establishes a limit on the growth of certain appropriations, made from tax revenues, adjusted for changes in the Consumer Price Index and population. No limit is imposed on appropriations or funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other nontax funds. For fiscal year 1984-85 the State is in compliance with the appropriations limit established in Control Section 12.0 of the Budget Act as required by Article XIII B. Based on the 1986-87 Governor's Budget, "appropriations subject to limitation" are:

**STATE APPROPRIATIONS LIMIT**  
**(IN MILLIONS)**

	<u>1978-79</u> Base	<u>1984-85</u> Limit	<u>1985-86</u> Limit
State appropriations limit	\$12,564	\$21,740	\$23,030
Appropriations subject to limitation		(20,822)	(22,154)
Amount under limit		<u>\$ 918</u>	<u>\$ 876</u>

Cash Management

The State borrowed during the 1984-85 fiscal year to meet the cash needs of July, August, and October. To meet these needs, \$1.4 billion in revenue anticipation notes were issued. All notes matured prior to the end of June 1985 and were paid from available monies in the General Fund of the State.

For fiscal year 1985-86, \$2.3 billion in revenue anticipation notes were issued in August to meet the cash flow needs of the General Fund. All notes will mature prior to the end of June 1986 and will be payable from available monies in the General Fund of the State, including, if necessary, amounts that may be borrowed from the special funds of the State.



## Economic Outlook

California's economy has slowed significantly from the exceptionally rapid expansion during 1984. However, state economists still foresee moderate growth for the State through 1986. The slowdown in the national economy is having only a slight effect on the State of California because California's economy is expected to outperform the nation.

**OFFICIALS OF THE  
STATE OF CALIFORNIA**

**EXECUTIVE**

George Deukmejian  
Governor

Leo T. McCarthy  
Lieutenant Governor

Kenneth Cory  
State Controller

John Van de Kamp  
Attorney General

Jesse M. Unruh  
State Treasurer

March Fong Eu  
Secretary of State

Bill Honig  
Superintendent of Public Instruction

**LEGISLATIVE**

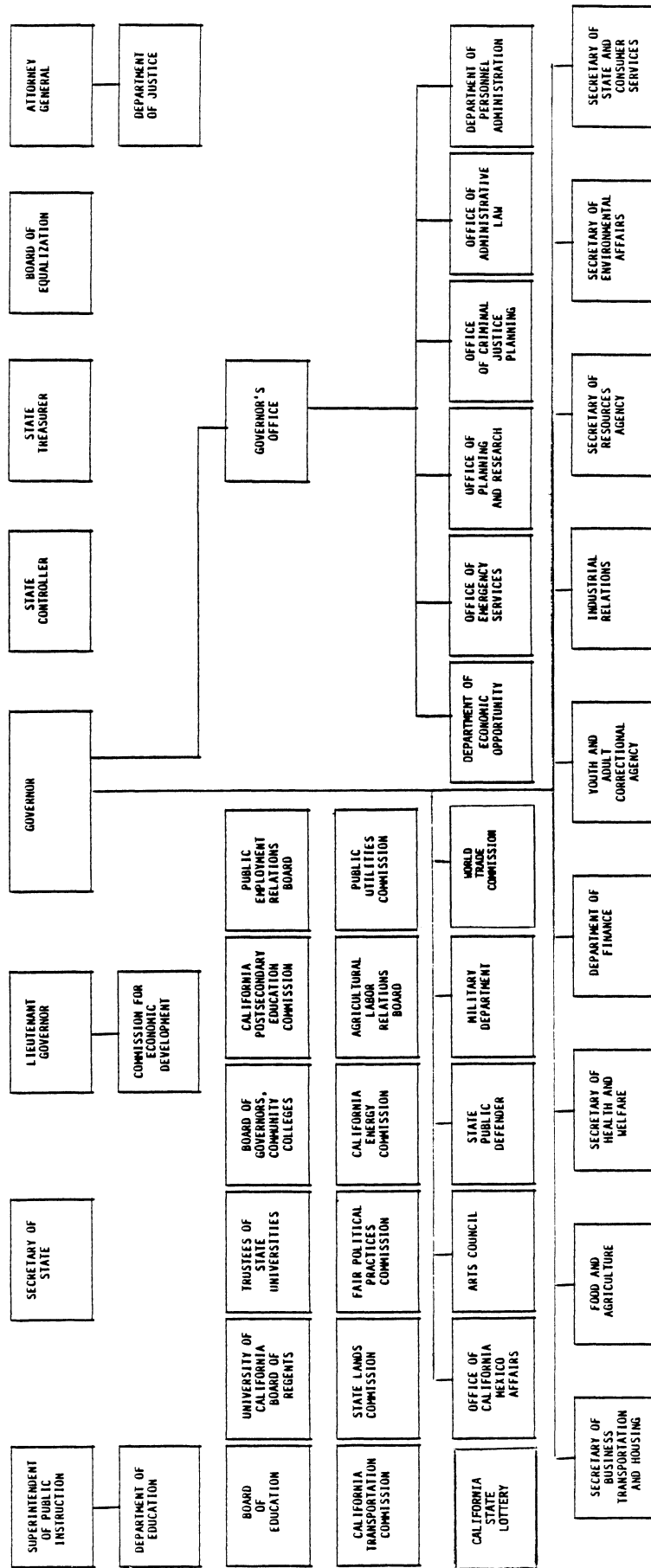
David Roberti  
President pro Tempore, Senate

Willie L. Brown, Jr.  
Speaker of the Assembly

**JUDICIAL**

Rose Bird  
Chief Justice, State Supreme Court

**THE EXECUTIVE BRANCH  
OF THE  
STATE OF CALIFORNIA**



FINANCIAL SECTION



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**

Thomas W. Hayes  
Auditor General

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Members of the Joint Legislative Audit Committee  
State of California

We have examined the General Purpose Financial Statements of the State of California as of and for the year ended June 30, 1985, as listed in the table of contents. Except as explained in the following two paragraphs, our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the Pension Trust Funds which reflect total assets constituting 67 percent of the Fiduciary Funds. We also did not examine the financial statements of certain Enterprise Funds, which reflect total assets and revenues constituting 60 percent and 68 percent, respectively, of the Enterprise Funds. In addition, we did not examine the University of California Funds. Except for the financial statements of the State Teachers' Retirement System, as explained in the following paragraph, the financial statements of the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds referred to above were examined by other auditors who furnished their reports to us. Thus, our opinion, insofar as it relates to the audited amounts included in the Pension Trust Funds, certain Enterprise Funds, and the University of California Funds, is based solely upon the reports of other independent auditors.


The General Purpose Financial Statements referred to above include the financial activities of the State Teachers' Retirement System which represents 24 percent of the assets of the Fiduciary Fund Type and 37 percent of the revenues of the Pension Trust Funds. We did not audit the State Teachers' Retirement System and we were unable to obtain audited financial statements because the audit of that fund by other independent auditors was not completed by the date our report was issued.

The State has not maintained adequate fixed asset records for its governmental fund type property, plant, and equipment. Consequently, the General Fixed Assets Account Group is not presented in the accompanying financial statements prepared according to generally accepted accounting principles.

In our opinion, based upon our examination and the reports of the other independent auditors, except for the effects of any adjustments, if any, that we might have determined to be necessary had we audited the financial statements of the State Teachers' Retirement System or if audited financial statements of that fund had been furnished to us, and except for the effect of the omission of the General Fixed Assets Account Group, the General Purpose Financial Statements referred to in the first paragraph present fairly the financial position of the State of California as of June 30, 1985, and the results of its operations and the changes in financial position of its Proprietary Funds and Pension Trust Funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have not audited the other data included in this report, and accordingly, we express no opinion on that data.

OFFICE OF THE AUDITOR GENERAL

  
CURT DAVIS, CPA  
Deputy Auditor General

December 20, 1985

**GENERAL PURPOSE FINANCIAL STATEMENTS**

**STATE OF CALIFORNIA**  
**COMBINED BALANCE SHEET -- ALL FUND TYPES AND ACCOUNT GROUP**  
**AS OF JUNE 30, 1985**  
**(IN THOUSANDS)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Group
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations
<b>ASSETS</b>							
Cash and pooled investments	\$1,203,597	\$ 800,026	\$677,457	\$ 179,936	\$ 42,171	\$12,198,657	\$ 1,061,911
Investments				2,569,939		39,299,659	6,127,410
Amount on deposit with U.S. Treasury							
Receivables (net)	82,082	49,714	441	238,786	11,047	3,383,836	588,029
Due from other funds	1,152,352	2,201,126	16,336	2,066,964	74,826	2,061,207	72,704
Due from other governments	12,602	1,448,757		143,966	1,298	5,569,417	122,968
Prepaid expenses	231,899	78,641	7	42,025	6,673	73,224	
Inventory, at cost				10,827	34,959	106,529	
Other assets	293	2,543	174	20,015	40	126,219	120,108
Advances and loans receivable	402,967	438,070		5,666,679	2,882	215,014	38,115
Deferred charges				840,079			
Fixed assets				3,718,577	103,351	801	4,516,360
Amounts to be provided for retirement of long-term obligations							
<b>Total Assets</b>	<b>\$3,085,792</b>	<b>\$5,018,877</b>	<b>\$694,415</b>	<b>\$15,497,793</b>	<b>\$277,247</b>	<b>\$63,034,563</b>	<b>\$12,647,605</b>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities							
Accounts payable	\$ 371,910	\$ 291,168	\$ 42,539	\$ 93,430	\$ 62,295	\$2,230,953	\$ 412,706
Agreements to repurchase securities						1,638,145	
Due to other funds	812,523	1,851,415	14,649	63,238	18,433	8,320,763	72,704
Due to other governments	209,883	480,388		2,262	173	3,421,766	
Dividends payable				78,000			
Advances from other funds		2,609		886,571	31,619	19,644	38,115

