California State Auditor

BUREAU OF STATE AUDITS

State of California:

Financial Report
Year Ended June 30, 2000

December 2000
2000-001

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

December 22, 2000

2000-001

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

The Bureau of State Audits presents its Independent Auditors' Report on the State of California's general purpose financial statements for the fiscal year ended June 30, 2000. These financial statements are presented on a basis in conformity with generally accepted accounting principles (GAAP). The financial statements show that the State's General Fund generated revenues of approximately $10 billion more than it spent for the fiscal year. The General Fund ended the fiscal year with a fund balance of approximately $8.4 billion. The GAAP basis statements include all liabilities owed by the State while the budgetary basis statements that are used to report on the State's budget do not reflect all liabilities.

We conducted the audit to comply with the California Government Code, Section 8546.4.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE
State Auditor

BUREAU OF STATE AUDITS
555 Capitol Mall, Suite 300, Sacramento, California 95814 Telephone: (916) 445-0255 Fax: (916) 327-0019

State of California:

Financial Report
Year Ended June 30, 2000

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ELAINE M. HOWLE
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STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

Independent Auditors' Report

THE GOVERNOR AND THE LEGISLATURE OF THE
STATE OF CALIFORNIA

We have audited the accompanying general purpose financial statements of the State of California, as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of California's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain capital projects funds, which reflect total assets and revenues, constituting 71 percent and 70 percent, respectively, of the capital projects funds. In addition, we did not audit the financial statements of certain enterprise funds, including those of the California State University, which reflect total assets and revenues, constituting 91 percent and 93 percent, respectively, of the enterprise funds. We did not audit the financial statements of certain internal service funds, which reflect total assets and revenues, constituting 26 percent and 47 percent, respectively, of the internal service funds. We also did not audit the financial statements of the pension trust funds, which reflect total assets constituting 88 percent of the fiduciary funds. Finally, we did not audit the University of California funds or the financial statements of certain component unit authorities, which reflect total assets and revenues, constituting 95 percent and 92 percent, respectively, of the component unit authorities. The financial statements of certain capital projects, enterprise and internal service funds, the pension trust funds, the University of California funds, and certain component unit authorities referred to above were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these funds and entities, is based solely upon the reports of the other auditors.

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

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In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of California, as of June 30, 2000, and the results of its operations and the cash flows of its proprietary funds and component unit authorities for the year then ended, in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules and required supplementary information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State of California. The information for the combining financial statements and schedules and the Schedule of Funding Progress in the required supplementary information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report, and accordingly, we express no opinion on them. In accordance with *Government Auditing Standards*, reports on the State's internal control structure and on its compliance with laws and regulations will be issued in our single audit report. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BUREAU OF STATE AUDITS

Philip Jelicich

PHILIP J. JELICICH, CPA
Deputy State Auditor

November 17, 2000

General Purpose Financial Statements

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	**Special Revenue**	**Capital Projects**	**Enterprise**	**Internal Service**
ASSETS AND OTHER DEBITS					
Cash and pooled investments	$ 9,530,738	$ 6,965,053	$ 158,782	$ 2,435,815	$ 301,537
Investments	—	181,064	8,205	4,344,005	143,691
Amount on deposit with U. S. Treasury	—	—	—	—	—
Receivables (net)	175,545	407,674	280	156,789	11,219
Due from other funds	6,225,774	3,772,525	67,872	285,593	282,976
Due from primary government	—	—	—	—	—
Due from other governments	452,133	5,237,018	—	123,464	13,837
Prepaid items	—	—	—	7,554	30,689
Food stamps	—	401,221	—	—	—
Inventories, at cost	—	—	—	14,451	93,463
Net investment in direct financing leases	—	—	—	4,900,655	—
Advances and loans receivable	287,306	1,703,262	—	2,964,524	—
Deferred charges	—	—	—	894,772	—
Fixed assets	—	—	—	4,850,022	512,697
Investment in UCSF Stanford Health Care	—	—	—	—	—
Other assets	994	15,153	2	15,325	10,392
Amount to be provided for retirement of long-term obligations	—	—	—	—	—
Total Assets and Other Debits	**$ 16,672,490**	**$ 18,682,970**	**$ 235,141**	**$ 20,992,969**	**$ 1,400,501**

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Total Primary	Component Units		Total Reporting
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Government (Memorandum Only)	University of California	Special Purpose Authorities	Entity (Memorandum Only)
$ 20,334,930	$ —	$ —	$ 39,726,855	$ 117,852	$ 1,011,160	$ 40,855,867
320,775,223	—	—	325,452,188	69,238,649	7,469,334	402,160,171
5,700,891	—	—	5,700,891	—	—	5,700,891
14,085,885	—	—	14,837,392	2,279,996	356,832	17,474,220
5,413,335	—	—	16,048,075	125,881	—	16,173,956
—	—	—	––	175,982	5,213	181,195
1,928,703	—	—	7,755,155	148,140	—	7,903,295
34,032	—	—	72,275	—	400	72,675
—	—	—	401,221	—	—	401,221
—	—	—	107,914	104,652	—	212,566
—	—	—	4,900,655	—	—	4,900,655
1,251,568	—	—	6,206,660	—	5,859,389	12,066,049
—	—	—	894,772	83,246	63,920	1,041,938
—	17,555,474	—	22,918,193	16,865,382	525,319	40,308,894
—	—	—	––	15,400	—	15,400
386,491	—	—	428,357	—	798,089	1,226,446
—	—	25,821,838	25,821,838	—	—	25,821,838
$ 369,911,058	$ 17,555,474	$ 25,821,838	$ 471,272,441	$ 89,155,180	$ 16,089,656	$ 576,517,277

(Continued)

The notes to the financial statements are an integral part of this statement.

Combined Balance Sheet

All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES					
Accounts payable	$ 1,340,396	$ 1,557,720	$ 7,193	$ 125,095	$ 116,643
Due to other funds	2,456,218	4,328,235	10,023	295,102	160,869
Due to component units	67,182	109,695	—	—	—
Due to other governments	3,595,436	2,974,980	1,355	166,548	94,079
Dividends payable	—	—	—	—	—
Deferred revenue	—	401,455	—	—	—
Advances from other funds	508,785	64,573	—	34,758	98,797
Tax overpayments	—	8,082	—	—	—
Benefits payable	—	—	—	567,300	59,903
Deposits	5	17,264	—	3,034	2,204
Contracts and notes payable	—	—	—	—	27,261
Lottery prizes and annuities	—	—	—	2,828,358	—
Compensated absences payable	135,914	—	—	32,182	35,969
Certificates of participation, commercial paper, and other borrowings	—	—	—	28,117	—
Capital lease obligations	—	—	—	—	69,325
Advance collections	23,995	94,072	2,807	278,761	153,205
General obligation bonds payable	—	—	—	3,513,400	—
Revenue bonds payable	—	—	—	8,993,282	—
Interest payable	1,553	—	26,921	161,331	—
Securities lending obligation	—	—	—	—	—
Other liabilities	175,686	195,932	—	390,489	27,505
Total Liabilities	**8,305,170**	**9,752,008**	**48,299**	**17,417,757**	**845,760**
FUND EQUITY AND OTHER CREDITS					
Contributed capital	—	—	—	296,484	347,083
Investment in general fixed assets	—	—	—	—	—
Retained earnings					
Reserved for regulatory requirements	—	—	—	242,531	—
Unreserved	—	—	—	3,036,197	207,658
Total Retained Earnings	**––**	**––**	**––**	**3,278,728**	**207,658**
Fund balances					
Reserved for					
Encumbrances	701,275	3,240,201	122,527	—	—
Local agencies	—	—	—	—	—
Advances and loans	287,306	1,703,262	—	—	—
Employees' pension benefits	—	—	—	—	—
Continuing appropriations	1,115,188	3,740,863	43,171		—
Other specific purposes	—	—	—	—	—
Total Reserved	**2,103,769**	**8,684,326**	**165,698**	**––**	**––**
Unreserved					
Undesignated	6,263,551	246,636	21,144	—	—
Total Fund Equity and Other Credits	**8,367,320**	**8,930,962**	**186,842**	**3,575,212**	**554,741**
Total Liabilities, Fund Equity, and Other Credits	**$ 16,672,490**	**$ 18,682,970**	**$ 235,141**	**$ 20,992,969**	**$ 1,400,501**

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type	Account Groups		Total Primary	Component Units		Total Reporting
Trust and Agency	General Fixed Assets	General Long-Term Obligations	Government (Memorandum Only)	University of California	Special Purpose Authorities	Entity (Memorandum Only)
$ 6,082,030	$ —	$ —	**$ 9,229,077**	$ 1,536,685	$ 16,420	**$ 10,782,182**
8,797,628	—	—	**16,048,075**	125,881	—	**16,173,956**
4,318	—	—	**181,195**	—	—	**181,195**
4,167,884	—	—	**11,000,282**	—	8,983	**11,009,265**
—	—	—	**––**	—	145,386	**145,386**
—	—	—	**401,455**	—	—	**401,455**
162,972	—	—	**869,885**	—	—	**869,885**
1,895,501	—	—	**1,903,583**	—	—	**1,903,583**
421,800	—	—	**1,049,003**	—	5,062,442	**6,111,445**
903,702	—	—	**926,209**	1,316,951	116,262	**2,359,422**
1,072	—	—	**28,333**	—	5,248	**33,581**
—	—	—	**2,828,358**	—	—	**2,828,358**
—	—	1,227,649	**1,431,714**	359,363	32,018	**1,823,095**
—	—	622,656	**650,773**	1,005,029	—	**1,655,802**
—	—	3,407,790	**3,477,115**	1,211,617	—	**4,688,732**
147,248	—	—	**700,088**	—	173,075	**873,163**
—	—	17,838,290	**21,351,690**	—	—	**21,351,690**
—	—	843,850	**9,837,132**	2,754,000	6,693,933	**19,285,065**
—	—	—	**189,805**	—	144,318	**334,123**
30,550,543	—	—	**30,550,543**	8,640,549	—	**39,191,092**
6,172,069	—	1,881,603	**8,843,284**	—	783,039	**9,626,323**
59,306,767	**––**	**25,821,838**	**121,497,599**	**16,950,075**	**13,181,124**	**151,628,798**
—	—	—	**643,567**	—	109	**643,676**
—	17,555,474	—	**17,555,474**	12,249,011	—	**29,804,485**
—	—	—	**242,531**	—	657,211	**899,742**
—	—	—	**3,243,855**	—	2,251,212	**5,495,067**
––	**––**	**––**	**3,486,386**	**––**	**2,908,423**	**6,394,809**
—	—	—	**4,064,003**	—	—	**4,064,003**
12,528,388	—	—	**12,528,388**	—	—	**12,528,388**
578,926	—	—	**2,569,494**	—	—	**2,569,494**
285,631,779	—	—	**285,631,779**	50,580,077	—	**336,211,856**
—	—	—	**4,899,222**	—	—	**4,899,222**
—	—	—	**––**	5,512,775	—	**5,512,775**
298,739,093	**––**	**––**	**309,692,886**	**56,092,852**	**––**	**365,785,738**
11,865,198	—	—	**18,396,529**	3,863,242	—	**22,259,771**
310,604,291	**17,555,474**	**––**	**349,774,842**	**72,205,105**	**2,908,532**	**424,888,479**
$ 369,911,058	**$ 17,555,474**	**$ 25,821,838**	**$ 471,272,441**	**$ 89,155,180**	**$ 16,089,656**	**$ 576,517,277**