Tax overpayments	83,006					40,325	
Benefits payable						238,306	
Deposits	90		1,241,843			792,255	11,342
Notes payable			1,941				
Compensated absences payable	67,629		155,964		1,679	\$ 336,154	360,866
Mortgages and other borrowings			17				
Net assets available for University of California retirement benefits							5,904,089
Capital lease obligations							
Advance collections	122,356	77,781	247,863	67	12,110	114,737	111,545
General obligation bonds payable			4,808,455				
Revenue bonds payable	47,621		4,363,077			2,771,642	202,380
Interest payable	16,434	21,898	231,112	450	1,056	647,350	
Other liabilities			17,792				
Total Liabilities	<u>1,731,452</u>	<u>2,725,259</u>	<u>12,191,565</u>	<u>57,705</u>	<u>127,365</u>	<u>3,869,883</u>	<u>7,113,747</u>
Fund Equity							
Contributed capital			19,613				
Investment in general fixed assets							4,048,681
Retained earnings			351,168		149,882		
Reserved for regulatory requirements			2,935,447				
Unreserved							
Fund balances							
Reserved for encumbrances	277,076	750,746		108,103		190,447	
Reserved for advances and loans	402,967	438,070					
Reserved for employees' retirement system						41,725,144	
Reserved for other specific purposes		27,296					710,973
Unreserved							
Designated for subsequent years' expenditures							
Designated for University of California	63,119	45,531		238,133			
Designated for economic uncertainties							
Undesignated	611,178	1,031,975		290,474		4,199,352	
Total Fund Equity	<u>1,354,340</u>	<u>2,293,618</u>	<u>3,306,228</u>	<u>636,710</u>	<u>149,882</u>	<u>46,114,943</u>	<u>5,533,858</u>
Total Liabilities and Fund Equity	<u>\$3,085,792</u>	<u>\$5,018,877</u>	<u>\$15,497,793</u>	<u>\$694,415</u>	<u>\$277,247</u>	<u>\$63,034,563</u>	<u>\$12,647,605</u>

See the notes accompanying the financial statements.



STATE OF CALIFORNIA  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985  
 (IN THOUSANDS)

	<u>Governmental Fund Types</u>			Fiduciary Fund Type
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
Revenues				
Taxes	\$25,463,084	\$ 811,628		\$3,199,816
Intergovernmental	66,698	8,869,172		39,289
Licenses and permits	129,379	1,094,678		
Natural resources	22,110	169,756	\$324,151	277
Charges for services	44,425	157,967		101,106
Fees	264,146	157,957		
Penalties	13,218	66,350		
Interest	476,712	149,893	332	360,153
Miscellaneous	47,033	102,532		180,363
Total Revenues	<u>26,526,805</u>	<u>11,579,933</u>	<u>324,483</u>	<u>3,881,004</u>
Expenditures				
Current				
General government	1,103,553	614,594		67,449
Education	13,810,903	1,180,307		36,440
Health and welfare	7,842,942	6,311,058		2,996,145
Resources	380,032	219,584		38,368
State and consumer services	180,702	437,333		70,212
Business and transportation	56,005	2,856,829		2,233
Correctional programs	1,035,130	176,688		
Property tax relief	944,850			
Capital outlay	9,155		285,450	
Debt service				
Principal retirement	203,258			
Interest and fiscal charges	172,571			
Total Expenditures	<u>25,739,101</u>	<u>11,796,393</u>	<u>285,450</u>	<u>3,210,847</u>
Other Financing Sources (Uses)				
Proceeds from general obligation bonds		250,000	380,000	110,000
Operating transfers in	34,135	414,427	81,863	25,798
Operating transfer out	(141,957)	(205,840)	(28,298)	(1,709)
Total Other Financing Sources (Uses)	<u>(107,822)</u>	<u>458,587</u>	<u>433,565</u>	<u>134,089</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>679,882</u>	<u>242,127</u>	<u>472,598</u>	<u>804,246</u>
Fund Balances, July 1, 1984	<u>674,458</u>	<u>2,051,491</u>	<u>164,112</u>	<u>3,585,553</u>
Fund Balances, June 30, 1985	<u>\$ 1,354,340</u>	<u>\$ 2,293,618</u>	<u>\$636,710</u>	<u>\$4,389,799</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES -- BUDGET AND ACTUAL (LEGAL BASIS)**  
**GENERAL AND SPECIAL REVENUE FUND TYPES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1985**  
**(IN THOUSANDS)**

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance- Favorable (Unfavorable)	Budget	Actual	Variance- Favorable (Unfavorable)
<b>Revenues</b>						
Taxes		\$25,514,709			\$ 98,719	
Intergovernmental		30,812			8,903,474	
Licenses and permits		11,935			1,100,156	
Natural resources		22,110			178,884	
Charges for services		44,425			151,167	
Fees		61,648			157,957	
Penalties		12,102			78,715	
Interest		476,995			145,103	
Miscellaneous		377,665			365,874	
<b>Total Revenues</b>		<u>26,552,401</u>			<u>11,180,049</u>	
<b>Expenditures</b>						
<b>Current</b>						
General government	\$ 1,119,861	1,039,387	\$ 80,474	\$ 767,564	699,338	\$ 68,226
Education	13,794,473	13,538,829	255,644	1,289,481	1,174,064	115,417
Health and welfare	8,172,408	8,008,707	163,701	5,674,070	5,648,038	26,032
Resources	391,642	387,913	3,729	296,689	258,603	38,086
State and consumer						
services	185,676	182,353	3,323	497,281	473,795	23,486
Business and						
transportation	63,866	62,576	1,290	3,076,898	2,899,503	177,395
Correctional programs	1,054,385	1,046,215	8,170	254,386	176,683	77,703
Property tax relief	948,402	946,929	1,473			
Capital outlay	9,251	9,155	96			
Debt service						
Principal retirement	201,370	201,370				
Interest and fiscal						
charges	175,327	174,327	1,000			
<b>Total Expenditures</b>	<u>\$26,116,661</u>	<u>25,597,761</u>	<u>\$518,900</u>	<u>\$11,856,369</u>	<u>11,330,024</u>	<u>\$ 526,345</u>
<b>Other Financing Sources</b>						
(Uses)						
Operating transfers in		74,142			3,271,941	
Operating transfers out		(159,325)			(2,863,786)	
<b>Total Other</b>						
<b>Financing</b>						
<b>Sources (Uses)</b>		<u>(85,183)</u>			<u>408,155</u>	
<b>Excess of Revenues and</b>						
<b>Other Sources Over</b>						
<b>Expenditures and</b>						
<b>Other Uses</b>		869,457			258,180	
<b>Fund Balances,</b>						
July 1, 1984, as restated		530,754			833,489	
<b>Fund Balances,</b>						
June 30, 1985		<u>\$ 1,400,211</u>			<u>\$ 1,091,669</u>	

See the notes accompanying the financial statements.

STATE OF CALIFORNIA  
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN RETAINED EARNINGS/FUND BALANCES  
 ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985  
 (IN THOUSANDS)