(Concluded)

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances

All Governmental Fund Types and Expendable Trust Funds

Year Ended June 30, 2000
(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total Primary Government (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
REVENUES					
Taxes	$ 69,887,584	$ 5,703,438	$ —	$ 4,602,031	**$ 80,193,053**
Intergovernmental	4,404	31,538,816	—	639,494	**32,182,714**
Licenses and permits	44,786	3,200,315	750	—	**3,245,851**
Natural resources	12,255	79,407	—	—	**91,662**
Charges for services	173,018	675,334	—	5,772	**854,124**
Fees and penalties	69,390	1,929,286	—	459,648	**2,458,324**
Investment and interest	485,211	435,220	18,466	645,071	**1,583,968**
Escheat	—	—	—	173,136	**173,136**
Receipts from depositors	—	—	—	514,356	**514,356**
Other	633,875	451,168	25,018	669,766	**1,779,827**
Total Revenues	**71,310,523**	**44,012,984**	**44,234**	**7,709,274**	**123,077,015**
EXPENDITURES					
Current					
General government	2,265,123	3,746,505	17	71,702	**6,083,347**
Education	30,753,111	6,152,064	6	1,783,301	**38,688,482**
Health and human services	17,339,355	27,363,393	—	4,716,238	**49,418,986**
Resources	1,080,458	1,595,749	2,246	28,347	**2,706,800**
State and consumer services	445,207	396,076	9,039	1,089	**851,411**
Business and transportation	766,098	6,554,280	42	18,106	**7,338,526**
Correctional programs	4,375,739	225,460	—	—	**4,601,199**
Tax relief	2,173,459	—	—	—	**2,173,459**
Payments to depositors	—	—	—	305,690	**305,690**
Capital outlay	82,350	321,546	305,802	—	**709,698**
Debt service					
Principal retirement	1,066,892	22,820	32,482	—	**1,122,194**
Interest and fiscal charges	984,387	82,499	59,144	—	**1,126,030**
Total Expenditures	**61,332,179**	**46,460,392**	**408,778**	**6,924,473**	**115,125,822**
Excess (Deficiency) of Revenues Over (Under) Expenditures	**9,978,344**	**(2,447,408)**	**(364,544)**	**784,801**	**7,951,193**
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds, commercial paper, and capital leases	82,350	5,011,776	672,349	—	**5,766,475**
Proceeds from revenue bonds	—	—	59,045	—	**59,045**
Operating transfers in	614,413	3,834,248	114,782	269,898	**4,833,341**
Operating transfers out	(1,212,134)	(3,321,264)	(419)	(237,286)	**(4,771,103)**
Transfers out — component units	(3,426,912)	(110,386)	(13,074)	(1,300)	**(3,551,672)**
Payment to refund commercial paper	—	(2,398,380)	(337,120)	—	**(2,735,500)**
Total Other Financing Sources (Uses)	**(3,942,283)**	**3,015,994**	**495,563**	**31,312**	**(399,414)**
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	**6,036,061**	**568,586**	**131,019**	**816,113**	**7,551,779**
Fund Balances, July 1, 1999	**2,331,259**	**8,362,376**	**55,823**	**11,628,011**	**22,377,469**
Fund Balances, June 30, 2000	**$ 8,367,320**	**$ 8,930,962**	**$ 186,842**	**$ 12,444,124**	**$ 29,929,248**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 2000
(Amounts in thousands)

	Proprietary Fund Types		Total Primary Government (Memorandum Only)	Component Units Special Purpose Authorities	Total Reporting Entity (Memorandum Only)
	Enterprise	Internal Service			
OPERATING REVENUES					
Lottery ticket sales	$ 2,598,379	$ —	$ **2,598,379**	$ —	$ **2,598,379**
Service and sales	1,193,457	2,506,725	**3,700,182**	125,290	**3,825,472**
Earned premiums (net)	—	—	**––**	1,242,319	**1,242,319**
Investment and interest	264,582	210	**264,792**	387,257	**652,049**
Contributions	—	—	**––**	3,194	**3,194**
Rent	387,327	—	**387,327**	25,172	**412,499**
Other	50,676	12,388	**63,064**	65,137	**128,201**
Total Operating Revenues	**4,494,421**	**2,519,323**	**7,013,744**	**1,848,369**	**8,862,113**
OPERATING EXPENSES					
Lottery prizes	1,369,435	—	**1,369,435**	—	**1,369,435**
Personal services	340,633	334,204	**674,837**	120,990	**795,827**
Supplies	74,858	34,126	**108,984**	—	**108,984**
Services and charges	1,016,175	2,144,549	**3,160,724**	156,245	**3,316,969**
Depreciation	105,330	86,564	**191,894**	11,394	**203,288**
Benefit payments	—	—	**––**	1,490,069	**1,490,069**
Interest expense	511,199	4,607	**515,806**	372,487	**888,293**
Amortization of deferred charges	86,853	—	**86,853**	178,524	**265,377**
Total Operating Expenses	**3,504,483**	**2,604,050**	**6,108,533**	**2,329,709**	**8,438,242**
Operating Income (Loss)	**989,938**	**(84,727)**	**905,211**	**(481,340)**	**423,871**
NONOPERATING REVENUES (EXPENSES)					
Grants received	267	—	**267**	69,389	**69,656**
Grants provided	(41,813)	—	**(41,813)**	(69,389)	**(111,202)**
Investment and interest income (loss)	116,532	13,391	**129,923**	(82,706)	**47,217**
Interest expense and fiscal charges	(207,523)	(38)	**(207,561)**	(2,745)	**(210,306)**
Dividends paid	—	—	**––**	7,279	**7,279**
Lottery payments for education	(907,305)	—	**(907,305)**	—	**(907,305)**
Other	(20,266)	(338)	**(20,604)**	7,626	**(12,978)**
Total Nonoperating Revenues (Expenses)	**(1,060,108)**	**13,015**	**(1,047,093)**	**(70,546)**	**(1,117,639)**
Income (Loss) Before Operating Transfers	**(70,170)**	**(71,712)**	**(141,882)**	**(551,886)**	**(693,768)**
OPERATING TRANSFERS					
Operating transfers in	32,334	7,126	**39,460**	—	**39,460**
Operating transfers in — primary government	—	—	**––**	425,000	**425,000**
Operating transfers out	(64,564)	(15,099)	**(79,663)**	—	**(79,663)**
Total Operating Transfers	**(32,230)**	**(7,973)**	**(40,203)**	**425,000**	**384,797**
Net Income (Loss)	**(102,400)**	**(79,685)**	**(182,085)**	**(126,886)**	**(308,971)**
Retained Earnings, July 1, 1999	**3,381,128**	**287,343**	**3,668,471**	**3,035,309 ***	**6,703,780**
Retained Earnings, June 30, 2000	**$ 3,278,728**	**$ 207,658**	**$ 3,486,386**	**$ 2,908,423**	**$ 6,394,809**

*Restated

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Non-GAAP Budgetary Basis – Budget and Actual

All Governmental Cost Funds

Year Ended June 30, 2000
(Amounts in thousands)

	General Fund		
	Budget	**Actual**	**Variance**
REVENUES			
Major taxes and licenses			
Bank and corporation taxes	—	$ 6,638,762	—
Cigarette and tobacco tax	—	132,199	—
Inheritance, estate and gift taxes	—	928,146	—
Insurance gross premiums tax	—	1,299,777	—
Vehicle license fees	—	28,422	—
Motor vehicle fuel tax	—	—	—
Personal income tax	—	39,574,650	—
Retail sales and use taxes	—	21,137,297	—
Other major taxes and licenses	—	288,120	—
Total Major Taxes and Licenses	**––**	**70,027,373**	**––**
Minor revenues	—	1,528,263	—
Total Revenues	**––**	**71,555,636**	**––**
EXPENDITURES			
Legislative, judicial, executive	$ 2,376,642	2,332,475	$ 44,167
State and consumer services	447,832	438,583	9,249
Business, transportation and housing	745,296	745,043	253
Trade and commerce	482,631	480,438	2,193
Resources	1,024,920	982,000	42,920
Environmental protection	148,488	140,245	8,243
Health and human services	17,753,473	17,485,106	268,367
Correctional programs	4,539,608	4,396,357	143,251
Education	34,043,665	34,014,860	28,805
General government			
Tax relief and shared revenues	2,203,119	2,171,316	31,803
Debt service	2,107,329	2,072,690	34,639
Other general government	937,242	844,599	92,643
Total Expenditures	**$ 66,810,245**	**66,103,712**	**$ 706,533**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	423,302	—
Transfers to other funds	—	(203,818)	—
Other additions and deductions	—	48,095	—
Total Other Financing Sources (Uses)	**––**	**267,579**	**––**
Excess of Revenues and Other Sources Over Expenditures and Other Uses	**––**	**5,719,503**	**––**
FUND BALANCES			
Fund Balances, July 1, 1999, Restated	**––**	3,920,188	**––**
Fund Balances, June 30, 2000	**––**	**$ 9,639,691**	**––**

The notes to the financial statements are an integral part of this statement.

Other Governmental Funds			Total		
Budget	Actual	Variance	Budget	Actual	Variance
—	$ 136	—	––	$ 6,638,898	—
—	1,084,452	—	—	1,216,651	—
—	—	—	—	928,146	—
—	—	—	—	1,299,777	—
—	3,315,500	—	—	3,343,922	—
—	3,069,694	—	—	3,069,694	—
—	3,587	—	—	39,578,237	—
—	4,388,491	—	—	25,525,788	—
—	1,957,499	—	—	2,245,619	—
––	**13,819,359**	**––**	**––**	**83,846,732**	**––**
—	4,352,791	—	—	5,881,054	—
––	**18,172,150**	**––**	**––**	**89,727,786**	**––**
$ 531,821	513,748	$ 18,073	$ 2,908,463	2,846,223	$ 62,240
586,333	417,513	168,820	1,034,165	856,096	178,069
5,783,550	4,960,976	822,574	6,528,846	5,706,019	822,827
8,659	8,051	608	491,290	488,489	2,801
902,692	876,844	25,848	1,927,612	1,858,844	68,768
561,962	549,433	12,529	710,450	689,678	20,772
4,337,725	4,321,185	16,540	22,091,198	21,806,291	284,907
16,965	16,185	780	4,556,573	4,412,542	144,031
927,307	895,323	31,984	34,970,972	34,910,183	60,789
3,346,500	3,346,500	—	5,549,619	5,517,816	31,803
501	270	231	2,107,830	2,072,960	34,870
(86,411)	(117,896)	31,485	850,831	726,703	124,128
$ 16,917,604	**15,788,132**	**$ 1,129,472**	**$ 83,727,849**	**81,891,844**	**$ 1,836,005**
—	15,019,520	—	—	15,442,822	—
—	(17,128,953)	—	—	(17,332,771)	—
—	272,271	—	—	320,366	—
––	**(1,837,162)**	**––**	**––**	**(1,569,583)**	**––**
––	**546,856**	**––**	**––**	**6,266,359**	**––**
––	5,925,389	**––**	**––**	**9,845,577**	**––**
––	**$ 6,472,245**	**––**	**––**	**$ 16,111,936**	**––**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Cash Flows

All Proprietary Fund Types and Discretely Presented Component Units – Special Purpose Authorities

Year Ended June 30, 2000
(Amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise (1)	Internal Service (2)	Special Purpose Authorities
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 989,938	$ (84,727)	$ (481,340)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Interest expense on operating debt	(1,654)	4,607	369,272
Depreciation	105,330	86,564	11,394
Accretion of capital appreciation bonds	10,344	—	19,665
Provisions and allowances	5,573	—	18,703
Accrual of deferred charges	(3,631)	—	(181,187)
Amortization of deferred credits	(3,798)	—	(3,212)
Amortization of discounts	1,604	—	8,009
Amortization of deferred charges	86,853	—	177,062
Purchase of program loans	—	—	(1,045,262)
Collection of principal from program loans	(125)	—	334,094
Other	(3,609)	848	12,196
Change in assets and liabilities			
Receivables	(24,265)	(6,904)	(23,712)
Due from other funds	(17,174)	32,480	—
Due from primary government	—		(1,480)
Due from other governments	(48,212)	(3,314)	—
Prepaid items	(714)	(2,956)	(65)
Inventories	1,196	(5,576)	—
Net investment in direct financing leases	185,528	—	—
Advances and loans receivable	(392,250)	—	—
Other assets	6,376	1,566	49,164
Accounts payable	8,495	(44,345)	5,872
Interest payable	21,809	—	—
Due to other funds	(20,261)	(21,807)	(1,180)
Due to other governments	17,099	18,831	4
Benefits payable	213,382	16,776	156,481
Deposits	(688)	1,502	2,307
Lottery prizes and annuities	(234,108)	—	—
Contracts and notes payable	(585)	(2,695)	1,192
Compensated absences payable	2,888	(2,019)	2,360
Capital lease obligations	—	(2,619)	—
Advance collections	3,451	134	(4,579)
Other liabilities	23,451	5,901	(100,321)
Total Adjustments	**(57,695)**	**76,974**	**(193,223)**
Net Cash Provided by (Used In) Operating Activities	**932,243**	**(7,753)**	**(674,563)**

(Continued)

The notes to the financial statements are an integral part of this statement.

	Proprietary Fund Types		Component Units
	Enterprise (1)	Internal Service (2)	Special Purpose Authorities (3)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Dividends paid	—	—	(93,098)
Advances from other funds	10,186	2,846	—
Collection of advances and loans	13,915	—	—
Return of advances from other funds	(6,160)	—	—
Proceeds from revenue bonds	117,200	—	1,570,831
Retirement of general obligation bonds	(162,815)	—	—
Retirement of revenue bonds	(15,600)	—	(896,416)
Interest paid on operating debt	—	—	(364,436)
Operating transfers in	28,047	7,126	—
Operating transfers out	(54,258)	(15,099)	—
Grants provided	(41,813)	—	(69,389)
Lottery payments for education	(975,825)	—	—
Net Cash Provided by (Used In) Noncapital Financing Activities	**(1,087,123)**	**(5,127)**	**147,492**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Unamortized water project costs	6,321	—	—
Acquisition of intangible assets	—	(1,747)	—
Acquisition of fixed assets	(235,685)	(104,004)	(16,224)
Proceeds from sale of fixed assets	63	18,998	4
Advances from other funds	372,605	—	—
Advances and loans provided	(9,580)	—	—
Collection of advances and loans	11,942	—	—
Return of advances from other funds	(368,254)	—	—
Proceeds from notes payable and commercial paper	13,753	12,347	—
Principal paid on notes payable and commercial paper	—	(3,440)	—
Payment of capital lease obligations	—	(2,430)	—
Retirement of general obligation bonds	(39,900)	—	—
Proceeds from revenue bonds	296,262	—	—
Retirement of revenue bonds	(333,337)	—	(2,521)
Interest paid	(207,739)	(4,607)	(2,777)
Contributed capital	48,827	1,901	—
Grants received	267	—	69,389
Operating transfers in	4,307	—	425,000
Operating transfers out	(10,082)	—	—
Net Cash Provided by (Used In) Capital and Related Financing Activities	**(450,230)**	**(82,982)**	**472,871**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(357,793)	—	(3,097,345)
Proceeds from maturity and sale of investments	838,660	44,185	2,657,031
Earnings on investments	114,827	13,889	515,567
Net Cash Provided by Investing Activities	**595,694**	**58,074**	**75,253**
Net Increase (Decrease) in Cash and Pooled Investments	**(9,416)**	**(37,788)**	**21,053**
Cash and Pooled Investments at July 1, 1999	**2,445,231**	**339,325**	**990,107**
Cash and Pooled Investments at June 30, 2000	**$ 2,435,815**	**$ 301,537**	**$ 1,011,160**
			(Concluded)

Non-cash transactions are those portions of investing, financing, or capital activities that affected assets and liabilities but did not result in cash receipts or payments during the period.

(1) Enterprise funds had the following non-cash transactions: a. $199 million on interest accreted on annuitized lottery prizes; b. $41 million on unclaimed lottery prizes directly transferred for educational purposes; c. $33 million unrealized gain and $27 million unrealized loss on investments.

(2) Internal service funds made non-cash transactions for installment purchases totaling approximately $12 million to acquire equipment.

(3) Component units had a $621 million unrealized loss on investments.

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Plan Net Assets

Pension Trust Funds and Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Primary Government	Component Unit
		University of California
	Pension Trust Funds	Retirement System Funds
ADDITIONS		
Contributions		
Employer	$ 3,004,829	$ 1,584
Plan member	3,312,103	557,441
Total Contributions	**6,316,932**	**559,025**
Investment income		
Net appreciation in fair value of investments	20,982,667	4,067,246
Interest, dividends, and other investment income	10,511,973	2,163,444
Less: Investment expense	(2,204,266)	(417,798)
Net Investment Income	**29,290,374**	**5,812,892**
Other	8,091	1,229,620
Total Additions	**35,615,397**	**7,601,537**
DEDUCTIONS		
Benefits	8,899,138	665,803
Refunds of contributions	223,077	466,510
Administrative expense	226,856	25,911
Operating transfers out	22,035	—
Total Deductions	**9,371,106**	**1,158,224**
Net Increase in Fund Balance Reserved for Employees' Pension Benefits	**26,244,291**	**6,443,313**
Fund Balance Reserved for Employees' Pension Benefits, July 1, 1999	**259,387,488**	**44,136,764**
Fund Balance Reserved for Employees' Pension Benefits, June 30, 2000	**$ 285,631,779**	**$ 50,580,077**

Statement of Changes in Net Assets

Investment Trust Fund – Local Agency Investment

Year Ended June 30, 2000
(Amounts in thousands)

CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	
Investment and interest income	$ 734,099
Less: Operating expenditures and expenses	(1,710)
Net Increase in Net Assets Resulting From Operations	**732,389**
DISTRIBUTIONS TO PARTICIPANTS	
Distributions paid and payable	**(732,389)**
CHANGE IN NET ASSETS RESULTING FROM DEPOSITOR TRANSACTIONS	
Receipts from depositors	17,149,806
Less: Withdrawals by depositors	(18,776,242)
Net Decrease in Net Assets Resulting from Depositor Transactions	**(1,626,436)**
Total Change in Net Assets	**(1,626,436)**
Net Assets Held in Trust for Pool Participants, July 1, 1999	**14,154,824**
Net Assets Held in Trust for Pool Participants, June 30, 2000	**$ 12,528,388**

The notes to the financial statements are an integral part of this statement.

Combined Balance Sheet – Discretely Presented Component Unit – University of California

June 30, 2000
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS							
Cash	$ 115,322	$ —	$ —	$ 2,530	$ —	$ —	**$ 117,852**
Investments	3,986,970	78,724	5,639,777	1,713,613	749,991	57,069,574	**69,238,649**
Receivables (net)	1,446,772	281,939	31,516	11,453	—	508,316	**2,279,996**
Due from other funds	80	—	23,542	1,281	—	100,978	**125,881**
Due from primary government	175,982	—	—	—	—	—	**175,982**
Due from other governments	147,179	961	—	—	—	—	**148,140**
Inventories, at cost	104,652	—	—	—	—	—	**104,652**
Deferred charges	83,246	—	—	—	—	—	**83,246**
Fixed assets	—	—	—	16,865,382	—	—	**16,865,382**
Investment in UCSF Stanford Health Care	—	—	—	15,400	—	—	**15,400**
Total Assets	**$ 6,060,203**	**$ 361,624**	**$ 5,694,835**	**$ 18,609,659**	**$ 749,991**	**$ 57,678,868**	**$ 89,155,180**
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts payable	$ 1,460,068	$ —	$ 5,896	$ 37,949	$ —	$ 32,772	**$ 1,536,685**
Due to other funds	102,480	2,000	—	21,401	—	—	**125,881**
Deposits	566,960	—	—	—	749,991	—	**1,316,951**
Compensated absences	359,363	—	—	—	—	—	**359,363**
Commercial paper and other borrowings	2,025	—	—	1,003,004	—	—	**1,005,029**
Capital lease obligations	—	—	—	1,211,617	—	—	**1,211,617**
Revenue bonds payable	—	7,405	—	2,746,595	—	—	**2,754,000**
Securities lending obligation	603,402	12,931	693,776	264,421	—	7,066,019	**8,640,549**
Total Liabilities	**3,094,298**	**22,336**	**699,672**	**5,284,987**	**749,991**	**7,098,791**	**16,950,075**
Fund Equity							
Investment in general fixed assets	—	—	—	12,249,011	—	—	**12,249,011**
Fund balances							
Employees' pension benefits	—	—	—	—	—	50,580,077	**50,580,077**
Reserved for other specific purposes	942,562	300,068	3,932,887	337,258	—	—	**5,512,775**
Undesignated	2,023,343	39,220	1,062,276	738,403	—	—	**3,863,242**
Total Fund Equity	**2,965,905**	**339,288**	**4,995,163**	**13,324,672**	**––**	**50,580,077**	**72,205,105**
Total Liabilities and Fund Equity	**$ 6,060,203**	**$ 361,624**	**$ 5,694,835**	**$ 18,609,659**	**$ 749,991**	**$ 57,678,868**	**$ 89,155,180**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Changes in Fund Balances – Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS				
Student tuition and fees	$ 1,113,853	$ —	$ —	$ 17,201
U.S. government	4,731,827	2,158	—	34,297
Local government	112,964	—	—	—
Sales and services				
Educational activities	869,243	—	—	—
Medical centers	2,205,476	—	—	—
Auxiliary enterprises	639,794	—	—	—
Private gifts, grants, and contracts	833,417	703	31,413	78,303
Investment income				
Endowment activities	142,994	—	6,211	—
Securities lending	92,276	872	—	14,359
Other	145,261	9,614	—	63,574
Net appreciation (depreciation) in fair value of investments	30,601	(550)	436,774	(11,034)
Expended for plant facilities (including $451,457 of current funds)	—	—	—	1,267,981
UCSF Stanford Health Care-Operating loss	(62,321)	—	—	—
Retirement of indebtedness	—	—	—	157,553
Other revenues	454,444	—	—	357,348
Transfers in — primary government	2,940,384	—	—	186,288
Other additions	84,842	4,087	8,476	357
Total Revenues and Other Additions	**14,335,055**	**16,884**	**482,874**	**2,166,227**
EXPENDITURES AND OTHER DEDUCTIONS				
Current fund expenditures				
Educational and general	7,676,541	—	—	—
Medical centers	2,144,778	—	—	—
Auxiliary enterprises	518,682	—	—	—
Department of Energy laboratories	2,996,653	—	—	—
Securities lending fees and rebates	88,448	836	—	13,767
Plant fund expenditures (including noncapitalized expenditures of $57,283)	—	—	—	399,929
Issuance of debt obligations	—	—	—	345,803
Debt service				
Principal retirement	—	—	—	157,553
Interest	—	—	—	253,527
Disposal of plant assets	—	—	—	351,381
Other	34,852	5,777	1,196	17,102
Total Expenditures and Other Deductions	**13,459,954**	**6,613**	**1,196**	**1,539,062**
TRANSFERS AMONG FUNDS				
Mandatory contractual arrangements				
Loan funds matching grants	(1,277)	1,277	—	—
Principal and interest	(311,706)	—	—	311,706
Nonmandatory (discretionary allocations)	(371,529)	3,572	26,415	341,542
Total Transfers Among Funds	**(684,512)**	**4,849**	**26,415**	**653,248**
Net Increase in Fund Balances	**190,589**	**15,120**	**508,093**	**1,280,413**
Fund Balances, July 1, 1999	**2,775,316**	**324,168**	**4,487,070**	**12,044,259**
Fund Balances, June 30, 2000	**$ 2,965,905**	**$ 339,288**	**$ 4,995,163**	**$ 13,324,672**

The notes to the financial statements are an integral part of this statement.