	<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Type</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Operating Revenues			
Services and sales	\$ 644,688	\$523,060	
Earned premiums, net	601,114		
Investment and interest	721,595		\$ 4,161,788
Contributions			3,925,995
Miscellaneous	<u>5,640</u>	<u>354</u>	<u>3,223</u>
Total Operating Revenues	<u>1,973,037</u>	<u>523,414</u>	<u>8,091,006</u>
Operating Expenses			
Personal services	120,738	251,920	28,617
Supplies	6,742	15,877	
Services and charges	365,070	243,970	19,688
Depreciation	52,796	11,420	
Benefit payments	498,518		2,375,230
Interest expense	408,523		
Refunds			214,155
Amortization of deferred charges	<u>15,187</u>		
Total Operating Expenses	<u>1,467,574</u>	<u>523,187</u>	<u>2,637,690</u>
Operating Income	<u>505,463</u>	<u>227</u>	<u>5,453,316</u>
Nonoperating Revenues (Expenses)			
Grants received	1,667		
Grants provided	(19,836)		
Interest revenue	212,035		
Rent	6,953		
Interest expense and fiscal charges	(150,500)	(100)	
Loss on early extinguishment of debt	<u>(49,602)</u>		
Total Nonoperating Revenues (Expenses)	<u>717</u>	<u>(100)</u>	
Operating transfers in	16,873	12,035	
Operating transfers out	<u>(10,098)</u>	<u>(7,790)</u>	
Operating Transfers	<u>6,775</u>	<u>4,245</u>	
Net Income	512,955	4,372	5,453,316
Dividends paid	(220,268)		
Retained Earnings/Fund Balances			
July 1, 1984	<u>2,993,928</u>	<u>145,510</u>	<u>36,271,828</u>
Retained Earnings/Fund Balances			
June 30, 1985	<u>\$3,286,615</u>	<u>\$149,882</u>	<u>\$41,725,144</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1985**  
**(IN THOUSANDS)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>
	<u>Enterprise</u>	<u>Internal</u> <u>Service</u>	<u>Pension</u> <u>Trust</u>
Sources of Funds			
From operations			
Net income	\$ 512,955	\$ 4,372	\$ 5,453,316
Add (deduct) items not affecting cash			
Depreciation	52,796	11,420	
Amortization of bond and note discount and premium	(516)		(215,074)
Loss on early extinguishment of debt	49,602		
Accrual of deferred expenses	67,209		
Imputed interest earnings	(44,517)		
Funds Provided from Operations	<u>637,529</u>	<u>15,792</u>	<u>5,238,242</u>
Proceeds from investments	89,093		19,344,340
Collection of loans receivable	154,417		
Proceeds from sale of fixed assets	381	696	27
Advances from other funds	42,973		
Proceeds from bonds and notes	1,718,827		
Decreases in current assets			
Receivables	112,491	3,717	
Due from other funds	13,258	13,288	
Due from other governments	673	164	
Prepaid expenses	27	2,750	
Inventory	4,272	777	
Other assets	40,687	51	
Increases in current liabilities			
Accounts payable	25,256	14,302	
Due to other funds	20,642	3,855	110
Due to other governments	9		
Dividends payable	27,000		
Benefits payable	139,159		26,627
Deposits	1,018		
Compensated absences payable	17	1,679	
Advance collections	61,258	9,489	
Interest payable	53,243		
Other liabilities	5,230	4	58,168
Total Funds Provided	<u>3,147,460</u>	<u>66,564</u>	<u>24,667,514</u>
Application of Funds			
Purchase of investments	611,114		23,717,063
Advances to other funds	16,878	1,490	
Loans provided	543,248		
Acquisition of fixed assets	206,640	27,094	
Payments on advances from other funds	94,009	4,100	
Dividends paid	220,268		
Payments on notes	116,498		
Retirement of bonds	603,139		
Unamortized water project costs	6,963		
Increases in current assets			
Receivables	56,954	1,136	161,233
Due from other funds	455,645	7,614	697,378
Due from other governments	112,055	477	
Prepaid expenses	11,230	4,942	202
Inventory	50	58	
Other assets	4,757		91,618
Decreases in current liabilities			
Accounts payable	90,095	1,939	
Due to other funds	11,002	20,096	
Due to other governments	11,367	680	
Deposits	484		
Advance collections	21	503	
Interest payable	1,413		
Other liabilities	5,384	1,144	
Total Funds Applied	<u>3,179,214</u>	<u>71,273</u>	<u>24,667,494</u>
Net Increase (Decrease) in Cash	<u>\$ (31,754)</u>	<u>\$(4,709)</u>	<u>\$ 20</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
COMBINED BALANCE SHEET  
ALL UNIVERSITY OF CALIFORNIA FUNDS  
AS OF JUNE 30, 1985  
(IN THOUSANDS)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>	<u>Retirement System Funds</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and pooled investments	\$ 601,765	\$ 22,012	\$ 1,711	\$ 293,007	\$ 143,416	\$ 1,061,911
Investments			472,994		5,654,416	6,127,410
Receivables (net)	350,799	196,091	742		40,397	588,029
Due from other funds					72,704	72,704
Due from other governments	122,968					122,968
Other assets	116,829			3,279		120,108
Advances and loans receivable	343		37,772			38,115
Fixed assets				4,516,360		4,516,360
<b>Total Assets</b>	<u>\$1,192,704</u>	<u>\$218,103</u>	<u>\$513,219</u>	<u>\$4,812,646</u>	<u>\$5,910,933</u>	<u>\$12,647,605</u>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable	\$ 387,832		\$ 585	\$ 17,445	\$ 6,844	\$ 412,706
Due to other funds	72,704					72,704
Advances from other funds		\$ 2,000		36,115		38,115
Deposits			11,342			11,342
Mortgages and other borrowings	75,000			285,866		360,866
Net assets available for University of California retirement benefits					5,904,089	5,904,089
Advance collections	102,737		8,808			111,545
Revenue bonds payable		22,735		179,645		202,380
<b>Total Liabilities</b>	<u>638,273</u>	<u>24,735</u>	<u>20,735</u>	<u>519,071</u>	<u>5,910,933</u>	<u>7,113,747</u>
<b>Fund Equity</b>						
Investment in general fixed assets				4,048,681		4,048,681
Fund balances						
Reserved for other specific purposes	198,847	147,395	305,120	59,611		710,973
Unreserved						
Designated for University of California	355,584	45,973	187,364	185,283		774,204
<b>Total Fund Equity</b>	<u>554,431</u>	<u>193,368</u>	<u>492,484</u>	<u>4,293,575</u>		<u>5,533,858</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$1,192,704</u>	<u>\$218,103</u>	<u>\$513,219</u>	<u>\$4,812,646</u>	<u>\$5,910,933</u>	<u>\$12,647,605</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
 COMBINED STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES  
 ALL UNIVERSITY OF CALIFORNIA CURRENT FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985  
 (IN THOUSANDS)**

Revenues	
Tuition and fees	\$ 311,940
Federal appropriations, grants, and contracts	634,622
State appropriations, grants, and contracts	1,494,211
Private gifts, grants, and contracts	167,983
Sales and services	
Educational activities	242,434
Auxiliary enterprises	232,723
Teaching hospitals	704,249
Local government	27,732
Major Department of Energy laboratories	1,768,647
Other	<u>172,160</u>
Total Revenues	<u>5,756,701</u>
Expenditures	
Instruction	987,237
Research	696,224
Public services	97,909
Academic support	373,922
Teaching hospitals	721,071
Student services	142,848
Institutional support	233,477
Operation and maintenance of plant	184,189
Student financial aid	132,934
Auxiliary enterprises	199,257
Major Department of Energy laboratories	1,761,972
Other	<u>14,143</u>
Total Expenditures	<u>5,545,183</u>
Other Financing Sources (Uses)	
Transfers out	<u>(144,874)</u>
Total Other Financing Sources (Uses)	<u>(144,874)</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	66,644
Fund Balances, July 1, 1984	<u>487,787</u>
Fund Balances, June 30, 1985	<u>\$ 554,431</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CHANGES IN FUND BALANCES**  
**UNIVERSITY OF CALIFORNIA FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1985**  
**(IN THOUSANDS)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>
Revenues and Other Additions				
Unrestricted current fund revenues				
General	\$2,137,418			
Auxiliary enterprises and hospitals	936,972			
Restricted gifts, grants, and contracts	2,510,151	\$ 448	\$ 14,695	\$ 26,364
Investment and interest income	86,004	2,150	1,992	18,995
Net gain (loss) on sale of investments	2,456		17,833	(169)
Governmental grants and contracts		3,332		1,248
Debt service fees				3,946
Governmental appropriations				15,698
Expended for plant facilities (including \$264,638 financed from current funds)				341,699
Retirement of indebtedness				29,452
Other	<u>83,700</u>	<u>21,882</u>	<u>347</u>	<u>7,474</u>
Total Revenues and Other Additions	<u>5,756,701</u>	<u>27,812</u>	<u>34,867</u>	<u>444,707</u>
Expenditures and Other Deductions				
Current fund expenditures	5,531,040			
Plant fund expenditures				85,699
Debt service				29,452
Principal retirement				27,550
Interest				42,746
Disposals of plant assets				10,130
Other	<u>14,143</u>	<u>4,996</u>	<u>2,199</u>	<u>10,130</u>
Total Expenditures and Other Deductions	<u>5,545,183</u>	<u>4,996</u>	<u>2,199</u>	<u>195,577</u>
Transfers in (out)	<u>(144,874)</u>	<u>6,754</u>	<u>16,161</u>	<u>121,959</u>
Net Increase in Fund Balances	66,644	29,570	48,829	371,089
Fund Balances, July 1, 1984	<u>487,787</u>	<u>163,798</u>	<u>443,655</u>	<u>3,922,486</u>
Fund Balances, June 30, 1985	<u>\$ 554,431</u>	<u>\$193,368</u>	<u>\$492,484</u>	<u>\$4,293,575</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Definition of the Reporting Entity

The General Purpose Financial Statements present information on the financial activities of the State of California (State) over which the Governor, the State Legislature, and other elected officials have direct or indirect governing and fiscal control. The financial statements include accounts of various boards, commissions, agencies, authorities, retirement systems, the workers' compensation insurance fund, and the state universities.

### 2. Summary of Significant Accounting Policies

#### A. Basis of Presentation

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1985. Except for the University of California, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, by the American Institute of Certified Public Accountants, and by the Financial Accounting Standards Board. The financial statements of the University of California have been prepared in conformity with generally accepted accounting principles as prescribed by the National Association of College and University Business Officers and by the American Institute of Certified Public Accountants.

The University of California receives an annual appropriation from the General Fund of the State. For the year ended June 30, 1985, approximately \$1.45 billion was accrued or disbursed from the General Fund to the University of California. This amount is recorded as revenues and expenditures in both the General Fund and the University of California Funds and is reported as such in the accompanying financial statements. Thus, these revenues and expenditures are reported twice.