Combined Statement of Current Funds Revenues, Expenditures, and Other Changes – Discretely Presented Component Unit – University of California

Year Ended June 30, 2000
(Amounts in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Total (Memorandum Only)
REVENUES			
Student tuition and fees	$ 1,113,853	$ —	**$ 1,113,853**
U.S. government appropriations, grants and contracts	334,941	1,374,171	**1,709,112**
Local government grants and contracts	2,167	107,138	**109,305**
Sales and services			
Education activities	869,243	—	**869,243**
Medical centers	2,205,476	—	**2,205,476**
Auxiliary enterprises	639,794	—	**639,794**
Private gifts, grants and contracts	75,220	655,418	**730,638**
Investment income			
Endowment and similar funds	32,287	86,799	**119,086**
Securities lending	45,957	44,392	**90,349**
Other	113,537	—	**113,537**
Net appreciation in fair value of investments	21,361	—	**21,361**
Department of Energy laboratories	31,296	2,996,653	**3,027,949**
Other revenues	454,444	—	**454,444**
Transfers in — primary government	2,488,944	355,056	**2,844,000**
Total Revenues	**8,428,520**	**5,619,627**	**14,048,147**
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instructional	2,257,297	159,277	**2,416,574**
Research	316,361	1,768,261	**2,084,622**
Public service	165,913	128,309	**294,222**
Academic support	1,016,666	130,784	**1,147,450**
Student services	293,063	12,025	**305,088**
Institutional support	534,905	43,347	**578,252**
Operation and maintenance of plant	356,596	896	**357,492**
Student financial aid	176,790	316,051	**492,841**
Mandatory transfers			
Loan fund matching grant	927	350	**1,277**
Debt service	98,232	107,798	**206,030**
Total Educational and General Expenditures, and Mandatory Transfers	**5,216,750**	**2,667,098**	**7,883,848**
Medical centers			
Expenditures	2,139,696	5,082	**2,144,778**
Mandatory transfers	54,127	—	**54,127**
Total Medical Centers	**2,193,823**	**5,082**	**2,198,905**
Auxiliary enterprises			
Expenditures	504,132	14,550	**518,682**
Mandatory transfers	51,549	—	**51,549**
Total Auxiliary Enterprises	**555,681**	**14,550**	**570,231**
UCSF Stanford Health Care loss	62,321	—	**62,321**
Department of Energy laboratories	—	2,996,653	**2,996,653**
Securities lending fees and rebates	44,056	44,392	**88,448**
Total Expenditures and Mandatory Transfers	**8,072,631**	**5,727,775**	**13,800,406**
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Restricted receipts in excess of restricted expenditures	—	264,004	**264,004**
Nonmandatory transfers	(304,685)	(66,844)	**(371,529)**
Other	46,644	3,729	**50,373**
Total Other Transfers and Additions (Deductions)	**(258,041)**	**200,889**	**(57,152)**
Net Increase in Fund Balances	**$ 97,848**	**$ 92,741**	**$ 190,589**

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements – Index

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).

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 $836 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, 1999, 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 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. The California Pollution Control Financing Authority, the San Joaquin River Conservancy, and the District Agricultural Associations are considered component units, since they have a fiscal dependency on the primary government. The California Educational Facilities Authority is considered a component unit, since its exclusion from the statements would be misleading because of its relationship with the primary government. The balance of the non-major component units are considered component units, since the majority of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity or the entity provides a specific financial benefit to 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 finance loans for students attending both public and private colleges and universities and 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. At June 30, 2000, the CADA had total assets of $14.4 million, total liabilities of $8.5 million, and reserved and unreserved retained earnings of $0.1 million and $4.7 million, respectively. Total revenues for the fiscal year were $5.7 million and expenses were $5.5 million, resulting in a net income of $0.2 million. 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 was 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 was to support, benefit, and further the charitable, scientific, and educational purposes of the Schools of Medicine at UCSF and Stanford. The affiliation between the UC and Stanford University creating the Corporation was terminated on March 31, 2000. Real and personal property leases between the UC and the Corporation were canceled. Most of the UC's share of the Corporation's net assets was distributed to the UC on April 1, 2000.

In order to include the Corporation's financial activities in the UC's financial statements in a timely manner, the UC recorded the proportional share of the Corporation's operating results based upon a fiscal period beginning June 1st and ending May 31st of each year. For the current fiscal year, operating results were included through March 31, 2000, the date of dissolution. The Corporation's operating results for the ten month period ending March 31, 2000 are revenues of $1.5 billion with an operating loss, net of investment gains, of $117 million. The Corporation's financial position at March 31, 2000 resulted in assets of $1.7 billion and liabilities of $894 million with a fund balance of $765 million.

The Corporation's losses, according to the dissolution agreement, were generally allocated equally between the UC and Stanford University. After the distribution of $679 million of net assets to the UC, the investment in UCSF Stanford Health Care was approximately $15 million at June 30, 2000.

Distribution of the UC's final share of the net assets of the joint venture, represented by the remaining investment in the Corporation of $15 million at June 30, 2000, is dependent upon the satisfactory completion of certain events specified in the dissolution agreement. Among these events is finalizing the audit of UCSF Stanford Health Care as of March 31, 2000. Management believes the eventual result of the audit will not have a material effect on the financial statements of the UC.

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 $2 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 its 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 Fund*s 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 and University Audit 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 primarily represents operating and maintenance costs and unrecovered capital costs in the enterprise fund type 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 17.3% 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.

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 certain 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 amounts of the University of California, a discretely presented component unit, that are not available for future appropriations other than those for which the fund was established.

The *unreserved-undesignated* amounts represent the net of total fund balance, less reserves, for governmental funds, trust and agency 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 balance in retained earnings of the discretely presented component units–special purpose authorities has been increased by $401 thousand as a result of errors made in the prior year financial statements.

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.

Two legislative bills were not passed by August 31, 2000, the last day of the legislative session, that were intended to increase the appropriation authority of previously enacted legislation. Departments with deficiency funding requests in these bills, totaling approximately $808 million, have paid and will pay the claims related to past year deficiencies by using the following methods: (1) California Medical Assistance Program claims have been paid as required by the federal Medicaid Act, Title 42, United States Code section 1396a(a)(37), which states that the State plan for medical assistance must – "provide for claims payment procedures which (A) ensure that 90 per centum of claims for payment (for which no further written information or substantiation is required in order to make payment) made for services covered under the plan and furnished by health care practitioners through individual or group practices or through shared health facilities are paid within 30 days of the date of receipt of such claims and that 99 per centum of such claims are paid within 90 days of the date of receipt of such claims..;" (2) Payroll deficiencies have been paid as required by the federal Fair Labor Standards Act, Title 29, United States Code section 206(b), which states, in part, that "Every employer shall pay each of his employees…not less than the minimum wage in effect…;" (3) Departments will wait to receive an allocation from the new deficiency bill, which the legislative leadership has committed to passing when the new session resumes, prior to making any payments; (4) Departments with immediate funding needs of approximately $142 million have been authorized by the Department of Finance to either increase, or establish, Office Revolving Funds in sufficient amounts to pay claims related to the deficiencies included in the deficiency bills. In all cases, valid amounts related to these deficiencies are included as expenditures in this report.

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.

Individual appropriations are charged as expenditures 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. On a budgetary basis, adjustments for encumbrances are budgeted under other general government, while the encumbrances relate to all programs' expenditures. Negative budget and expenditure amounts for other general government can result when current encumbrances are significantly higher than prior year encumbrances.

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. For example, an appropriation for support may have detail accounts for personal services, operating expenses and equipment, and reimbursements. The Department of Finance can authorize adjustments between the detail accounts, but can not increase the amount of the overall support appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control, or the extent to which management may amend the budget without seeking approval of the governing body, 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, 2000, of $450 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 equity of $412 million in the General Fund and an increase to the fund equity of $1.7 billion in special revenue funds, $341 million in enterprise funds, and $579 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 $509 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 $10.8 billion in special revenue funds and $438 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 equity.

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 $526 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 $1.5 billion increase to the enterprise fund equity.

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. This adjustment caused a $26.1 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 $141 million decrease to the discretely presented component units fund equity.

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 equity of $31 million in the General Fund, $29 million in capital projects funds, and $2 million in component units and a decrease in fund equity of $43 million in special revenue funds, $101 million in enterprise funds, $31 million in internal service funds, and $145 million in trust and agency 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 $383 million in the General Fund and $127 million in special revenue funds.

Entity Difference

Entities not included in the State's accounting system: A fund for the trial courts in the special revenue funds and some discretely presented component units are not included in the budgetary basis accounting system, but are included on a GAAP basis. These adjustments caused an increase to the fund equity of $211 million in the special revenue funds and $72.5 billion in component units, of which $72.2 billion is related to the University of California.