Included in the State's General Purpose Financial Statements are the financial statements of the State Compensation Insurance Fund as of and for the year ended December 31, 1984. The State Compensation Insurance Fund represents 12.1 percent and 35.4 percent, respectively, of the assets and revenues of the Enterprise Funds.

#### B. Fund Accounting

The financial activities of the State accounted for in the accompanying financial statements have been classified as follows:



## Governmental Fund Types

The 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 dedicated revenue sources (other than for 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

The proprietary fund types present financial data on state activities that are similar to those found in the private sector. Users are charged for the goods or services provided. The proprietary fund types are as follows:

Enterprise Funds account for goods or services provided to the general public on a continuing basis either where the State intends that all or most of the cost involved are to be financed by user charges or where periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

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

## Fiduciary Fund Types

The fiduciary fund types are used to account for assets held by the State either as a trustee or as an agent for individuals, private organizations, other governments, or other funds. The fiduciary fund types are as follows:

Expendable Trust Funds account for assets held in a trustee capacity where both principal and income 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 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.

#### General Long-Term Obligations Account Group

This account group records unmatured general obligation bonds and other long-term obligations generally expected to be financed from governmental funds.

#### University of California

The University of California uses the following types of funds to account for its activities:

Current Funds account for unrestricted funds that are expendable in pursuing the objectives of the University of California, over which the Regents of the University of California (Regents) retain control, and for externally restricted funds that may be used only in accordance with specified purposes.

Loan Funds account for resources available primarily for loans to students. In addition, resources are also available for loans to faculty and staff.

Endowment and Similar Funds--Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the Regents, and both principal and income may be expended.

Plant Funds account for resources available to acquire properties, to service the debt related to properties, to provide for the renewal and replacement of properties, and to account for funds invested in properties. Fixed assets of major laboratories of the U.S. Department of Energy are federally owned and are not included in the plant funds.

Retirement System Funds account for assets and liabilities of the University of California Retirement System. Certain employees of the University of California are members of the Public Employees' Retirement System.

### C. Basis of Accounting

#### Governmental Fund Types, Expendable Trust Funds, and Agency Funds

The accounts of these fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable

and available, and expenditures are recorded at the time the liabilities are incurred. The State's accounting practices include an exception to the modified accrual basis of accounting for vacation leave expenditures. These expenditures are recorded when paid because there is no satisfactory basis for determining the current liability. However, the liability for earned vacation of academic year faculty of the California State University and the special schools of the State Department of Education is accrued at June 30, as explained in Note 9.

Other accounting practices of the State include the recording of inventory items as expenditures when the items are purchased and the use of encumbrance accounting for budgetary control purposes. On the financial statements prepared in accordance with generally accepted accounting principles, encumbrances are shown as a reservation of fund balance.

#### Proprietary Fund Types and Pension Trust Funds

The accounts of these fund types are reported using the accrual basis of accounting except that vacation compensation is generally expensed when leave is taken. The amount of compensation representing such unused vacation time is not material and, therefore, is not generally reported in the financial statements.

#### University of California

The University of California funds are accounted for on the accrual basis of accounting. Accrued compensated absences and other immaterial accruals and deferrals are omitted.

### D. Fixed Assets

#### General Fixed Assets Account Group

The General Fixed Assets Account Group is not presented on the Combined Balance Sheet.

#### Proprietary Fund Types

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. (See Note 8 for detail.) Water projects, which represent 74.7 percent of the depreciable fixed assets of the Proprietary Funds, are depreciated over their service lives ranging from 30 to 100 years. Toll bridge facilities, which represent 16.7 percent of the depreciable fixed assets of the Proprietary Funds, are not depreciated. Most of the remaining assets are depreciated over their estimated service lives using the straight-line method of depreciation.

## University of California

Plant and equipment assets are recorded at cost, if purchased. They are recorded at fair market at the date of acquisition, if donated. The fixed assets of the plant funds are not depreciated.

### E. Budgetary Accounting

The State's annual budget is prepared on a modified accrual basis. The Governor recommends a budget for approval by the Legislature each fiscal year. Under California law, the State cannot adopt a spending plan that exceeds anticipated 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. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1984-85 were legally made, and they are included in the budget data in the accompanying financial statements.

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

State agencies are responsible for exercising budgetary control and ensuring that appropriations are not overspent. In addition, the State Controller controls appropriations and will not disburse funds in excess of an appropriation.

### 3. Legal (Budgetary) Basis Financial Statements

#### A. Budgeted Revenues

In the annual budgeting process, the Governor estimates revenues. However, revenues are not included in the budget adopted by the Legislature.

B. Reconciliation of Legal Basis to GAAP Basis

The State of California annually reports the State's financial condition based on generally accepted accounting principles and also based on the State's legal provisions (legal basis). The State of California Annual Report (the legal basis financial report) is prepared in accordance with legal and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the legal basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the legal basis report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The accompanying Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -- Budget and Actual (Legal Basis) is compiled on the legal basis. This statement is reconciled to the General Purpose Financial Statements prepared in accordance with generally accepted accounting principles as shown below. The primary differences between the legal basis accounting practices and generally accepted accounting principles are as follows:

Encumbrances

Encumbrances--goods and services that are ordered but not received by the end of the year--are recorded as expenditures on the legal basis. On the GAAP basis, they are reported as a reservation of fund balance, reduced to reflect anticipated reimbursements.

Accrued Expenditures of the  
California Medical Assistance Program

California Medical Assistance Program expenditures are, by law, accounted for on a cash basis. They are reported on the accrual basis in accordance with generally accepted accounting principles.

Advances and Loans Receivable

Loans made to other funds or to other governments are recorded as expenditures on the legal basis. However, in accordance with generally accepted accounting principles, these loans are recorded as assets.

Accrued Liability for Tax Overpayments

A liability for tax overpayments is not recognized on the legal basis. It is accrued in accordance with generally accepted accounting principles.

### Accrued Liability for Compensated Absences

A liability for compensated absences is not recognized on the legal basis. As discussed in Note 9, the liability for earned vacation of faculty of the California State University and of the special schools of the State Department of Education is accrued in the General Fund in accordance with generally accepted accounting principles.

### Restatement of Fund Balance

The beginning fund balance of the General Fund on the legal basis is adjusted to reflect the difference between the net expenditures and revenues that were accrued the previous June 30 and the amount of actual revenues and net expenditures that were subsequently realized. The beginning fund balance on the GAAP basis is not affected by these adjustments.

### Reclassifications and Miscellaneous

Certain reclassifications are necessary to present the financial statements in accordance with generally accepted accounting principles. The major reclassifications are 1) reporting California State University student fees as revenue rather than as reimbursements, 2) reporting health care receipts from other funds as reimbursements rather than as revenue, and 3) reporting the Contingency Reserve for Economic Uncertainties as a designation of fund balance rather than as a reservation of fund balance. The miscellaneous adjustments relate to liabilities for lawsuits that are not recognized on the legal basis unless money has been appropriated and tax payments under appeal that are recognized as revenue on the legal basis.

STATE OF CALIFORNIA  
GENERAL FUND  
RECONCILIATION OF LEGAL BASIS TO GAAP BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 1985  
(IN THOUSANDS)

		ADJUSTMENTS TO THE LEGAL BASIS							
	Legal Basis	Encumbrances	Accrued Expenditures of the California Medical Assistance Program	Advances and Loans Receivable	Accrued Liability for Tax Overpayments	Accrued Liability for Compensated Absences	Restatement of Fund Balance	Reclassifications and Miscellaneous	GAAP Basis
<b>ASSETS</b>									
Cash and pooled investments	\$ 1,276,726							\$ (73,129)	\$ 1,203,597
Receivables (net)	82,082								82,082
Due from other funds	1,083,552		\$ 62,221					6,579	1,152,352
Due from other governments	12,602								12,602
Prepaid expenses	102,266							129,633	231,899
Other assets	293			\$402,967				(129,633)	402,967
Advances and loans receivable	129,633								
Total Assets	\$ 2,687,154	\$ 0	\$ 62,221	\$402,967	\$ 0	\$ 0	\$ 0	\$ (66,550)	\$ 3,085,792
<b>LIABILITIES AND FUND EQUITY</b>									
Liabilities									
Accounts payable	\$ 552,548	\$ (189,303)	\$ 457,601					\$ 8,565	\$ 371,910
Due to other funds	443,347	(88,148)						(277)	812,523
Due to other governments	196,848	375			\$ 83,006			12,660	209,883
Tax overpayments									83,006
Deposits	90								90
Compensated absences payable						\$ 67,629			67,629
Advance collections	30,055							92,301	122,356
Accrued interest payable	47,621								47,621
Other liabilities	16,434								16,434
Total Liabilities	1,286,943	(277,076)	457,601		83,006	67,629		113,349	1,731,452
Fund Equity									
Fund balances									
Reserved for encumbrances		277,076		\$402,967					277,076
Reserved for advances and loans									402,967
Contingency reserve for economic uncertainties	1,337,092		(395,380)			(67,629)		(791,077)	
Unreserved									
Designated for subsequent years' expenditures	63,119								63,119
Designated for economic uncertainties									
Total Fund Equity	1,400,211	277,076	(395,380)	402,967	(83,006)	(67,629)		611,178	1,354,340
Total Liabilities and Fund Equity	\$ 2,687,154	\$ 0	\$ 62,221	\$402,967	\$ 0	\$ 0	\$ 0	\$ (66,550)	\$ 3,085,792

<b>REVENUES</b>									
Taxes	\$25,514,709								\$25,463,084
Intergovernmental	30,812								66,698
Licenses and permits	11,935								129,379
Natural resources	22,110								22,110
Charges for services	44,425								44,425
Fees	61,648								264,146
Penalties	12,102								13,218
Interest	476,995								476,712
Miscellaneous	377,665								47,033
<b>Total Revenues</b>	<b>26,552,401</b>								<b>26,526,805</b>
<b>EXPENDITURES</b>									
Current									
General government	1,039,387	\$ 3,228							1,103,553
Education	13,538,829	(13,984)							13,810,903
Health and welfare	8,008,707	(20,211)							7,842,942
Resources	387,913	(6,467)							380,032
State & consumer services	182,353	1,093							180,702
Business & transportation	62,576	(3,016)							56,005
Correctional programs	1,046,215	(2,622)							1,035,130
Property tax relief	946,929	(3,991)							944,850
Capital outlay	9,155								9,155
Debt service									
Principal retirement	201,370								203,258
Interest & fiscal charges	174,327								172,571
<b>Total Expenditures</b>	<b>25,597,761</b>	<b>(45,970)</b>							<b>25,739,101</b>
<b>OTHER FINANCING SOURCES (Uses)</b>									
Operating transfers in	74,142								34,135
Operating transfers out	(159,325)								(141,957)
<b>Total Other Financing Sources (Uses)</b>	<b>(85,183)</b>								<b>(107,822)</b>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	869,457								679,882
<b>Fund Balance July 1, 1984, as restated</b>	<b>530,754</b>								<b>674,458</b>
<b>Fund Balance, June 30, 1985</b>	<b>\$ 1,400,211</b>	<b>\$ 277,076</b>							<b>\$ 1,354,340</b>



**STATE OF CALIFORNIA  
SPECIAL REVENUE FUND RECONCILIATION  
OF LEGAL BASIS TO GAAP BASIS  
AS OF JUNE 30, 1985  
(IN THOUSANDS)**

Fund Balances, June 30, 1985 - Legal Basis	\$1,091,669
Encumbrances	750,746
Advances or loans to other funds or to other governments	438,070
Commitments for future mass transportation projects	45,531
Deposits for condemnation proceedings	27,296
Other	<u>(59,694)</u>
Fund Balances, June 30, 1985 - GAAP Basis	<u>\$2,293,618</u>

#### 4. Cash and Pooled Investments

The State Treasurer and the Treasurer of the Regents of the University of California each administers a pooled money investment program. These programs enable the treasurers to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs.

The cash and pooled investments account includes cash on hand, cash deposited with banks, and securities consisting primarily of certificates of deposit, commercial paper, United States government issues, and federal agency obligations. Included in this account are securities that the State Treasurer sold or purchased under agreements to repurchase or resell the securities at later dates.

The State Treasurer has agreements to maintain cash on deposit with certain banks that does not bear interest income to the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts. At June 30, 1985, the agreements provided that the State maintain approximately \$50 million on deposit to compensate the banks for services and \$179 million to compensate the banks for uncleared checks.

As of June 30, 1985, the average remaining life of the securities in the pooled money investment program administered by the State Treasurer was approximately ten months. These securities are reported at amortized cost. The average remaining life of the securities in the pooled money investment program administered by the Treasurer of the Regents of the University of California was less than one year. These securities are reported at cost. Market values for the State Treasurer's portfolio and the University of California's portfolio approximate book values at June 30, 1985.

5. Investments

The following schedule shows the amortized cost and market value of investments, other than pooled investments, for all funds. Totals are those reported at June 30, 1985, except for the State Compensation Insurance Fund, which is reported as of December 31, 1984 (in thousands):

	<u>Amortized Cost</u>	<u>Market Value</u>
<u>Enterprise Funds</u>		
State Compensation Insurance Fund	\$ 1,589,311	\$ 1,449,468
Housing Finance Fund	747,128	751,585
Other Enterprise Funds	<u>233,500</u>	Unavailable
Total	<u>\$ 2,569,939</u>	
<u>Trust and Agency Funds</u>		
Public Employees' Retirement System	\$26,171,931	\$28,604,006
State Teachers' Retirement System	12,508,046	13,062,298
Legislators' Retirement System	45,226	46,168
Judges' Retirement System	323	323
Deferred Compensation Fund	503,280 <sup>a</sup>	528,285
Other Trust and Agency Funds	<u>70,853</u>	Unavailable
Total	<u>\$39,299,659</u>	
<u>University of California</u>		
Endowment and Similar Funds	\$ 472,994	\$ 685,378 <sup>b</sup>
University of California Retirement System	<u>4,026,524</u>	<u>5,654,416</u>
Total <sup>c</sup>	<u>\$ 4,499,518</u>	<u>\$ 6,339,794</u>

<sup>a</sup>This amount does not represent amortized cost; it includes cost and accumulated earnings.

<sup>b</sup>This amount does not include the market value of real estate investments reported at amortized cost of \$11.9 million.

<sup>c</sup>On the combined balance sheet, the University of California investments (in thousands) of \$6,127,410 consist of \$472,994 (at amortized cost) for the Endowment and Similar Funds and \$5,654,416 (at market value) for the University of California Retirement System.

6. Restricted Assets

The following schedule presents a summary of the legal restrictions on assets of the Enterprise Funds and the purposes for which the assets were restricted as of June 30, 1985 (in thousands):

<u>Purpose</u>	<u>Restricted Assets</u>		
	<u>Cash and Pooled Investments</u>	<u>Investments</u>	<u>Due From Other Funds</u>
Debt service	\$ 332	\$53,846	\$670,180
Construction	13		189,705
Equipment repair and replacement			20,583
Deposits	<u>1,516</u>		<u>425</u>
Total Restricted Assets	<u>\$1,861</u>	<u>\$53,846</u>	<u>\$880,893</u>

7. Deferred Charges

The deferred charges account in the Enterprise Fund Type represents operating costs and depreciation that will be recognized as expenses over the remaining life of long-term State Water Project contracts because these costs are billable in future years. In addition, the account includes imputed interest earnings on unrecovered capital and operating costs that are recorded as deferred charges until they are billed in future years under the terms of the State Water Project contracts.

8. Fixed Assets

The following schedule presents a summary of the fixed assets of the Proprietary Fund Types and the University of California as of June 30, 1985 (in thousands):

	<u>Proprietary Fund Types</u>		<u>University of California</u>
	<u>Enterprise</u>	<u>Internal Service</u>	
State water projects	\$2,812,740		
Toll facilities	579,053		
Other land, improvements, buildings, and equipment	412,198	\$182,867	\$4,388,594
Construction in progress	<u>359,833</u>	<u>          </u>	<u>127,766</u>
Total Fixed Assets	4,163,824	182,867	4,516,360
Less accumulated depreciation	<u>445,247</u>	<u>79,516</u>	<u>          </u>
Net Fixed Assets	<u>\$3,718,577</u>	<u>\$103,351</u>	<u>\$4,516,360</u>

9. Compensated Absences Payable

As of June 30, 1985, the State's liability for compensated absences related to accumulated vacation leave amounted to approximately \$406 million. Of this amount, \$336 million is reported in the General Long-Term Obligations Account Group, \$2 million is reported in the Proprietary Fund Types, and \$68 million for earned vacation compensation of academic year faculty of the California State University and of the special schools of the State Department of Education is recorded as a current liability in the General Fund. Accumulated sick leave balances do not vest to employees. However, unused sick leave balances convert to service credits upon retirement.

10. General Obligation Bonds

The State Constitution permits the State to issue general obligation bonds for specific purposes and in such amounts as approved by two-thirds 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 and second to service the debt on outstanding general obligation bonds. Enterprise funds reimburse the General Fund for the debt service provided on their behalf. In 1969, the City and County of San Francisco also agreed to reimburse the State for debt service on certain general obligation bonds for harbor development and improvement.

A. Changes in Bond Indebtedness

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1985 (in thousands):

	Balance July 1, 1984	Additions	Deductions	Balance June 30, 1985
General Long-Term Obligations	\$2,234,900	\$ 740,000	\$203,258	\$2,771,642
Enterprise Funds	<u>4,667,915</u>	<u>410,000</u>	<u>269,460</u>	<u>4,808,455</u>
Total General Obligation Bonds	<u>\$6,902,815</u>	<u>\$1,150,000</u>	<u>\$472,718</u>	<u>\$7,580,097</u>

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 accompanying 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.