Table 1

Reconciliation of Budgetary Basis Fund Balance and GAAP Basis Fund Equity

June 30, 2000
(Amounts in thousands)

	Total Budgetary Fund Classifications	Primary Government: Governmental Fund Types: General	Special Revenue	Capital Projects	Proprietary Fund Types: Enterprise	Internal Service	Fiduciary Fund Types: Trust and Agency	Component Units
Perspective Difference								
Budgetary / Legal Basis Annual Report								
General Fund	$ 9,639,691	$ 9,639,691	$ —	$ —	$ —	$ —	$ —	$ —
Other Governmental Cost Funds	6,472,245	—	6,256,269	60,182	18	13,729	142,047	—
Non-Governmental Cost Funds	355,787,597	—	11,216,273	535,569	4,652,210	571,668	336,084,804	2,727,073
Total Budgetary Fund Balances Reclassified into GAAP Statement Fund Structure	**$ 371,899,533**	**9,639,691**	**17,472,542**	**595,751**	**4,652,228**	**585,397**	**336,226,851**	**2,727,073**
Basis Difference								
Advances and loans receivable		(412,385)	1,703,262	—	341,463	—	578,926	—
Escheat property		(508,785)	—	—	—	—	—	—
Authorized and unissued bonds		—	(10,812,281)	(438,108)	—	—	—	—
Provision for long-term obligations		—	—	—	(2,807,177)	—	—	—
Encumbrances		—	526,411	—	—	—	—	—
Fixed assets		—	—	—	1,489,812	—	—	—
Fund balances in agency funds		—	—	—	—	—	(26,056,075)	—
California accounting practices for insurance		—	—	—	—	—	—	(140,561)
Other		31,363	(42,513)	29,199	(101,114)	(30,656)	(145,411)	1,735
Timing Difference								
Liabilities budgeted in subsequent years		(382,564)	(127,073)	—	—	—	—	—
Entity Difference								
Entities not included in the State's accounting system		—	210,614	—	—	—	—	72,525,390
GAAP Fund Equity, June 30, 2000		**$ 8,367,320**	**$ 8,930,962**	**$ 186,842**	**$ 3,575,212**	**$ 554,741**	**$ 310,604,291**	**$ 75,113,637**

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 $4.4 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 $10 million. Approximately $2 million of these deposits is related to principal and interest payments due to bondholders. The remaining $8 million represents a compensating balance account designed to provide sufficient earnings to cover fees for custodial services and system maintenance. Most 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 205 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, 2000, 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 $472 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. 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, 2000
(Amounts in thousands)

Assets	
Cash and pooled investments	$ 12,530,983
Due from other funds	199,078
Total Assets	**$ 12,730,061**
Liabilities	
Due to other funds	$ 559
Due to other governments	198,519
Other liabilities	2,595
Total liabilities	**201,673**
Net Assets Held in Trust for Pool Participants	**$ 12,528,388**

Table 3

Condensed Statement of Changes in Net Assets – LAIF
Year Ended June 30, 2000
(Amounts in thousands)

Changes in Net Assets Resulting from Operations	$ 732,389
Distributions to Participants	(732,389)
Changes in Net Assets Resulting from Depositor Transactions	(1,626,436)
Total Change in Net Assets	**(1,626,436)**
Net Assets Held in Trust for Pool Participants, July 1, 1999	**14,154,824**
Net Assets Held in Trust for Pool Participants, June 30, 2000	**$ 12,528,388**

As of June 30, floating rate notes and mortgage-backed assets comprised less than 6.3% 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 64 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $6.1 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.

The California Government Code allows the State Treasurer's Office to enter into repurchase agreements as part of its pooled investment program. A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by the State Treasurer's Office from a bank or dealer. The other is a commitment by the bank or dealer to repurchase the securities from the State Treasurer's Office at the same price, plus interest, at a mutually agreed upon future date. As the investor, the State is protected by underlying specific government securities, which are pledged as collateral during the length of the investment. During the year ended June 30, the State Treasurer's Office entered into 17 repurchase agreements, with a carrying value of approximately $2.3 billion. As of June 30, the State Treasurer's Office did not have any 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 $315.4 billion (97%) of 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 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 its 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 $1 million were held for investment purposes as of June 30, 2000. 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, 2000, CalPERS had approximately $228 million net exposure to loss from forward foreign currency exchange transactions related to the $41.2 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 104% for CalPERS and at 102% and 105% for CalSTRS of the fair value of domestic and international securities loaned, respectively. As of June 30, 2000, 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 20 days and 39 days, respectively. In accordance with CalPERS investment guidelines, the cash collateral was invested in short-term investment funds that at June 30, 2000, had weighted average maturities of 142 days and 91 days for its two securities lending agents, respectively.

For CalSTRS, cash collateral received on each security loan was invested in short-term investments that at June 30, 2000, had a weighted-average maturity of less than 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 $77.1 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, 2000
(Amounts in thousands)

	Interest Rates*	Maturity	Category 1	Category 2	Category 3	Total Fair Value
Pooled Investments **						
U.S. government securities	4.55 – 6.81	1 day – 5 years+	$ 15,265,839	$ —	$ —	$ 15,265,839
Negotiable certificates of deposit	5.21 – 6.73	1 day – 2 years	7,212,186	—	—	7,212,186
Bankers' acceptances	5.16 – 6.63	1 day – 30 days	37,095	—	—	37,095
Commercial paper	5.11 – 6.59	1 day – 180 days	10,533,376	—	—	10,533,376
Corporate bonds	6.19 – 7.25	1 day – 5 years	2,464,665	—	—	2,464,665
Bank notes	5.21 – 6.73	1 day – 2 years	1,917,956	—	—	1,917,956
Total Pooled Investments			**37,431,117**	**––**	**––**	**37,431,117**
Separately Invested Funds Subject to Categorization						
Equity securities			165,673,867	—	—	165,673,867
Securities lending collateral			30,550,543	—	—	30,550,543
Mortgage loans and notes			17,595,192	—	—	17,595,192
U.S. government and agencies			3,492,580	224,594	—	3,717,174
Debt securities – STRS			41,670,178	—	—	41,670,178
Corporate bonds			9,883	98,226	—	108,109
Commercial paper			2,148,094	—	—	2,148,094
Other investments			844,606	—	—	844,606
Total Separately Invested Funds Subject To Categorization			**261,984,943**	**322,820**	**––**	**262,307,763**
Separately Invested Funds Not Subject to Categorization						
Investments held by broker-dealers under securities loans with cash collateral						30,676,934
Real estate						12,866,242
Venture capital and private equity funds						7,138,749
Investment contracts						3,008,196
Mutual funds						2,477,204
Mortgage loans						242,031
Other						6,735,069
Total Separately Invested Funds Not Subject to Categorization						**63,144,425**
Total Investments			**$ 299,416,060**	**$ 322,820**	**$ ––**	**$ 362,883,305**

* These interest rates represent high and low monthly averages for each investment type during the year.
** 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 University's investment portfolio includes certain mortgage backed securities. These mortgage backed securities are used to diversify the portfolio and reduce market risk exposure. 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 select 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. Any 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 183 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, 2000
(Amounts in thousands)

	Category			Total
	1	2	3	Fair Value
Separately Invested Funds Subject to Categorization				
Equity securities	$ 30,183,430	$ —	$ —	$ 30,183,430
Securities lending collateral	8,637,787	—	—	8,637,787
U .S . government and agency securities	6,091,822	—	—	6,091,822
Corporate bonds	9,173,871	—	—	9,173,871
Other investments	2,367,889	—	—	2,367,889
Total Separately Invested Funds Subject to Categorization	**56,454,799**	**––**	**––**	**56,454,799**
Separately Invested Funds Not Subject to Categorization				
Investments held by broker-dealers under securities loans with cash collateral				8,454,877
Venture capital and private equity funds				1,856,984
Insurance contracts				261,032
Mutual funds				1,692,318
Mortgage loans				300,085
Other investments				218,554
Total Separately Invested Funds Not Subject to Categorization				**12,783,850**
Total Investments	**$ 56,454,799**	**$ ––**	**$ ––**	**$ 69,238,649**

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 swap agreements to pay fixed rates of interest and receive floating rate payments. Certain swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled and/or anticipated reductions in the associated "Bonds Payable". The swap agreements are expected to reduce interest rate risk associated with variable rate bonds issued by CHFA. As of June 30, 2000, CHFA had interest rate swap agreements of $609 million in notional amounts. 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, 2000. Included in the investments of the special purpose authorities are the investments of the SCIF as of December 31, 1999. The SCIF represents 81% of the fair value of the authorities' investments.

Table 6

Schedule of Investments – Special Purpose Authorities – Discretely Presented Component Units *

June 30, 2000

(Amounts in thousands)

	Category			
	1	2	3	Total Fair Value
Separately Invested Funds Subject to Categorization				
U .S. government securities	$ 1,609,459	$ —	$ —	$ 1,609,459
Corporate bonds	2,993,962	—	—	2,993,962
Mortgage loans and notes	1,369,607	—	—	1,369,607
Commercial paper	8,113	—	—	8,113
Investment agreements	—	154,848	—	154,848
Other investments	126,304	—	—	126,304
Total Separately Invested Funds Subject to Categorization	**6,107,445**	**154,848**	**––**	**6,262,293**
Separately Invested Funds Not Subject to Categorization				
Investment agreements				1,166,211
Mutual funds				40,830
Total Separately Invested Funds Not Subject to Categorization				**1,207,041**
Total Investments	**$ 6,107,445**	**$ 154,848**	**$ ––**	**$ 7,469,334**

* 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 $12.1 billion is more than the total Advances from Other Funds of $870 million because $11.2 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, 2000 (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	**$ 6,225,774**	**$ 2,456,218**	**$ 287,306**	**$ 508,785**	**$ ––**	**$ 67,182**
Special Revenue						
Federal	947,722	3,501,896	42,321	—	—	—
Transportation Construction	1,106,289	69,317	—	—	—	226
Transportation Safety	110,051	106,796	—	—	—	—
Business and Professions Regulatory and Licensing	87,769	71,312	4,280	—	—	—
Environmental and Natural Resources	205,133	157,498	1,619,831	51,520	—	—
Financing to Local Governments	39,010	19,176	—	—	—	—
Cigarette and Tobacco Tax	209,439	194,453	—	—	—	103,656
Local Revenue	244,225	28,722	—	—	—	—
Unemployment Programs	595,343	61,165	—	—	—	—
Financing to the Public	2,363	1,661	28,767	—	—	—
Trial Courts	85,013	56,800	8,063	3	—	—
Other Special Revenue	140,168	59,439	—	13,050	—	5,813
Total Special Revenue	**3,772,525**	**4,328,235**	**1,703,262**	**64,573**	**––**	**109,695**
Capital Projects						
Prison Construction	172	195	—	—	—	—
Higher Education Construction	1,914	5,586	—	—	—	—
Natural Resources Acquisition and Enhancement	13,307	243	—	—	—	—
Building Authorities	52,079	541	—	—	—	—
Other Capital Projects	400	3,458	—	—	—	—
Total Capital Projects	**67,872**	**10,023**	**––**	**––**	**––**	**––**
Enterprise						
Housing Loan	15,200	2,012	2,433,559	32,258	—	—
Water Resources	71,640	18,138	64,950	—	—	—
School Building Aid	—	—	136,222	—	—	—
Toll Facilities	4,081	9,067	2,887	—	—	—
California State University	25,628	18,718	—	—	—	—
Leasing of Public Assets	131,733	15,534	—	—	—	—
State Lottery	12,451	223,998	—	—	—	—
Health Facilities Construction Loan Insurance	4,510	159	80,197	—	—	—
Public Employees' Benefits	69	1,030	—	—	—	—
Other Enterprise	20,281	6,446	246,709	2,500	—	—
Total Enterprise	**285,593**	**295,102**	**2,964,524**	**34,758**	**––**	**––**
Internal Service						
Architecture Revolving	50,000	1,716	—	—	—	—
Service Revolving	92,561	135,458	—	—	—	—
Prison Industries	10,658	3,037	—	—	—	—
Stephen P . Teale Data Center	11,151	39	—	—	—	—
Health and Human Services Agency Data Center	73,966	3,000	—	—	—	—
Water Resources Revolving	40,551	—	—	94,517	—	—
Public Employees' Health Care	2,731	3,031	—	—	—	—
Equipment Service	1,249	9,206	—	—	—	—
Other Internal Service	109	5,382	—	4,280	—	—
Total Internal Service	**282,976**	**160,869**	**––**	**98,797**	**––**	**––**