B. Bonds Outstanding and Bonds Authorized But Unissued

The following schedule shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1985 (in thousands):

	<u>Outstanding</u>	<u>Authorized But Unissued</u>
<u>General Long-Term Obligations</u>		
New Prison Construction	\$ 435,000	\$ 345,000
State School Building Lease- Purchase	365,235	555,000
Clean Water	273,250	355,000
Clean Water and Water Conservation	241,570	95,000
State Construction	230,300	
State Beach, Park, Recreational and Historical Facilities	198,170	
State, Urban, and Coastal Park	183,990	30,000
County Jail Capital Expenditure	173,325	355,000
State Parklands	161,575	95,000
Safe Drinking Water	150,485	90,000
Health Science Facilities	89,585	
Community College Construction	79,250	
Higher Education Construction Program	71,145	
Recreation and Fish and Wildlife Enhancement	27,000	
California Park and Recreational Facilities	25,000	345,000
Junior College Construction	20,100	
Fish and Wildlife Habitat Enhancement	20,000	65,000
Harbor Development	16,662	
Lake Tahoe Acquisitions	10,000	75,000
Hazardous Substance Cleanup		100,000
Senior Center		50,000
	<hr/>	<hr/>
Total General Long-Term Obligations	<u>2,771,642</u>	<u>2,555,000</u>
<u>Enterprise Funds</u>		
California Veterans	2,802,175	340,000
California Water Resource Development	1,412,640	180,000
State School Building Aid	578,090	40,000
First-Time Home Buyers	15,000	185,000
Harbor Development	550	
	<hr/>	<hr/>
Total Enterprise Funds	<u>4,808,455</u>	<u>745,000</u>
Total General Obligation Bonds	<u>\$7,580,097</u>	<u>\$3,300,000</u>

C. Debt Service Requirements

The following schedule shows the debt service requirements for general obligation bonds, including interest of \$5.4 billion, as of June 30, 1985 (in thousands):

<u>Year Ending June 30</u>	<u>General Long-Term Obligations</u>	<u>Enterprise Funds</u>
1986	\$ 430,850	\$ 564,213
1987	411,058	543,095
1988	389,848	500,581
1989	362,546	481,228
1990	341,229	456,437
Thereafter	<u>2,504,327</u>	<u>6,079,572</u>
Total	<u>\$4,439,858</u>	<u>\$8,625,126</u>

11. Revenue Bonds and Notes Payable

With approval in advance from the State Legislature, certain state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the earnings of the respective enterprise funds of the agencies listed in Section B of this footnote or from resources of certain Plant Funds or Loan Funds of the University of California. The General Fund has no legal liability for payment of principal and interest on revenue bonds.

The Department of Water Resources, the California State University, the California Transportation Commission, and the University of California issued revenue bonds to acquire or construct state facilities. The California Housing Finance Agency, the Department of Veterans Affairs, the California National Guard, and the California Student Loan Authority issued revenue bonds to allow the State to make loans to finance housing development, to finance the acquisition of farms and homes by California veterans and National Guard members, and to purchase federally insured student loans from lending institutions. When loans financed by these revenue bonds are fully paid, the farms and homes become the property of private individuals or entities.



A. Changes in Bond Indebtedness

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1985 (in thousands):

	<u>Balance July 1, 1984</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1985</u>
Enterprise Funds	\$3,491,967	\$1,155,189	\$284,079	\$4,363,077
University of California	<u>208,611</u>	<u>                    </u>	<u>6,231</u>	<u>202,380</u>
Total Revenue Bonds	<u>\$3,700,578</u>	<u>\$1,155,189</u>	<u>\$290,310</u>	<u>\$4,565,457</u>

B. Revenue Bonds Outstanding

The following schedule shows revenue bonds outstanding as of June 30, 1985 (in thousands):

	<u>Outstanding</u>
<u>Enterprise Funds</u>	
California Housing Finance Agency	\$2,251,266
Department of Water Resources	1,008,504
Department of Veterans Affairs	655,850
California State University	186,188
California Student Loan Authority	117,660
California Transportation Commission	105,296
California National Guard	<u>38,313</u>
Total Enterprise Funds	<u>4,363,077</u>
<u>University of California</u>	
Regents of the University of California	<u>202,380</u>
Total Revenue Bonds	<u>\$4,565,457</u>

Outstanding revenue bonds totaling \$7.1 million for Hastings College of the Law are not included in the accompanying financial statements.

C. Debt Service Requirements

The following schedule shows the debt service requirements for revenue bonds, including interest of \$8.2 billion, as of June 30, 1985 (in thousands):

<u>Year Ending June 30</u>	<u>Enterprise Funds</u>	<u>University of California</u>
1986	\$ 479,034	\$ 17,050
1987	476,490	16,985
1988	475,353	16,969
1989	471,203	17,038
1990	470,233	16,666
Thereafter	<u>9,945,876</u>	<u>318,568</u>
Total	<u>\$12,318,189</u>	<u>\$403,276</u>

D. Notes Payable

Certain state agencies issued short-term notes, secured by specific revenue sources, to provide temporary financing. The following schedule shows outstanding notes payable as of June 30, 1985 (in thousands):

	<u>Outstanding</u>
<u>Enterprise Funds</u>	
State Public Works Board	\$106,464
Student Loan Authority	41,600
Department of Transportation	5,000
California Housing Finance Agency	<u>2,900</u>
Total Notes Payable	<u>\$155,964</u>

E. Early Extinguishments of Debt

During April 1985, the Department of Water Resources issued \$239,505,000 of Central Valley Project Facilities Revenue Bonds - Series G and used \$234,563,400 of the proceeds to satisfy a debt of \$200 million for Series B revenue bonds. The department invested the \$234,563,400 in United States government securities and placed the securities in irrevocable escrow with the State Treasurer. The investment and interest will be sufficient to redeem the Series B revenue bonds through December 1, 1992, when the bond principal for the remaining ten years will also be retired.

Similarly, during July 1981, the California Transportation Commission satisfied a debt of \$20 million for San Francisco Bay Toll Bridge revenue bonds by depositing United States government securities in irrevocable escrow with the State Treasurer. These securities were purchased in May 1980 for \$18,295,313; this amount and the interest it earns are sufficient to redeem the revenue bonds upon maturity. The first, second, and third installments of \$5 million each have since matured and have been paid from the escrow account.

Since the escrow arrangements effectively release the Department of Water Resources and the California Transportation Commission from their obligations for the \$200 million and the remaining \$5 million in revenue bonds, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

12. No-Commitment Debt

The Legislature created various authorities to provide private entities with a low-cost source of capital financing for constructing facilities deemed to be in the public interest. This debt is secured solely by the credit of the private entities and is administered by trustees independent of the State. The State has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements.

The following schedule shows no-commitment bonds outstanding as of June 30, 1985 (in thousands):

	<u>Outstanding</u>
Health Facilities	\$2,017,943
Pollution Control	1,229,628
Education Facilities	499,980
Alternate Energy Source	<u>39,285</u>
Total No-Commitment Debt	<u>\$3,786,836</u>

13. Commitments

A. Leases

The aggregate amount of lease commitments for facilities and equipment, excluding those of the University of California, in effect as of June 30, 1985, is approximately \$650 million. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

The State has also entered into some lease-purchase agreements to acquire office buildings and electronic data processing equipment. The acquisition or development of the office buildings is financed by joint powers authorities, nonprofit corporations, and private corporations who then lease the facilities to the State. Upon expiration of these leases, title to the facilities and equipment will pass to the State.

The minimum lease commitments are summarized below (in thousands):

<u>Year Ending June 30</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
1986	\$124,953	\$ 6,518	\$131,471
1987	105,945	12,139	118,084
1988	77,198	12,960	90,158
1989	50,641	12,737	63,378
1990	34,484	12,356	46,840
Thereafter	<u>134,899</u>	<u>224,077</u>	<u>358,976</u>
Total Minimum Lease Payment	<u>\$528,120</u>	<u>280,787</u>	<u>\$808,907</u>
Less amounts representing interest		<u>166,050</u>	
Present Value of Net Minimum Lease Payment		<u>\$114,737</u>	

Lease expenditures for the year ended June 30, 1985, amounted to approximately \$155 million.

University of California rental expenditures for the years ended June 30, 1985 and 1984, totaled \$32 million and \$34 million, respectively. Minimum payments required under capital and noncancellable operating leases in fiscal year 1985-86 are \$9.7 million and decrease in amount thereafter.

#### B. Loan and Construction

As of June 30, 1985, loan programs for housing, school building aid, harbors and waterways, domestic water supply systems, energy conservation, and economic development had loan commitments totaling approximately \$839 million. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The State had commitments for approximately \$49 million for the construction of water

projects and the construction and rehabilitation of toll bridge facilities. Construction projects of the University of California, totaling \$90 million, had been authorized as of June 30, 1985. Of this amount, \$50 million will be funded from unexpended plant funds and \$40 million from other sources. These loan and construction commitments are not included in the accompanying financial statements.

C. Encumbrances

At June 30, 1985, encumbrances of the Special Revenue Funds totaled \$751 million. This amount does not include commitments of \$1.1 billion for various highway projects because the future expenditures related to these commitments are expected to be reimbursed primarily from proceeds of approved federal grants. The ultimate liability will not accrue to the State.

D. New Prison Construction

Chapter 273 of the Statutes of 1981 and Chapter 4 of the Statutes of 1984 authorized the issuance of \$795 million for new prison construction general obligation bonds to finance the State's new prison construction program. As of June 30, 1985, the State had issued \$450 million of these bonds. Of this \$450 million in bond proceeds, \$168 million has been expended, \$60 million is encumbered, and \$222 million is designated for subsequent years' expenditures.

The Legislature has appropriated \$312 million in excess of new prison construction bonds sold as of June 30, 1985. The additional money to fully fund the appropriations of the Legislature will be obtained from the future sale of general obligation bonds. This \$312 million is not included in the financial statements.