(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, 2000 (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	9,537	55,614	—	—	—	—
School Employees	1,081	5,672	—	—	—	—
Unemployment Compensation Disability	19,382	3,532	—	—	—	—
California State University and Colleges Trust	16,377	27,994	—	—	—	—
Student Loan	990	785	—	—	—	—
Housing Loan	3,391	1,614	578,926	—	—	—
Unclaimed Property	—	4,624	508,785	—	—	—
Deferred Compensation Plan	61	589	—	—	—	—
Other Expendable Trust	22,758	8,179	—	—	—	1,435
Total Expendable Trust	**73,577**	**108,603**	**1,087,711**	**––**	**––**	**1,435**
Pension Trust						
Public Employees' Retirement	3,852	123	—	—	—	—
State Teachers' Retirement	8,323	5,877	—	—	—	—
Judges' Retirement	—	24	—	—	—	—
Judges' Retirement II	—	11	—	—	—	—
Legislators' Retirement	—	49	—	—	—	—
Volunteer Firefighters'	—	14	—	—	—	—
Peace Officers/Firefighters'	—	33	—	—	—	—
Total Pension Trust	**12,175**	**6,131**	**––**	**––**	**––**	**––**
Agency						
Revenue Collecting and Disbursing	4,817,988	7,633,128	162,972	162,972	—	35
Deposit	23,365	648,870	885	—	—	—
Departmental Trust	3,178	225	—	—	—	—
Other Agency	283,974	400,112	—	—	—	2,848
Total Agency	**5,128,505**	**8,682,335**	**163,857**	**162,972**	**––**	**2,883**
Investment Trust						
Local Agency Investment	199,078	559	—	—	—	—
Total Investment Trust	**199,078**	**559**	**––**	**––**	**––**	**––**
University of California						
Current Funds	80	102,480	—	—	175,982	—
Loan Funds	—	2,000	—	—	—	—
Endowment and Similar Funds	23,542	—	—	—	—	—
Plant Funds	1,281	21,401	—	—	—	—
Retirement System Funds	100,978	—	—	—	—	—
Total University of California	**125,881**	**125,881**	**––**	**––**	**175,982**	**––**
Special Purpose Authorities						
California Housing Finance Agency	—	—	5,859,389	—	—	—
Non-Major Component Units	—	—	—	—	5,213	—
Total Special Purpose Authorities	**––**	**––**	**5,859,389**	**––**	**5,213**	**––**
Total	**$ 16,173,956**	**$ 16,173,956**	**$ 12,066,049**	**$ 869,885**	**$ 181,195**	**$ 181,195**

(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 $2.3 million in the internal service funds and $116 million for the building authorities in the capital projects funds.

Table 8

Schedule of Restricted Assets
June 30, 2000
(Amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Funds	Other Assets
Primary Government				
Debt service	$ 754,274	$ 608,908	$ 473	$ 1,218
Construction	575,944	52,608	1,341	14
Deposits	5,238	—	—	—
Equipment repair and replacement	47,798	13	1,248	—
Operations	186	—	—	—
Other	39,616	—	—	—
Total Primary Government	**1,423,056**	**661,529**	**3,062**	**1,232**
Discretely Presented Component Units				
University of California				
Risk insurance	—	201,986	—	—
Debt service requirements	—	173,667	—	—
Plant acquisition, construction, and renovation	—	11,296	—	—
Plant renewal and replacement	—	467	—	—
Special Purpose Authorities				
Debt service	273,503	1,394,997	—	—
District fairs	20	—	—	—
Total Discretely Presented Component Units	**273,523**	**1,782,413**	**—**	**—**
Total All Restricted Assets	**$ 1,696,579**	**$ 2,443,942**	**$ 3,062**	**$ 1,232**

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
2001	$ 383,539	$ 107,586	$ 73,191	$ 564,316
2002	376,382	105,987	70,548	552,917
2003	379,640	105,168	67,377	552,185
2004	376,100	105,263	69,542	550,905
2005	374,800	103,886	72,065	550,751
Thereafter	3,990,405	1,269,396	611,892	5,871,693
Total Minimum Lease Payments	**5,880,866**	**1,797,286**	**964,615**	**8,642,767**
Less unearned income	2,590,307	771,886	379,919	3,742,112
Net Investment in Direct Financing Leases	**$ 3,290,559**	**$ 1,025,400**	**$ 584,696**	**$ 4,900,655**

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 $3.7 billion.

Table 10

Schedule of Changes in General Fixed Assets

(Amounts in thousands)

	Balance July 1, 1999	Additions	Deductions	Balance June 30, 2000
Land	$ 2,045,980	$ 141,415	$ 22,260	$ 2,165,135
Structures and improvements	11,887,297	422,404	361,491	11,948,210
Equipment	1,956,469	315,550	122,031	2,149,988
Construction in progress	1,555,781	404,094	667,734	1,292,141
Total	**$ 17,445,527**	**$ 1,283,463**	**$ 1,173,516**	**$ 17,555,474**

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, 2000

(Amounts in thousands)

Primary Government	Enterprise Funds	Internal Service Funds
State water projects	$ 4,491,500	$ —
Toll facilities	1,162,379	—
Other land, improvements, buildings and equipment	996,081	1,079,453
Construction in progress	239,497	4,079
Total Primary Government Fixed Assets	**6,889,457**	**1,083,532**
Less: accumulated depreciation	2,039,435	570,835
Net Primary Government Fixed Assets	**$ 4,850,022**	**$ 512,697**

Discretely Presented Component Units	University of California	Special Purpose Authorities
Real estate		
Buildings and improvements	$ 9,695,699	$ 515,008
Land	323,141	44,760
Furniture and equipment	3,457,341	159,350
Libraries and collections	2,445,332	—
Construction in progress	943,869	1,006
Total Discretely Presented Component Unit Fixed Assets	**16,865,382**	**720,124**
Less: accumulated depreciation	—	194,805
Net Discretely Presented Component Unit Fixed Assets	**$ 16,865,382**	**$ 525,319**

NOTE 8. LONG-TERM OBLIGATIONS

As of June 30, the primary government had long-term obligations totaling $25.8 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 $846 million for workers' compensation claims, $746 million for net pension obligations, $192 million owed for lawsuits, and the University of California pension liability of $98 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, 2000, are summarized in Table 12.

Table 12

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

	Balance July 1, 1999	Additions	Deductions	Balance June 30, 2000
Compensated absences payable	$ 1,057,903	$ 632,503	$ 462,757	$ 1,227,649
Certificates of participation and commercial paper	425,644	2,930,632	2,733,620	622,656
Capital lease obligations	3,440,203	82,350	114,763	3,407,790
General obligation bonds payable	16,167,030	2,751,350	1,080,090	17,838,290
Revenue bonds payable	810,300	49,600	16,050	843,850
Other liabilities	1,974,498	443,761	536,656	1,881,603
Totals	**$ 23,875,578**	**$ 6,890,196**	**$ 4,943,936**	**$ 25,821,838**

NOTE 9. COMPENSATED ABSENCES

As of June 30, the estimated liability for compensated absences related to accumulated vacation and annual leave totaled approximately $1.8 billion. Of this amount, $1.2 billion is reported in the General Long-Term Obligations Account Group, $68 million is reported in the proprietary fund types, $136 million is reported in the General Fund, and $391 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
2001	$ 9,973	$ 6,898	$ 16,871
2002	9,780	6,525	16,305
2003	9,690	6,136	15,826
2004	9,610	5,727	15,337
2005	9,517	5,290	14,807
Thereafter	74,041	29,277	103,318
Total	**$ 122,611**	**$ 59,853**	**$ 182,464**

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
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
2005	11,810	13,787	25,597
Thereafter	250,435	136,428	386,863
Total	**$ 304,865**	**$ 211,714**	**$ 516,579**

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, 2000, approximately $48 million of prior year certificates of participation outstanding are considered defeased.

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 $1.5 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, effective September 15, 1999, established the existing $1.5 billion limit on the amount of outstanding notes under the general obligation commercial paper program. As of June 30, 2000, the general obligation commercial paper program had $500 million in outstanding commercial paper notes and the enterprise fund commercial paper program had $28 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 $150 million, are various unsecured financing agreements with commercial banks that total approximately $41 million.

The University of California established a $550 million commercial paper program with tax-exempt and taxable components. The program is supported by the legally available unrestricted cash balance in the University of California's Short Term Investment Pool. 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, 2000, 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 $7.1 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 capital lease payments for the primary government is composed of approximately $3.4 billion in the General Long-Term Obligations Account Group and $69 million in internal service funds. Lease expenditures for the year ended June 30 amounted to approximately $663 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 95% 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 $836 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
2001	$ 231,984	$ 398,945	$ 9,638	$ 640,567
2002	184,293	390,405	9,638	584,336
2003	146,921	393,671	9,582	550,174
2004	81,253	390,144	8,970	480,367
2005	47,841	389,026	9,193	446,060
Thereafter	135,082	4,187,161	48,524	4,370,767
Total Minimum Lease Payments	**$ 827,374**	**6,149,352**	**95,545**	**$ 7,072,271**
Less amount representing interest		2,741,562	26,220	
Present Value of Net Minimum Lease Payments		**$ 3,407,790**	**$ 69,325**	

The aggregate amount of discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2000, is approximately $2.3 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 $134 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: Operating	Total
2001	$ 130,142	$ 56,304	$ 22,955	$ 209,401
2002	120,714	50,454	18,069	189,237
2003	114,538	43,471	15,904	173,913
2004	110,944	38,382	9,330	158,656
2005	107,963	32,053	6,138	146,154
Thereafter	1,347,834	100,376	18,991	1,467,201
Total Minimum Lease Payments	**1,932,135**	**$ 321,040**	**$ 91,387**	**$ 2,344,562**
Less amount representing interest	720,518			
Present Value of Net Minimum Lease Payments	**$ 1,211,617**			

NOTE 13. COMMITMENTS

The primary government has made commitments of $3.1 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 $2.4 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 $1.4 billion. The total commitments also included approximately $886 million for the construction of water projects and the purchase of power, and up to $102 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 $1.7 billion. Special purpose authorities had outstanding commitments to provide $385 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, $14.8 billion of general obligation bonds had been authorized but not issued. This amount includes $6.5 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. Of this amount, $500 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, 1999	$ 16,167,030	$ 3,716,115	$ 19,883,145
Additions	2,751,350	—	2,751,350
Deductions	(1,080,090)	(202,715)	(1,282,805)
Balance, June 30, 2000	**$ 17,838,290**	**$ 3,513,400**	**$ 21,351,690**

Table 18 shows the debt service requirements for all general obligation bonds, including interest of $12.8 billion, as of June 30, 2000.

Table 18

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

Year Ending June 30	General Long–Term Obligations	Enterprise Funds
2001	$ 2,215,782	$ 331,801
2002	2,152,150	348,540
2003	2,052,145	313,467
2004	1,902,476	326,769
2005	1,773,976	328,945
Thereafter	18,074,765	4,322,969
Total	**$ 28,171,294**	**$ 5,972,491**

Current Year Defeasances: During the year ended June 30, 2000, the primary government issued approximately $127 million in veterans general obligation bonds, the proceeds of which were used to immediately refund previously issued veterans general obligation bonds of approximately $127 million. In addition, approximately

$117 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, 2000, the outstanding balance of general obligation bonds defeased in prior years was approximately $1.5 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, 2000
(Amounts in thousands)

Primary Government	
General Long-Term Obligations	
Building Authorities	
California State University	$ 30,680
Los Angeles	203,205
San Francisco	382,060
San Bernardino	60,620
Oakland	154,125
Riverside	13,160
Total General Long-Term Obligations	**843,850**
Enterprise Funds	
Housing Loan	505,815
Water Resources	2,412,642
California State University	582,933
Leasing of Public Assets	5,491,892
Total Enterprise Funds	**8,993,282**
Total Primary Government	**9,837,132**
Discretely Presented Component Units	
University of California	2,754,000
Special Purpose Authorities	6,693,933
Total Discretely Presented Component Units	**9,447,933**
Total	**$ 19,285,065**

Table 20 shows the debt service requirements as of June 30, 2000. 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)

Year Ending June 30	Primary Government: General Long–Term Obligations	Primary Government: Enterprise Funds	Discretely Presented Component Units
2001	$ 29,245	$ 475,678	$ 255,331
2002	30,590	344,483	282,361
2003	31,975	354,968	227,490
2004	33,450	381,286	238,679
2005	35,080	396,844	251,150
Thereafter	683,510	7,356,343	8,211,388
Total	**$ 843,850**	**$ 9,309,602**	**$ 9,466,399**

Current Year Defeasances: For the year ended June 30, 2000, the primary government issued approximately $117 million of Home Purchase Revenue Bonds to refund approximately $117 million of outstanding veterans general obligation bonds. For those bonds that could not be called for immediate redemption, proceeds were deposited in an escrow account held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the defeased bonds. As a result, these bonds are considered to be defeased and the liabilities have been removed from the financial statements.