14. Major Tax Revenues

Tax revenues for the year ended June 30, 1985, are as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
Sales and use	\$ 9,666,514	\$712,909	
Personal income	10,799,539		
Bank and corporation	3,703,678		
Unemployment insurance			\$2,181,319
Disability insurance			1,005,652
Other	<u>1,293,353</u>	<u>98,719</u>	<u>12,845</u>
Total	<u>\$25,463,084</u>	<u>\$811,628</u>	<u>\$3,199,816</u>

15. Pension Trusts

A. General

The State administers five defined benefit contributory retirement plans: the Public Employees' Retirement System, the State Teachers' Retirement System, the University of California Retirement System, the Judges' Retirement System, and the Legislators' Retirement System. The schedule below shows the number of members in each of the retirement plans as of June 30, 1985:

	<u>State</u>	<u>Other</u>	<u>Benefit Recipients</u>	<u>Total</u>
Public				
Employees'	187,139	354,338	223,488	764,965
State Teachers'	207	302,379	103,803	406,389
University of California	81,691		9,632	91,323
Judges'	834	497	812	2,143
Legislators'	177		204	381

These retirement systems are accounted for in separate funds. Except for the Legislators' Retirement System and the University of California Retirement System, these are statewide, multi-employer retirement plans. The following schedule presents a summary of the annual contributions to the retirement systems by the State, public agencies, and members for fiscal year 1984-85 (in thousands):

	<u>State</u>	<u>Public Agencies</u>	<u>Members</u>	<u>Total Contributions</u>
Public				
Employees'	\$836,404	\$936,754	\$627,644	\$2,400,802
State Teachers'	328,712	582,248	582,778	1,493,738
University of California	195,109		125,614	320,723
Judges'	18,914	4,290	7,216	30,420
Legislators'	736		299	1,035

The University of California Retirement System is reported as part of the University of California within the General Purpose Financial Statements. The other four systems are reported within the Fiduciary Fund Type.

B. Unfunded Actuarial Liability

Independent actuaries evaluate the adequacy of the financing of the five retirement systems. The contributions reported for the Public Employees' and the University of California retirement systems include amortization of the unfunded

actuarial liability over a period not to exceed 30 years. The long-term financing requirements of the other three systems are significantly greater than the contributions provided in state law. The following schedule shows the unfunded actuarial liability for the Public Employees', State Teachers', University of California, Judges', and the Legislators' retirement systems at the dates indicated (in millions):

	<u>Date of Last Actuarial Valuation</u>	<u>State Share of Unfunded Actuarial Liability</u>	<u>Total Unfunded Actuarial Liability</u>
Public Employees'	6/30/84	\$6,598	\$12,520
State Teachers'	6/30/83	Unknown	10,139
University of California	6/30/85	876.4	876.4
Judges'	6/30/84	Unknown	620
Legislators'	6/30/84	20	20

The Education Code requires the State to provide supplemental funding to the State Teachers' Retirement System in order to reduce that system's unfunded actuarial liability. This code requires that, beginning July 1, 1980, annual state contributions of \$144 million to the State Teachers' Retirement System be increased or decreased to reflect changes in the California Consumer Price Index. For the 1984-85 fiscal year, the \$144 million increased to \$216 million because of changes in the California Consumer Price Index. The Education Code also provides for additional annual contributions as follows:

<u>Fiscal Year</u>	<u>Amount</u>	<u>Fiscal Year</u>	<u>Amount</u>
1985-86	\$100 million	1991-92	\$220 million
1986-87	120 million	1992-93	240 million
1987-88	140 million	1993-94	260 million
1988-89	160 million	1994-95	280 million
1989-90	180 million	Thereafter	280 million
1990-91	200 million		

Beginning in fiscal year 1994-95, the additional annual contributions of \$280 million must be indexed to the California Consumer Price Index.

Pension expenses related to the University of California Retirement System were \$195.1 million (including \$8.1 million for a special contribution and contributions to voluntary plans) for fiscal year 1984-85. In 1983, the State deferred the employer contribution appropriation to the University of California. The State agreed to pay the amount deferred in actuarially equivalent annual installments over the next 30

years. The outstanding amount of \$65.9 million is reported as a receivable in the Current Funds of the University of California and as an interfund receivable and payable between the University of California's Current and Retirement System Funds. However, the State will pay this amount from future years' appropriations. The State's General Fund does not recognize liabilities for amounts to be paid from future years' appropriations.

C. Change in Actuarial Assumptions

On December 12, 1984, the State Teachers' Retirement Board adopted a change in estimated rate of return on investments from 8.25 percent to 8.75 percent, reducing the unfunded actuarial liability from \$11.5 billion to \$10.1 billion.

16. Postretirement Health Care Benefits

In addition to providing pension benefits, the State also provides certain health care benefits for eligible retired employees and their survivors. The cost of retiree health care and dental benefits is recognized as an expenditure when the benefits are paid. The cost of providing these benefits for retirees in fiscal year 1984-85 was \$130.7 million, including \$28 million for the University of California.

17. Deferred Compensation Plan

The State has adopted a deferred compensation plan available to eligible state employees. Eligible employees may defer receiving portions of their salaries, thereby deferring taxation on those portions, until they are separated from service or face a serious financial emergency. The participants direct the plan administrator, the State, to invest the deferred amounts among nine investment options. The cost of administration and all funding are the responsibility of those participating in the plans. The State makes no contributions to the plan. However, the money in the plan is available for payment to the State's general creditors where permitted by the Legislature.

As of June 30, 1985, assets invested on behalf of the participants totaled approximately \$503 million. This amount is reported at cost plus accumulated earnings in an agency fund.

18. Guaranty Deposits

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



19. Segment Information - Enterprise Funds

Selected financial information by enterprise fund activity for major segments is shown in the schedule on the following page.

**ENTERPRISE FUND ACTIVITY  
BY MAJOR SEGMENTS  
(IN THOUSANDS)**

	Housing Loan	Water	State Compensation Insurance	Student Loans and School Building Aid	Toll Facilities	State University	Harbors and Waterways	Leasing of Public Assets	Other Enterprises
Operating Revenue	\$ 490,113	\$ 416,892	\$ 777,611	\$ 67,890	\$ 79,405	\$ 98,608	\$ 8,903	\$ 8,698	\$24,917
Operating Income	94,356	76,353	228,492	26,159	46,102	21,562	2,041	5,742	4,656
Net Income	163,199	4,340	228,492	31,235	33,808	16,410	17,596	5,827	12,048
Property, Plant, and Equipment									
Additions	47	169,408	10,850	6,263		19,963	15	1	93
Deductions	296				55				30
Total Assets	6,716,689	4,121,286	1,884,530	1,085,038	845,431	452,937	144,586	190,015	57,281
Bonds and Other Long-Term Liabilities									
Payable from operating revenues	5,870,016	2,824,046	1,091,095	186,188	128,786	186,188	2,171	111,465	300
Total Equity	574,047	1,063,760	494,226	(20,553)	707,070	223,838	139,499	73,437	50,904

The primary sources of Enterprise Fund revenues are as follows:

Housing Loan - Interest charged on contracts of sale of properties to California veterans and to California National Guard members, interest charged on program loans to finance the housing needs of persons and families of low and moderate income, loan origination fees, and interest earned on investments.

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

State Compensation Insurance - Premiums collected from California employers for insurance against workers' compensation claims and interest earned on investments. This information is as of and for the year ended December 31, 1984.

Student Loans and School Building Aid - Interest charged on loans to school districts for acquisition, construction, or rehabilitation of classroom facilities, income from the rental of portable classrooms to school districts, and interest charged on loans to students; \$20.4 million of the deficit results primarily from the write-down of loans receivable from school districts. The loans may be forgiven in accordance with statutory provisions.

Toll Facilities - Toll fees and interest earned on investments.

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.

Harbors and Waterways - Gasoline taxes related to boating activities, fees for boating registration and licensing, and interest earned on investments.

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

Other Enterprises - Canteen revenues and processing fees charged by various other departments and authorities.

## 20. Contingencies

### A. Litigation

The State is a party to numerous legal proceedings, many of which normally recur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1985; legal proceedings that were in progress at June 30, 1985, and that were settled or decided against the State as of December 20, 1985; and those legal proceedings having a high probability of resulting in a decision against the State as of December 20, 1985, 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 State is involved in certain other legal proceedings that, if decided against the State, may require the State 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 accompanying financial statements, nor can an estimate of the potential loss be made.

### B. Federal Audit Exceptions

The State of California receives substantial funding from the federal government in the form of grants and contracts. The State 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 State may spend these resources only for eligible purposes. If audits disclose exceptions, the State may incur a liability to the federal government.

### C. Insurance Program

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Except for the University of California, workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$293.6 million as of June 30, 1985. This liability is included in the accompanying financial statements in the General Long-Term Obligations Account Group. The

University of California is also self-insured, but it has placed assets with an independent trustee for the payment of workers' compensation. These assets are reported in the accompanying financial statements along with the related liability for future payments.

21. Reclassifications

The Enterprise Funds in the combined balance sheet reflect approximately \$4 billion of prior year receivable balances that were reclassified as advances and loans receivable. The reclassifications were made to better present these accounts in view of changed conditions and additional information that became available.

22. Subsequent Events

On August 13, 1985, the State of California issued \$2.3 billion in revenue anticipation notes to fund the State's cash flow needs for the 1985-86 fiscal year. These notes will mature on June 30, 1986.