For the year ended June 30, 2000, the California Housing Finance Agency (CHFA), a discretely presented component unit, issued $156 million of Home Mortgage Revenue Bonds at variable rates to refund $152 million in outstanding Home Mortgage Revenue Bonds. If the rate on the variable rate bonds remains constant, the refunding will decrease the debt service cash outflow for the housing bonds by approximately $89 million and result in an economic gain of approximately $47 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. The deferred loss from extinguishment of debt was $4 million.

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, 2000, the outstanding balance of revenue bonds defeased in prior years was approximately $2.2 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, 2000, the outstanding balance of University of California revenue bonds defeased in prior years was $671 million.

NOTE 16. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 2000, are presented in Table 21.

Table 21

Schedule of Major Tax Revenues
Year Ended June 30, 2000
(Amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 39,516,018	$ —	$ —
Sales and use	21,121,778	4,276,539	—
Bank and corporation	6,569,805	—	—
Unemployment insurance	—	—	2,945,830
Disability insurance	—	—	1,613,303
Insurance	1,301,346	—	—
Inheritance, estate, and gift	937,177	—	—
Cigarette and tobacco	132,429	1,087,458	—
Other	309,031	339,441	42,898
Total	**$ 69,887,584**	**$ 5,703,438**	**$ 4,602,031**

NOTE 17. FUND EQUITY

A. Fund Deficits

The following funds had deficits at June 30, 2000, as shown in Table 22.

Table 22

Schedule of Fund Deficits
June 30, 2000
(Amounts in thousands)

	Special Revenue Funds	Capital Projects Funds	Internal Service Funds
Financing to Local Governments	$ 32,773	$ —	$ —
Higher Education Construction	—	10,105	—
All Other Capital Projects	—	3,160	—
Water Resources Revolving	—	—	33,263
Architecture Revolving	—	—	3,338
Total	**$ 32,773**	**$ 13,265**	**$ 36,601**

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, 1999	$ 247,657	$ 345,183	$ 109	$ 592,949
Government contributions	48,827	1,901	—	50,728
Decreases	—	(1)	—	(1)
Balance, June 30, 2000	**$ 296,484**	**$ 347,083**	**$ 109**	**$ 643,676**

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 workers' compensation losses is estimated to be $1.1 billion as of June 30, 2000. This estimate is based on an actuarial review of the State's employee workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' 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 $1.7 billion is discounted using a 6.3% interest rate. Of the total, $140 million is included in the General Fund, $86 million in the special revenue funds, $19 million in the proprietary fund types, and $846 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 Self–Insurance Claims
Years Ended June 30
(Amounts in thousands)

	Primary Government		University of California – Discretely Presented Component Unit	
	2000	1999	2000	1999
Unpaid claims, beginning	$ 990,000	$ 886,000	$ 330,000	$ 319,300
Incurred claims	361,000	345,000	241,700	174,600
Claim payments	(260,000)	(241,000)	(209,400)	(163,900)
Unpaid claims, ending	**$ 1,091,000**	**$ 990,000**	**$ 362,300**	**$ 330,000**

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, 2000

(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	$ 241,353	$ 689,705	$ 25,099	$ 6,991	$ 218,111	$ 413,746	$ 2,598,379	$ 27,452	$ 153,735	$ 119,850
Depreciation	1,094	75,352	3,720	18,503	—	—	6,155	488	—	18
Amortization of deferred charges	—	79,203	—	429	—	5,830	1,391	—	—	—
Operating income (loss)	12,497	165,407	10,962	(15,877)	6,815	16,142	885,762	(3,645)	(86,396)	(1,729)
Operating transfers in	2,115	—	—	3,612	24,966	1,641	—	—	—	—
Operating transfers out	2,115	—	20,733	—	38,466	1,641	—	—	—	1,609
Net income (loss)	6,530	(15,376)	(9,771)	(51,515)	(12,189)	16,142	—	4,845	(51,941)	10,875
Grants received	—	—	—	—	267	—	—	—	—	—
Grants provided	—	—	—	41,813	—	—	—	—	—	—
Property, plant, and equipment										
Additions	916	23,965	—	14,307	58,116	136,296	2,069	6	—	10
Deductions	1,094	75,352	3,720	18,503	—	—	6,218	488	—	18
Net working capital	934,696	245,429	55,666	19,851	465,686	616,172	(36,627)	156,313	545,664	247,632
Total assets	3,491,880	4,757,654	253,892	625,666	1,381,990	5,800,766	3,260,529	244,820	552,144	623,628
Bonds and other long-term liabilities	3,105,454	3,653,889	1,250	—	597,785	5,491,892	2,498,019	187,360	528,249	42,090
Total Equity	295,235	1,003,845	251,797	612,396	708,053	176,583	—	56,677	17,415	453,211

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, 1999. 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, 2000

(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Assets				
Due from primary government	$ —	$ —	$ 5,213	$ 5,213
Other current assets	1,158,845	430,956	640,600	2,230,401
Investments	6,022,968	1,387,517	58,849	7,469,334
Advances and loans receivable	—	5,859,389	—	5,859,389
Fixed assets	212,550	—	312,769	525,319
Total Assets	**$ 7,394,363**	**$ 7,677,862**	**$ 1,017,431**	**$ 16,089,656**
Liabilities				
Other current liabilities	$ 1,058,200	$ 344,907	$ 16,394	$ 1,419,501
Benefits payable	5,062,442	—	—	5,062,442
Revenue bonds payable	—	6,597,403	96,530	6,693,933
Contracts and notes payable	—	—	5,248	5,248
Total Liabilities	**6,120,642**	**6,942,310**	**118,172**	**13,181,124**
Fund Equity				
Contributed capital	—	—	109	109
Retained earnings				
Reserved for regulatory requirements	—	657,211	—	657,211
Unreserved	1,273,721	78,341	899,150	2,251,212
Total Fund Equity	**1,273,721**	**735,552**	**899,259**	**2,908,532**
Total Liabilities and Fund Equity	**$ 7,394,363**	**$ 7,677,862**	**$ 1,017,431**	**$ 16,089,656**

Table 27

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

Year Ended June 30, 2000
(Amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non–Major Component Units	Total
Operating Revenues				
Earned premiums (net)............	$ 1,242,319	$ —	$ —	$ 1,242,319
Other revenue........................	49,270	409,148	147,632	606,050
Total Operating Revenues.....	**1,291,589**	**409,148**	**147,632**	**1,848,369**
Operating Expenses				
Depreciation..........................	5,143	214	6,037	11,394
Benefit payments....................	1,486,083	—	3,986	1,490,069
Interest expense.....................	—	369,272	3,215	372,487
Amortization of deferred charges............................	176,815	1,709	—	178,524
Other operating expenses........	97,000	57,140	123,095	277,235
Total Operating Expenses.....	**1,765,041**	**428,335**	**136,333**	**2,329,709**
Operating Income (Loss)	**(473,452)**	**(19,187)**	**11,299**	**(481,340)**
Nonoperating Revenues (Expenses)				
Investment and interest income (loss)..........	(177,211)	90,412	4,093	(82,706)
Dividends paid........................	7,279	—	—	7,279
Other nonoperating revenues (expenses), net.....	—	—	429,881	429,881
Net Nonoperating Revenues (Expenses)........	**(169,932)**	**90,412**	**433,974**	**354,454**
Net Income (Loss)..................	**(643,384)**	**71,225**	**445,273**	**(126,886)**
Retained Earnings, July 1, 1999	**1,917,105**	**664,327**	**453,877 ***	**3,035,309**
Retained Earnings, June 30, 2000	**$ 1,273,721**	**$ 735,552**	**$ 899,150**	**$ 2,908,423**

*Restated

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 $14.4 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 $4.6 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 operation. To the extent they existed, the following were accrued as a liability in the financial statements: legal proceedings that were decided against the primary government before June 30, 2000; legal proceedings that were in progress as of June 30, 2000, and were settled or decided against the primary government as of November 17, 2000; and legal proceedings having a high probability of resulting in a decision against the primary government as of November 17, 2000, 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. In

July 1990, the trial court entered judgment in favor of the Director of Finance and remanded the case to the COSM for redetermination. The COSM has since expanded the claim to include supplemental claims filed by seven other educational institutions. The parties entered into negotiations to explore possible settlement options. In October 2000, Governor Davis and the schools had agreed to a proposed settlement, contingent upon signed waivers by local educational agencies and appropriations by the Legislature. The proposal envisions state appropriations of $520 million for past costs and $100 million annually for future costs. If the settlement agreement is not approved, the amount of the liability is not capable of estimation.

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 and operator of the site. The primary government has appealed the rulings. The court stayed the appeal pending settlement discussions. In July 1999, the district court set a trial date of January 30, 2001, to settle all remaining issues. Present estimates of the cleanup range from approximately $455 to $675 million. Potential primary government liability falls within this same range depending on (1) the final remedial action chosen by the federal and primary governments, (2) whether the 1998 district court judgment imposing counterclaim liability on the primary government is upheld on appeal, and (3) whether all or a portion of any judgment against the primary government could be satisfied by recoveries from its insurance carriers.

The primary government is a defendant in three actions, *Cigarettes Cheaper!, et al. v. Board of Equalization, et al.*, *California Assn. of Retail Tobacconists, et al. v. Board of Equalization, et al.*, and *McLane/Suneast, Inc. v. Board of Equalization*, 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 primary government filed notices of related cases. If the statute ultimately is declared unconstitutional, exposure may include the entire $750 million that is collected annually, together with interest on these collections. On November 15, 2000 the trial court ruled completely in the primary government's favor. An appeal is expected.

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, in violation of the Age Discrimination in Employment Act of 1967. PERS estimated potential damages at $316 million (lump sum) in this case. The action reached the United States Supreme Court, which, on January 18, 2000, vacated the appellate court's ruling against the primary government, and remanded the action for further proceedings consistent with *Kimel v. Florida Bd. of Regents*, which held that states enjoy sovereign immunity from private Age Discrimination in Employment Act suits. On July 13, 2000, the Equal Employment Opportunity Commission filed a complaint against the primary government and intervened in this matter as a party plaintiff. The district court set a trial date in this case for April 30, 2001.

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. The action has reached the Court of Appeal, which, on November 21, 2000, reversed a Superior Court's judgment and remanded with instructions to enter a new judgment denying the counties' petition. The counties have announced their intention to file a petition for review in the California Supreme Court. An unfavorable outcome is possible and would require the primary government to return between $10 and $15 billion to counties for retroactive payment, an amount that increases by approximately $3.5 billion annually.

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 other federal assistance. 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, 2000. 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 1,333 public agencies as of June 30, 2000.

The excess of the actuarial value of assets over the actuarial accrued liability of PERF for the primary government and other participating agencies was $32.9 billion at June 30, 1999. This is a result of the difference between the actuarial value of assets of $148.6 billion and the actuarial accrued liability of $115.7 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, 2000, was approximately $11.0 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 0.03%. This is 0.03% 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, 2000

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members			
First tier	8.62 %	(7.13) %	1.49 %
Second tier	6.57	(6.57)	—
Industrial	8.67	(8.67)	—
California Highway Patrol	13.35	—	13.35
Peace officers and firefighters	13.89	(13.89)	—
Other safety members	12.17	(4.68)	7.49

For the year ended June 30, 2000, the annual pension cost (APC) and the amount of contributions made by the primary government were each approximately $171 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, 1999, 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, 2000. The payroll for employees covered by the JRF for the year ended June 30, 2000, was approximately $146 million. The primary government pays the employer contributions for all employees covered by the JRF.

The JRF provides benefits based on a member's 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, 2000, 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, 2000, were $136 million and $74 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2000, was $735 million, an increase of $62 million over last year's balance of $673 million. The APC is comprised of $139 million for the annual required contribution (ARC), $50 million interest on the NPO, and $53 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, 1999, is also shown in Table 29. The aggregate cost method that was used for the June 30, 1999, 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, 2000, was approximately $40 million. The primary government pays the employer contributions for all employees covered by the JRF II.

The JRF II provides benefits based on a member's 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, 2000, the required contribution rate for the JRF II was 8.0%. For the year ended June 30, 2000, the primary government's contribution rate for the JRF II was 18.57% 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, 2000, the APC and the amount of contributions made for the JRF II were approximately $7.5 million and $7.5 million, respectively. The APC and the percentage of APC contributed for the year ended June 30, 2000 are shown in Table 29. Information on the last valuation, which was performed as of June 30, 1999, 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 2000 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 18 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, 2000, the actual contributions made by employees were approximately 5.5% of covered payroll. For the year ended June 30, 2000, the primary government's statutory funding rate was 18.81% of covered payroll through December 31, 1999, and the actuarial determined rate of 0.00% through June 30, 2000.

The APC and the amount of contributions made by the primary government to the LRF for the year ended June 30, 2000, were zero and $0.3 million, respectively. The NPO of the LRF at June 30, 2000, was $10.3 million, a decrease of $0.4 million over last year's balance of $10.7 million. There was no APC because the ARC equaled zero, and the interest on the NPO of $0.8 million approximated the $0.8 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, 1999, is also shown in Table 29. The aggregate cost method that was used for the June 30, 1999, 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 57 fire departments participating in the VFF for the year ended June 30, 2000.

The excess of the actuarial value of assets over the actuarial accrued liability of VFF was $0.2 million at June 30, 1999. This is a result of the difference between actuarial value of assets of $2.0 million and the actuarial accrued liability of $1.8 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 Internal Revenue 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 not to exceed contribution limits established by the Internal Revenue Code. 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, 2000, contributions by the primary government to the SPOFF were approximately $30 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 a participant will depend only on the amount contributed to the 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, 2000, there were approximately 31,800 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.

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, 2000, the DB Program had approximately 1,160 contributing employers. At June 30, 1999, there were approximately 471,000 plan members and 161,000 benefit recipients. The primary government is a non-employer contributor to the DB Program. The payroll for employees covered by the DB Program in 2000 was approximately $18.6 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 or the election period determined by the employer. At June 30, 2000, the CBB Program had 20 contributing school districts and approximately 9,500 contributing participants. Assets of the CBB Program of $10.9 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, known as the "Elder Full Funding Act," is 4.3% of previous calender 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. 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, 1999, 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, 2000, the APC for the DB Program was approximately $1.2 billion, and the employer and primary government contributions were approximately $1.6 billion and $0.5 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, 2000, the 403(b) program had approximately 250 participating employers (school districts) and 2,300 plan members.

Table 29

Actuarial Information – Pension Trusts – Primary Government
June 30, 2000

	Public Employees' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Teachers' Retirement Defined Benefit Program
Last actuarial valuation	June 30, 1999	June 30, 1999	June 30, 1999	June 30, 1999	June 30, 1999
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	21 years	None	6 years	None	None
Asset valuation method	Smoothed Market Value	Market Value	Smoothed Market Value	Smoothed Market Value	Expected Value, 33.33% Adjustment to Market Value
Actuarial assumption					
Investment rate of return	8.25 %	7.50 %	7.75 %	7.50 %	8.00 %
Projected salary increase	3.5-17.99	3.75	3.75	3.75	4.25
Includes inflation at	3.50	3.50	3.50	3.50	3.50
Post retirement benefit increases	2 or 3	3.75	3.00	3.50	2.00
Annual pension costs (In millions)					
Year ended 6/30/98	$ 1,178	$ 133	$ 5.4	$ 2.0	$ 1,911
Year ended 6/30/99	829	134	7.3	0.0	1,473
Year ended 6/30/00	171	136	7.5	0.0	1,150
Percent contribution					
Year ended 6/30/98	100 %	42 %	102 %	34 %	105 %
Year ended 6/30/99	100	63	101	—	115
Year ended 6/30/00	100	54	100	—	183
Net pension obligation (In millions)					
Year ended 6/30/98	$ —	$ 623.0	$ —	$ 11.4	$ —
Year ended 6/30/99	—	673.0	—	10.7	—
Year ended 6/30/00	—	735.2	—	10.3	—
Funding as of last valuation (In millions)					
Actuarial value – assets	$ 61,233	N/A	$ 27.2	N/A	$ 90,001
Actuarial accrued liabilities (AAL) – Entry Age	49,090	N/A	26.9	N/A	86,349
Excess of actuarial value of assets over AAL (EAV)	12,143	N/A	0.3	N/A	3,652
Covered payroll	10,778	N/A	40.0	N/A	17,185
Funded ratio	125 %	N/A	101 %	N/A	104 %
EAV as percent of covered payroll	113 %	N/A	0.6 %	N/A	21 %

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, 2000, 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, 2000.

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 $347 million and $207 million to the 403(b) Plan and the DC Plan, respectively.

Table 30

Actuarial Information – University of California – Discretely Presented Component Unit

June 30, 2000

	University of California Retirement Plan	Voluntary Early Retirement Incentive Plan
Last actuarial valuation	June 30, 2000	June 30, 2000
Actuarial cost method	Entry Age Normal	Unit Credit
Amortization method	Level % of Payroll, Open	N/A
Remaining amortization period	21.8 years	N/A
Asset valuation method	Smoothed Fair Value	Fair Value
Actuarial assumption		
Investment rate of return	7.5 %	7.5 %
Projected salary increase	4.5 to 6.5	—
Includes inflation at	4.00	4.00
Annual pension costs (In millions)		
Year ended 6/30/98	$ —	$ —
Year ended 6/30/99	—	—
Year ended 6/30/00	—	—
Percent contribution		
Year ended 6/30/98	N/A	N/A
Year ended 6/30/99	N/A	N/A
Year ended 6/30/00	N/A	N/A
Net pension obligation (In millions)		
Year ended 6/30/98	$ —	$ —
Year ended 6/30/99	—	—
Year ended 6/30/00	—	—
Funding as of last valuation (In millions)		
Actuarial value – assets	$ 37,026	$ 94.7
Actuarial accrued liabilities (AAL)	24,067	41.9
Excess of actuarial value of assets over AAL (EAV)	12,959	52.8
Covered payroll	5,903	N/A
Funded ratio	154 %	226 %
EAV as percent of covered payroll	220 %	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 106,100 annuitants were enrolled to receive health benefits and approximately 84,200 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 $352 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 35,000 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 $108 million.

NOTE 25. SUBSEQUENT EVENTS

The following information represents significant events that occurred subsequent to June 30, 2000, but prior to the date of the auditors' report.

From July 1, 2000, through November 17, 2000, the primary government issued $1.8 billion in general obligation bonds, $117 million of which were used to refund existing general obligation bonds and $1.7 billion of which were used to retire previously issued commercial paper. In addition, the primary government issued approximately $27 million in revenue bonds. There were no revenue anticipation notes issued during this period.

On September 7, 2000, Standard and Poor's raised its rating on California's General Obligation Bonds from "AA-" to "AA". Moody's also raised its rating on California's General Obligation Bonds from "Aa3" to "Aa2".

In the general election held on November 7, 2000, voters approved the sale of $500 million in bonds with the passage of Proposition 32, the "Veterans' Bond Act of 2000".

On October 25, 2000, Governor Davis announced that the State's sales tax will be reduced by one-quarter percent for a period of at least one calendar year, effective January 1, 2001. This reduction will result in approximately $525 million less General Fund revenue in the last half of fiscal year 2000-01 and approximately $575 million less in the first half of fiscal year 2001-02.

From July 1, 2000, to November 17, 2000, the Regents of the University of California issued approximately $359 million in revenue bonds and the special purpose authorities, which are discretely presented component units, issued approximately $916 million in revenue bonds.

Required Supplementary Information

Schedule of Funding Progress [1]

Public Employees' Retirement Fund
(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability –AAL– (b)	(Excess of the Actuarial Value of Assets over AAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	(Excess as a Percentage of Covered Payroll) ((b-a)/c)
June 30, 1997	$ 44,822	$ 43,504	$ (1,318)	103.0 %	$ 9,102	(14.5) %
June 30, 1998	52,838	46,021	(6,817)	114.8	9,307	(73.2)
June 30, 1999	61,233	49,090	(12,143)	124.7	10,778	(112.7)

Judges' Retirement Fund II
(Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability –AAL– (b)	(Excess of the Actuarial Value of Assets over AAL) or Unfunded Actuarial Accrued Liability –UAAL– (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	(Excess as a Percentage of Covered Payroll) or UAAL as a Percent of Covered Payroll ((b-a)/c)
June 30, 1997	$ 7,242	$ 7,906	$ 664	91.6 %	$ 15,422	4.3 %
June 30, 1998	15,120	15,043	(77)	100.5	33,880	(0.2)
June 30, 1999	27,155	26,921	(234)	100.9	39,959	(0.6)

Notes:

(1) Actuarial valuations for the Judges' Retirement Fund and the Legislators' Retirement Fund are performed using the aggregate cost valuation method. Required Supplementary Information is not required if the aggregate cost method is used.

Schedule of Funding Progress [1]

State Teachers' Retirement Defined Benefit Program

(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability –AAL– (b)	(Excess of the Actuarial Value of Assets over AAL) or Unfunded Actuarial Accrued Liability –UAAL– (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	(Excess as a Percentage of Covered Payroll) or UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 1997	$ 67,980	$ 69,852	$ 1,872	97.3 %	$ 14,521	12.9 %
June 30, 1998	77,290	74,234	(3,056)	104.1	15,741	(19.4)
June 30, 1999	90,001	86,349	(3,652)	104.2	17,185	(21.3)

University of California Retirement System

(Amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability –AAL– (b)	(Excess of the Actuarial Value of Assets over AAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	(Excess as a Percentage of Covered Payroll) ((b-a)/c)
June 30, 1998	$ 27,132	$ 20,617	$ (6,515)	131.6 %	$ 4,960	(131.4) %
June 30, 1999	32,087	22,157	(9,930)	144.8	5,347	(185.7)
June 30, 2000	37,026	24,067	(12,959)	153.8	5,903	(219.5)

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press