From July 1, 1985, to December 20, 1985, the State sold \$585 million in general obligation bonds and \$737 million in revenue bonds.

On July 1, 1985, the University of California sold \$45.9 million in housing revenue bonds. On September 6, 1985, the University sold an additional \$43.5 million in Faculty Mortgage Revenue Bonds. On December 5, 1985, the University of California Parking System Bonds were refunded and replaced by issues for the Berkeley and Los Angeles campuses totaling \$10,359,000.

On October 3, 1985, the California State Lottery offered its first lottery tickets to the public. Through December 1985, ticket sales totaled approximately \$800 million. In accordance with the State Lottery Act of 1984, 50 percent of the proceeds must be paid in prizes. In addition, at least 34 percent of the lottery revenues must be allocated to the benefit of public education, and no more than 16 percent of the proceeds can be used for administrative costs.

**STATISTICAL SECTION**

**STATE OF CALIFORNIA**  
**SELECTED TAX REVENUE (LEGAL BASIS) BY SOURCE**  
**COMPARATIVE YIELD OF STATE TAXES**  
**FISCAL YEARS 1976-1985**  
**(IN THOUSANDS)**

Year Ending June 30	Retail Sales and Use	Personal Income	Bank and Corporation*	Cigarette	Inheritance, Estate, and Gift**	Insurance	Distilled Spirits	Horse Racing Revenues	Beer and Wine	Motor Vehicle Fuel***	Motor Vehicle Fees****
1976	\$3,742,524	\$ 3,086,611	\$1,286,515	\$268,610	\$316,648	\$241,224	\$104,697	\$ 96,117	\$20,616	\$ 766,555	\$ 749,935
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	105,275	102,702	22,210	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	109,088	111,591	22,972	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	114,922	112,856	25,137	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	112,757	127,002	26,183	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	115,191	129,779	27,669	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	111,151	119,626	28,372	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	108,519	120,159	27,690	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	107,983	141,001	29,450	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	105,952	133,814	29,834	1,159,637	2,137,326

\*Includes the corporation income tax.

\*\*Proposition 6 of 1982 repealed the inheritance and gift taxes and imposed an estate tax equal to the maximum allowable federal estate tax credit, effective for decedents dying on or after June 9, 1982.

\*\*\*Motor vehicle fuel tax (gasoline) and use fuel tax (diesel and liquefied petroleum gas).

\*\*\*\*Registration and weight fees, motor vehicle license fees, and other fees.

Source: State Controller

**STATE OF CALIFORNIA  
RATIO OF GENERAL LONG-TERM  
BONDED DEBT TO PER CAPITA INCOME  
FISCAL YEARS 1978-1985**

<u>Year Ending June 30</u>	<u>General Long-Term Bonded Debt (In Thousands)</u>	<u>Per Capita Debt</u>	<u>Per Capita Income</u>	<u>Ratio: Per Capita Debt to Per Capita Income</u>
1978	\$1,680,644	\$ 73.59	\$ 8,786	.84%
1979	1,727,920	74.30	9,859	.75
1980	1,755,886	73.87	11,021	.67
1981	1,685,352	69.59	12,105	.57
1982	1,791,913	72.56	12,617	.58
1983	2,074,159	82.39	13,257	.62
1984	2,234,900	87.20	14,592	.60
1985	2,771,642	105.12	15,096	.70

Sources: 1978-85, State Controller's Annual Reports; 1982, U.S. Department of Commerce, Bureau of Economic Analysis, and California Department of Finance estimates.

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE POPULATION  
CALENDAR YEARS 1940-1984**

<u>Year</u>	<u>United States Population</u>	<u>Average Annual Percentage Increase</u>	<u>California Population</u>	<u>Average Annual Percentage Increase</u>	<u>California as Percent of United States</u>
1940	132,457,000		6,950,000		5.2
1950	151,868,000	1.4	10,643,000	4.4	7.0
1960	179,979,000	1.7	15,863,000	4.1	8.8
1970	203,984,000	1.3	20,039,000	2.4	9.8
1980	227,236,000	1.1	23,771,000	1.7	10.5
1981	229,518,000	1.0	24,216,000	1.9	10.6
1982	231,786,000	1.0	24,698,000	2.0	10.7
1983	233,981,000	.9	25,186,000	2.0	10.8
1984	236,108,000	.9	25,622,000	1.7	10.9

Sources: U.S. Department of Commerce, Bureau of the Census, Current Population Reports; California Department of Finance estimates.



**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE PERSONAL INCOME  
CALENDAR YEARS 1970-1984**

Year	United States		California		California as a Percent of United States
	Personal Income (In Millions)	Percent Change	Personal Income (In Millions)	Percent Change	
1970	\$ 803,922		\$ 90,295		11.2
1971	861,904	7.2	95,653	5.9	11.1
1972	944,852	9.6	104,191	8.9	11.0
1973	1,058,902	12.1	114,690	10.1	10.8
1974	1,162,203	9.8	128,142	11.7	11.0
1975	1,258,643	8.3	141,046	10.1	11.2
1976	1,385,201	10.1	156,940	11.3	11.3
1977	1,534,708	10.8	175,737	12.0	11.5
1978	1,726,185	12.5	202,282	15.1	11.7
1979	1,942,655	12.5	231,416	14.4	11.9
1980	2,156,715	11.0	261,946	13.2	12.1
1981	2,420,098	12.2	293,196	11.9	12.1
1982	2,575,759	6.4	312,205	6.5	12.1
1983	2,735,829	6.2	334,400	7.1	12.2
1984	3,020,259	10.4	371,202	11.0	12.3

Sources: 1970-1984, U.S. Department of Commerce, Bureau of Economic Analysis. (Data for United States represent the total for the 50 states and the District of Columbia.)

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL TO STATE  
PER CAPITA PERSONAL INCOME  
CALENDAR YEARS 1970-1984**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percent of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	
1970	\$ 3,945		\$ 4,510		114.3
1971	4,167	5.6	4,701	4.2	112.8
1972	4,515	8.4	5,062	7.7	112.1
1973	5,010	11.0	5,496	8.6	109.7
1974	5,448	8.7	6,052	10.1	111.1
1975	5,842	7.2	6,549	8.2	112.1
1976	6,367	9.0	7,155	9.3	112.4
1977	6,984	9.7	7,863	9.9	112.6
1978	7,772	11.3	8,857	12.6	114.0
1979	8,651	11.3	9,951	12.4	115.0
1980	9,494	9.7	11,020	10.7	116.1
1981	10,544	11.1	12,106	9.9	114.8
1982	11,113	5.4	12,642	4.4	113.8
1983	11,690	5.2	13,277	5.0	113.6
1984	12,789	9.4	14,487	9.1	113.3

Sources: 1970-1984, U.S. Department of Commerce, Bureau of Economic Analysis; 1984, California Department of Finance estimates.

**STATE OF CALIFORNIA  
CIVILIAN LABOR FORCE FOR  
RESIDENT POPULATION AGE 16 AND OVER  
CALENDAR YEARS 1973-1984**

<u>Year</u>	<u>Labor Force Trends</u> (In Thousands)			<u>Unemployment Rate</u>	
	<u>Total Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>United States</u>	<u>California</u>
1973	8,910	8,286	624	4.9%	7.0%
1974	9,317	8,638	679	5.6	7.3
1975	9,539	8,598	941	8.5	9.9
1976	9,896	8,990	906	7.7	9.2
1977	10,367	9,513	853	7.1	8.2
1978	10,911	10,137	775	6.1	7.1
1979	11,268	10,566	702	5.8	6.2
1980	11,584	10,794	790	7.1	6.8
1981	11,812	10,938	875	7.6	7.4
1982	12,178	10,967	1,210	9.7	9.9
1983	12,269	11,084	1,185	9.6	9.7
1984	12,503	11,532	972	7.5	7.8

Source: California Employment Development Department.

STATE OF CALIFORNIA  
 PERSONS EMPLOYED IN  
 PRINCIPAL MANUFACTURING INDUSTRIES  
CALENDAR YEARS 1982 AND 1984  
 (IN THOUSANDS)

Industry	1982	1984	Percent Change
Furniture and fixtures	43.2	59.4	37.5
Lumber and wood products	46.3	55.2	19.2
Electric and electronic equipment	351.2	399.9	13.9
Textile mill products	12.4	14.1	13.7
Rubber and miscellaneous plastic products	61.2	67.8	10.8
Printing and publishing	124.5	136.8	9.9
Apparel	102.4	109.0	6.4
Fabricated metal products	137.6	145.0	5.4
Instruments and related products	102.4	107.5	5.0
Paper and allied products	37.3	38.9	4.3
Transportation equipment	263.3	274.0	4.1
Machinery, except electrical	227.6	235.7	3.6
Stone, clay, and glass products	50.4	51.8	2.8
Miscellaneous	38.4	38.0	(1.0)
Chemicals and allied products	64.5	63.8	(1.1)
Petroleum and coal products	31.7	30.4	(4.1)
Food and kindred products	182.5	174.9	(4.2)
Primary metal products	47.6	42.4	(10.9)
Leather and leather products	10.5	8.2	(21.9)
Total	<u>1,935.0</u>	<u>2,052.8</u>	6.1

Sources: U.S. Department of Commerce, Bureau of the Census; California Employment Development Department

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps