California State Auditor

BUREAU OF STATE AUDITS

State of California:

Financial Report
Year Ended June 30, 2001

CALIFORNIA STATE AUDITOR
BUREAU OF STATE AUDITS

December 2001
2001-001

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CALIFORNIA STATE AUDITOR

ELAINE M. HOWLE
STATE AUDITOR

STEVEN M. HENDRICKSON
CHIEF DEPUTY STATE AUDITOR

December 31, 2001

2001-001

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, 2001. 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 had revenues and other financing sources that were approximately $789 million less than expenditures and other financial uses. The General Fund ended the fiscal year with a fund balance of approximately $7.6 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

State of California:

Financial Report
Year Ended June 30, 2001

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ELAINE M. HOWLE
STATE AUDITOR

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, 2001, 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 59 percent and 66 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 94 percent and 95 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 22 percent and 44 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 85 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 93 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

BUREAU OF STATE AUDITS
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As discussed in Note 22 to the financial statements, the primary government is involved in certain lawsuits and regulatory proceedings relating to the Department of Water Resources entering into contracts and arrangements for the purchase and sale of electric power. These lawsuits could impact the timing of the sale of the bonds described in Notes 4, 22, and 25; the revenue requirements and rate structure needed to repay the debt payable; and the terms and conditions of the power purchase contracts. Because of the early stage of the legal and regulatory proceedings, the ultimate outcome of these matters cannot be presently determined.

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, 2001, 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 accounting principles generally accepted in the United States of America.

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 16, 2001

General Purpose Financial Statements

Combined Balance Sheet

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

June 30, 2001
(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	$ 3,830,104	$ 10,997,162	$ 179,872	$ 7,090,413	$ 472,042
Investments	—	—	5,694	3,971,272	96,276
Amount on deposit with U. S. Treasury	—	—	—	—	—
Receivables (net)	195,058	581,192	966	1,792,656	7,180
Due from other funds	12,854,223	3,650,940	60,062	305,928	338,150
Due from primary government	—	—	—	—	—
Due from component units	—	—	—	—	—
Due from other governments	514,414	6,885,089	—	117,127	14,684
Prepaid items	—	—	—	3,773	43,454
Food stamps	—	347,506	—	—	—
Inventories, at cost	—	—	—	17,371	95,807
Net investment in direct financing leases	—	—	—	4,793,991	—
Advances to other funds	44,649	4,201	—	19,877	—
Loans receivable	111,321	1,916,692	—	3,128,807	—
Recoverable power costs (net)	—	—	—	6,127,000	—
Deferred charges	—	—	—	1,093,668	—
Fixed assets	—	—	—	5,093,262	537,893
Investment in UCSF Stanford Health Care	—	—	—	—	—
Other assets	892	15,932	2	17,148	9,557
Amount to be provided for retirement of long-term obligations	—	—	—	—	—
Total Assets and Other Debits	**$ 17,550,661**	**$ 24,398,714**	**$ 246,596**	**$ 33,572,293**	**$ 1,615,043**

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)
$ 26,574,293	$ —	$ —	$ 49,143,886	$ 152,046	$ 1,492,726	$ 50,788,658
295,782,854	—	—	299,856,096	70,681,490	8,857,016	379,394,602
6,412,589	—	—	6,412,589	—	—	6,412,589
13,067,856	—	—	15,644,908	2,049,218	465,392	18,159,518
6,368,579	—	—	23,577,882	—	—	23,577,882
—	—	—	––	222,792	17,740	240,532
—	—	—	––	135,157	—	135,157
1,497,398	—	—	9,028,712	190,430	808	9,219,950
9,780	—	—	57,007	—	1,723	58,730
—	—	—	347,506	—	—	347,506
—	—	—	113,178	113,413	—	226,591
—	—	—	4,793,991	—	—	4,793,991
617,208	—	—	685,935	—	2,500	688,435
631,036	—	—	5,787,856	—	6,715,320	12,503,176
—	—	—	6,127,000	—	—	6,127,000
—	—	—	1,093,668	83,403	62,820	1,239,891
—	18,159,778	—	23,790,933	18,205,528	549,349	42,545,810
—	—	—	––	6,843	—	6,843
240,535	—	—	284,066	—	85,167	369,233
—	—	28,829,007	28,829,007	—	—	28,829,007
$ 351,202,128	**$ 18,159,778**	**$ 28,829,007**	**$ 475,574,220**	**$ 91,840,320**	**$ 18,250,561**	**$ 585,665,101**

(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 (continued)

June 30, 2001
(amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service
LIABILITIES					
Accounts payable	$ 2,067,042	$ 2,312,252	$ 3,598	$ 1,751,392	$ 170,933
Due to other funds	2,584,372	5,912,351	10,513	582,882	260,384
Due to component units	121,371	98,786	—	—	—
Due to other governments	4,196,733	2,223,658	47	151,746	103,871
Dividends payable	—	—	—	—	—
Deferred revenue	—	348,432	—	—	—
Advances from other funds	617,208	13,585	—	6,171,500	24,078
Tax overpayments	—	9,319	—	—	—
Benefits payable	—	—	—	794,174	69,427
Deposits	5	13,688	—	3,615	2,036
Contracts and notes payable	—	—	—	4,687	32,599
Lottery prizes and annuities	—	—	—	2,844,874	—
Compensated absences payable	143,460	—	—	33,724	38,698
Certificates of participation, commercial paper, and other borrowings	—	—	—	4,371,100	—
Capital lease obligations	—	—	—	—	66,948
Advance collections	33,630	100,049	3,509	378,891	212,660
General obligation bonds payable	—	—	—	3,358,270	—
Revenue bonds payable	—	—	—	8,802,888	—
Interest payable	4,369	—	7,525	148,503	1,391
Securities lending obligation	—	—	—	—	—
Other liabilities	204,156	191,652	—	450,255	26,440
Total Liabilities	**9,972,346**	**11,223,772**	**25,192**	**29,848,501**	**1,009,465**
FUND EQUITY AND OTHER CREDITS					
Contributed capital	—	—	—	296,484	347,083
Investment in general fixed assets	—	—	—	—	—
Retained earnings					
Reserved for regulatory requirements	—	—	—	173,210	—
Unreserved	—	—	—	3,254,098	258,495
Total Retained Earnings	**––**	**––**	**––**	**3,427,308**	**258,495**
Fund balances					
Reserved for					
Encumbrances	1,740,237	4,899,734	117,775	—	—
Local agencies	—	—	—	—	—
Advances and loans	155,970	1,920,893	—	—	—
Employees' pension benefits	—	—	—	—	—
Continuing appropriations	1,436,716	3,638,873	63,368	—	—
Other specific purposes	—	—	—	—	—
Total Reserved	**3,332,923**	**10,459,500**	**181,143**	**––**	**––**
Unreserved					
Undesignated	4,245,392	2,715,442	40,261	—	—
Total Fund Equity and Other Credits	**7,578,315**	**13,174,942**	**221,404**	**3,723,792**	**605,578**
Total Liabilities, Fund Equity, and Other Credits	**$ 17,550,661**	**$ 24,398,714**	**$ 246,596**	**$ 33,572,293**	**$ 1,615,043**

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)
$ 6,211,446	$ —	$ —	$ 12,516,663	$ 2,397,675	$ 39,439	$ 14,953,777
8,058,380	—	—	17,408,882	—	—	17,408,882
20,375	—	—	240,532	135,157	—	375,689
4,097,264	—	—	10,773,319	—	20,114	10,793,433
—	—	—	––	—	153,594	153,594
—	—	—	348,432	—	—	348,432
31,064	—	—	6,857,435	—	—	6,857,435
2,048,351	—	—	2,057,670	—	—	2,057,670
502,313	—	—	1,365,914	—	5,563,175	6,929,089
841,456	—	—	860,800	1,085,684	126,013	2,072,497
2,977	—	—	40,263	—	9,734	49,997
—	—	—	2,844,874	—	—	2,844,874
—	—	1,305,581	1,521,463	403,382	39,603	1,964,448
—	—	452,045	4,823,145	894,751	—	5,717,896
—	—	3,341,452	3,408,400	1,164,555	—	4,572,955
199,858	—	—	928,597	—	233,959	1,162,556
—	—	20,442,250	23,800,520	—	—	23,800,520
—	—	814,605	9,617,493	3,111,890	7,827,167	20,556,550
—	—	—	161,788	—	144,180	305,968
32,034,826	—	—	32,034,826	12,459,564	—	44,494,390
5,692,800	—	2,473,074	9,038,377	—	774,258	9,812,635
59,741,110	**––**	**28,829,007**	**140,649,393**	**21,652,658**	**14,931,236**	**177,233,287**
—	—	—	643,567	—	21,213	664,780
—	18,159,778	—	18,159,778	13,368,849	—	31,528,627
—	—	—	173,210	—	737,503	910,713
—	—	—	3,512,593	—	2,560,609	6,073,202
––	**––**	**––**	**3,685,803**	**––**	**3,298,112**	**6,983,915**
197,133	—	—	6,954,879	—	—	6,954,879
17,701,985	—	—	17,701,985	—	—	17,701,985
599,123	—	—	2,675,986	—	—	2,675,986
259,774,161	—	—	259,774,161	47,098,226	—	306,872,387
35,409	—	—	5,174,366	—	—	5,174,366
—	—	—	–––	5,725,450	—	5,725,450
278,307,811	**––**	**––**	**292,281,377**	**52,823,676**	**––**	**345,105,053**
13,153,207	—	—	20,154,302	3,995,137	—	24,149,439
291,461,018	**18,159,778**	**––**	**334,924,827**	**70,187,662**	**3,319,325**	**408,431,814**
$ 351,202,128	**$ 18,159,778**	**$ 28,829,007**	**$ 475,574,220**	**$ 91,840,320**	**$ 18,250,561**	**$ 585,665,101**

(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, 2001
(amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Total Primary Government
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
REVENUES					
Taxes	$ 75,604,723	$ 6,418,364	$ —	$ 5,861,140	$ 87,884,227
Intergovernmental	4,516	34,132,387	—	657,764	34,794,667
Licenses and permits	44,230	3,232,382	—	—	3,276,612
Natural resources	13,712	126,582	—	—	140,294
Charges for services	132,521	699,467	—	1,845	833,833
Fees and penalties	52,979	2,186,838	—	96,343	2,336,160
Investment and interest	833,320	512,623	20,161	176,770	1,542,874
Escheat	—	—	—	25,001	25,001
Receipts from depositors	—	—	—	682,081	682,081
Other	813,249	369,672	20,829	754,601	1,958,351
Total Revenues	**77,499,250**	**47,678,315**	**40,990**	**8,255,545**	**133,474,100**
EXPENDITURES					
Current					
General government	2,383,331	3,678,019	310	75,234	6,136,894
Education	34,140,713	6,713,351	6	1,550,666	42,404,736
Health and human services	19,829,984	29,531,069	—	5,311,955	54,673,008
Resources	1,810,957	1,703,206	1,976	28,788	3,544,927
State and consumer services	479,269	458,109	4,506	1,008	942,892
Business and transportation	158,904	8,129,114	105	23,883	8,312,006
Correctional programs	4,870,839	254,193	—	—	5,125,032
Property tax relief	2,799,373	887,000	—	—	3,686,373
Payments to depositors	—	—	—	263,121	263,121
Capital outlay	46,575	682,688	175,853	—	905,116
Debt service					
Principal retirement	1,184,441	10,989	35,917	—	1,231,347
Interest and fiscal charges	1,060,080	74,926	50,357	—	1,185,363
Total Expenditures	**68,764,466**	**52,122,664**	**269,030**	**7,254,655**	**128,410,815**
Excess (Deficiency) of Revenues Over (Under) Expenditures	**8,734,784**	**(4,444,349)**	**(228,040)**	**1,000,890**	**5,063,285**
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds, commercial paper, and capital leases	46,575	3,494,172	143,368	—	3,684,115
Proceeds from refunding long-term debt	—	4,169,265	250,400	—	4,419,665
Operating transfers in	249,360	8,776,038	119,454	663,254	9,808,106
Operating transfers out	(6,201,015)	(3,490,758)	(202)	(123,396)	(9,815,371)
Transfers out – component units	(3,618,709)	(40,789)	(18)	—	(3,659,516)
Payment to refunding escrow agent	—	(525,905)	(93,760)	—	(619,665)
Payment to refund commercial paper	—	(3,643,360)	(156,640)	—	(3,800,000)
Net Other Financing Sources (Uses)	**(9,523,789)**	**8,738,663**	**262,602**	**539,858**	**17,334**
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	**(789,005)**	**4,294,314**	**34,562**	**1,540,748**	**5,080,619**
Fund Balances, July 1, 2000	**8,367,320**	**8,880,628 ***	**186,842**	**12,444,124**	**29,878,914**
Fund Balances, June 30, 2001	**$ 7,578,315**	**$ 13,174,942**	**$ 221,404**	**$ 13,984,872**	**$ 34,959,533**

* Restated

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, 2001
(amounts in thousands)

	Proprietary Fund Types		Total Primary Government	Component Units	Total Reporting Entity
	Enterprise	Internal Service	(Memorandum Only)	Special Purpose Authorities	(Memorandum Only)
OPERATING REVENUES					
Lottery ticket sales	$ 2,894,842	$ —	$ 2,894,842	$ —	$ 2,894,842
Power sales	2,733,000	—	2,733,000	—	2,733,000
Services and sales	1,617,238	3,099,430	4,716,668	205,654	4,922,322
Earned premiums (net)	—	—	––	1,759,462	1,759,462
Investment and interest	273,359	201	273,560	489,499	763,059
Contributions	—	—	––	3,411	3,411
Rent	375,995	—	375,995	24,220	400,215
Other	16,027	11,304	27,331	60,061	87,392
Total Operating Revenues	**7,910,461**	**3,110,935**	**11,021,396**	**2,542,307**	**13,563,703**
OPERATING EXPENSES					
Lottery prizes	1,503,768	—	1,503,768	—	1,503,768
Power purchases (net of recoverable power costs)	2,637,000	—	2,637,000	—	2,637,000
Personal services	345,704	440,707	786,411	164,031	950,442
Supplies	11,174	39,876	51,050	—	51,050
Services and charges	1,654,102	2,540,538	4,194,640	176,648	4,371,288
Depreciation	117,305	97,494	214,799	17,139	231,938
Benefit payments	—	—	––	1,915,809	1,915,809
Interest expense	498,917	3,153	502,070	432,051	934,121
Amortization (recovery) of deferred charges	(90,501)	—	(90,501)	219,514	129,013
Total Operating Expenses	**6,677,469**	**3,121,768**	**9,799,237**	**2,925,192**	**12,724,429**
Operating Income (Loss)	**1,232,992**	**(10,833)**	**1,222,159**	**(382,885)**	**839,274**
NONOPERATING REVENUES (EXPENSES)					
Grants received	46,728	—	46,728	68,916	115,644
Grants provided	(15,786)	—	(15,786)	(68,916)	(84,702)
Investment and interest income	161,161	15,408	176,569	834,555	1,011,124
Interest expense and fiscal charges	(315,466)	(34)	(315,500)	(2,844)	(318,344)
Dividends paid	—	—	––	(104,146)	(104,146)
Lottery payments for education	(1,031,986)	—	(1,031,986)	—	(1,031,986)
Other	(85,697)	(4,642)	(90,339)	22,164	(68,175)
Total Nonoperating Revenues (Expenses)	**(1,241,046)**	**10,732**	**(1,230,314)**	**749,729**	**(480,585)**
Income (Loss) Before Contributions/Transfers	**(8,054)**	**(101)**	**(8,155)**	**366,844**	**358,689**
Capital contributions	63,947	27,372	91,319	488	91,807
Operating transfers in	41,961	23,566	65,527	—	65,527
Operating transfers in – primary government	—	—	––	20,141	20,141
Operating transfers out	(58,262)	—	(58,262)	—	(58,262)
Net Contributions/Transfers	**47,646**	**50,938**	**98,584**	**20,629**	**119,213**
Net Income	**39,592**	**50,837**	**90,429**	**387,473**	**477,902**
Retained Earnings, July 1, 2000	**3,387,716** *	**207,658**	**3,595,374**	**2,910,639** *	**6,506,013**
Retained Earnings, June 30, 2001	**$ 3,427,308**	**$ 258,495**	**$ 3,685,803**	**$ 3,298,112**	**$ 6,983,915**

* Restated

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

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, 2001
(amounts in thousands)

	General Fund		
	Budget	**Actual**	**Variance**
REVENUES			
Major taxes and licenses			
Bank and corporation taxes	—	$ 6,899,302	—
Cigarette and tobacco tax	—	126,664	—
Inheritance, estate and gift taxes	—	934,709	—
Insurance gross premiums tax	—	1,496,556	—
Vehicle license fees	—	26,337	—
Motor vehicle fuel tax	—	—	—
Personal income tax	—	44,614,298	—
Retail sales and use taxes	—	21,276,843	—
Other major taxes and licenses	—	292,832	—
Total Major Taxes and Licenses	**––**	**75,667,541**	**––**
Minor revenues	—	1,942,359	—
Total Revenues	**––**	**77,609,900**	**––**
EXPENDITURES			
Legislative, judicial, executive	$ 2,682,406	2,611,426	$ 70,980
State and consumer services	527,434	519,981	7,453
Business, transportation and housing	2,220,360	2,217,670	2,690
Trade and commerce	148,706	144,312	4,394
Resources	2,266,823	2,214,037	52,786
Environmental protection	396,966	384,450	12,516
Health and human services	20,641,969	19,869,373	772,596
Correctional programs	4,944,352	4,934,993	9,359
Education	37,724,338	37,608,492	115,846
General government			
Tax relief and shared revenues	5,324,829	5,258,766	66,063
Debt service	2,294,898	2,270,181	24,717
Other general government	148,913	93,692	55,221
Total Expenditures	**$ 79,321,994**	**78,127,373**	**$ 1,194,621**
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	—	6,561,817	—
Transfers to other funds	—	(6,324,088)	—
Other additions and deductions	—	46,309	—
Total Other Financing Sources (Uses)	**––**	**284,038**	**––**
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	**––**	**(233,435)**	**––**
FUND BALANCES			
Fund Balances, July 1, 2000, Restated	**––**	**9,250,955**	**––**
Fund Balances, June 30, 2001	**––**	**$ 9,017,520**	**––**

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

	Other Governmental Funds			Total		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
	—	$ 20	—	—	$ 6,899,322	—
	—	1,024,205	—	—	1,150,869	—
	—	—	—	—	934,709	—
	—	—	—	—	1,496,556	—
	—	5,260,205	—	—	5,286,542	—
	—	3,142,142	—	—	3,142,142	—
	—	4,234	—	—	44,618,532	—
	—	5,339,230	—	—	26,616,073	—
	—	37,978	—	—	330,810	—
	—	**14,808,014**	**—**	**—**	**90,475,555**	**—**
	—	4,619,861	—	—	6,562,220	—
	—	**19,427,875**	**—**	**—**	**97,037,775**	**—**
	$ 618,040	481,782	$ 136,258	$ 3,300,446	3,093,208	$ 207,238
	500,142	430,212	69,930	1,027,576	950,193	77,383
	5,785,384	2,800,522	2,984,862	8,005,744	5,018,192	2,987,552
	2,206	(3,479)	5,685	150,912	140,833	10,079
	1,375,530	1,134,967	240,563	3,642,353	3,349,004	293,349
	603,642	485,088	118,554	1,000,608	869,538	131,070
	4,387,147	4,335,158	51,989	25,029,116	24,204,531	824,585
	18,411	17,934	477	4,962,763	4,952,927	9,836
	829,417	768,058	61,359	38,553,755	38,376,550	177,205
	3,782,488	3,782,488	—	9,107,317	9,041,254	66,063
	501	468	33	2,295,399	2,270,649	24,750
	(263,697)	(340,782)	77,085	(114,784)	(247,090)	132,306
	$ 17,639,211	**13,892,416**	**$ 3,746,795**	**$ 96,961,205**	**92,019,789**	**$ 4,941,416**
	—	16,287,271	—	—	22,849,088	—
	—	(18,375,806)	—	—	(24,699,894)	—
	—	263,195	—	—	309,504	—
	—	**(1,825,340)**	**—**	**—**	**(1,541,302)**	**—**
	—	**3,710,119**	**—**	**—**	**3,476,684**	**—**
	—	**6,652,860**	**—**	**—**	**15,903,815**	**—**
	—	**$ 10,362,979**	**—**	**—**	**$ 19,380,499**	**—**

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, 2001
(amounts in thousands)

	Proprietary Fund Types		Component Units
	Enterprise [1]	Internal Service [2]	Special Purpose Authorities [3]
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 1,232,992	$ (10,833)	$ (382,885)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Interest expense on operating debt	—	3,153	428,848
Depreciation	117,305	97,494	17,139
Accretion of capital appreciation bonds	9,753	—	28,123
Provisions and allowances	5,579	—	25,458
Accrual of deferred charges	(1,889)	—	(221,753)
Amortization of deferred credits	—	—	(3,586)
Amortization of discounts	1,391	—	6,553
Amortization (recovery) of deferred charges	(88,127)	—	218,044
Purchase of program loans	—	—	(1,540,632)
Collection of principal from program loans	115	—	693,640
Other	45,642	(1,327)	24,847
Change in assets and liabilities			
Receivables	(1,634,744)	4,039	(111,346)
Due from other funds	(17,144)	(55,166)	—
Due from primary government	—	—	(12,527)
Due from other governments	4,837	(847)	(808)
Prepaid items	(2,338)	(12,765)	(1,320)
Inventories	(2,920)	(2,344)	—
Net investment in direct financing leases	169,675	—	—
Advances and loans receivable	(146,973)	—	—
Recoverable power costs (net)	(6,127,000)	—	—
Other assets	(1,823)	835	25,338
Accounts payable	1,631,042	54,290	29,464
Interest payable	(13,297)	1,391	—
Due to other funds	177,514	99,515	—
Due to other governments	93,489	9,792	(1,274)
Benefits payable	226,874	9,524	500,733
Deposits	581	(168)	8,384
Lottery prizes and annuities	(131,599)	—	—
Contracts and notes payable	4,687	2,657	(1,132)
Compensated absences payable	1,265	2,729	6,572
Capital lease obligations	—	221	232
Advance collections	(7,688)	59,455	64,394
Other liabilities	(24,907)	(1,065)	(9,689)
Total Adjustments	**(5,710,700)**	**271,413**	**173,702**
Net Cash Provided by (Used in) Operating Activities	**(4,477,708)**	**260,580**	**(209,183)**

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. $192 million in interest accreted on annuitized lottery prizes; b. $80 million in unclaimed lottery prizes directly transferred for educational purposes; c. $87 million unrealized gain and a $39 million unrealized loss on investments.

[2] Internal service funds had the following non-cash transactions: a. installment purchases totaling approximately $17 million to acquire equipment; b. $2 million unrealized gain on investments.

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	—	—	(95,939)
Advances from other funds	6,169,000	—	—
Collection of advances and loans	2,887	—	—
Return of advances from other funds	(32,258)	(74,719)	—
Proceeds from general obligation bonds	78,725	—	—
Proceeds from notes payable and commercial paper	4,300,000	—	—
Proceeds from revenue bonds	179,570	—	2,113,083
Retirement of general obligation bonds	(195,045)	—	—
Retirement of revenue bonds	(114,445)	—	(1,005,812)
Interest paid on operating debt	(93,000)	—	(428,925)
Operating transfers in	41,961	23,566	20,141
Operating transfers out	(58,263)	—	—
Grants provided	(15,786)	—	(68,916)
Lottery payments for education	(1,051,136)	—	—
Net Cash Provided by (Used in) Noncapital Financing Activities	**9,212,210**	**(51,153)**	**533,632**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of intangible assets	—	(2,912)	—
Acquisition of fixed assets	(416,403)	(126,517)	(22,871)
Proceeds from sale of fixed assets	26	3,389	3
Advances from other funds	96,570	—	—
Advances and loans provided	(4,455)	—	—
Collection of advances and loans	19,332	—	—
Return of advances from other funds	(23,779)	—	—
Proceeds from notes payable and commercial paper	67,743	7,113	—
Principal paid on notes payable and commercial paper	(28,117)	(4,432)	(534)
Payment of capital lease obligations	—	(2,598)	—
Retirement of general obligation bonds	(38,810)	—	—
Proceeds from revenue bonds	529,864	—	—
Retirement of revenue bonds	(679,822)	—	(2,676)
Interest paid	(221,480)	(3,153)	(2,937)
Contributed capital	63,947	27,372	488
Grants received	46,728	—	68,916
Payment to refunding escrow agent	(174,967)	—	—
Net Cash Provided by (Used in) Capital and Related Financing Activities	**(763,623)**	**(101,738)**	**40,389**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(260,904)	—	(2,929,506)
Proceeds from maturity and sale of investments	879,915	47,415	2,511,492
Advances and loans provided	(55,682)	—	(22,636)
Collection of advances and loans	—	—	424
Earnings on investments	120,390	15,401	552,264
Net Cash Provided by Investing Activities	**683,719**	**62,816**	**112,038**
Net Increase (Decrease) in Cash and Pooled Investments	**4,654,598**	**170,505**	**476,876**
Cash and Pooled Investments at July 1, 2000	**2,435,815**	**301,537**	**1,015,850**
Cash and Pooled Investments at June 30, 2001	**$ 7,090,413**	**$ 472,042**	**$ 1,492,726**

[3] Component units had the following non-cash transactions: a. $247 million unrealized gain on investments; b. $495 thousand in construction costs through the issuance of a note payable; c. $1 million litigation liability.

Combined Statement of Changes in Plan Net Assets

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

Year Ended June 30, 2001
(amounts in thousands)

	Primary Government Pension Trust Funds	Component Unit University of California Retirement System Funds
ADDITIONS		
Contributions		
Employer	$ 3,290,732	$ 517
Plan member	3,640,052	619,735
Total Contributions	**6,930,784**	**620,252**
Investment income		
Net depreciation in fair value of investments	(31,189,682)	(4,603,596)
Interest, dividends, and other investment income	11,536,483	2,194,753
Less: Investment expense	(2,842,710)	(507,511)
Net Investment Loss	**(22,495,909)**	**(2,916,354)**
Other	12,404	—
Total Additions	**(15,552,721)**	**(2,296,102)**
DEDUCTIONS		
Benefits	9,855,502	712,427
Refunds of contributions	208,834	439,054
Administrative expense	240,561	33,334
Transfers among funds	—	934
Total Deductions	**10,304,897**	**1,185,749**
Net Decrease in Fund Balance Reserved for Employees' Pension Benefits	**(25,857,618)**	**(3,481,851)**
Fund Balance Reserved for Employees' Pension Benefits, July 1, 2000	**285,631,779**	**50,580,077**
Fund Balance Reserved for Employees' Pension Benefits, June 30, 2001	**$ 259,774,161**	**$ 47,098,226**

Statement of Changes in Net Assets

Investment Trust Fund – Local Agency Investment

Year Ended June 30, 2001
(amounts in thousands)

CHANGE IN NET ASSETS RESULTING FROM OPERATIONS	
Investment and interest income	$ 873,411
Less: Operating expenditures and expenses	(1,720)
Net Increase in Net Assets Resulting From Operations	**871,691**
DISTRIBUTIONS TO PARTICIPANTS	
Distributions paid and payable	**(871,691)**
CHANGE IN NET ASSETS RESULTING FROM DEPOSITOR TRANSACTIONS	
Receipts from depositors	23,089,583
Less: Withdrawals by depositors	(17,915,986)
Net Increase in Net Assets Resulting From Depositor Transactions	**5,173,597**
Total Change in Net Assets	**5,173,597**
Net Assets Held in Trust for Pool Participants, July 1, 2000	**12,528,388**
Net Assets Held in Trust for Pool Participants, June 30, 2001	**$ 17,701,985**

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, 2001
(amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds	Agency Funds	Retirement System Funds	Total (Memorandum Only)
ASSETS							
Cash	$ 147,501	$ —	$ —	$ 4,545	$ —	$ —	$ 152,046
Investments	6,098,836	64,298	5,520,003	1,786,446	708,476	56,503,431	70,681,490
Receivables (net)	1,230,653	291,113	43,612	69,374	—	414,466	2,049,218
Due from primary government	204,796	—	—	17,996	—	—	222,792
Due from component units	212	—	35,372	1,379	—	98,194	135,157
Due from other governments	158,207	795	—	31,428	—	—	190,430
Inventories, at cost	111,922	—	—	1,491	—	—	113,413
Deferred charges	83,403	—	—	—	—	—	83,403
Fixed assets	—	—	—	18,205,528	—	—	18,205,528
Investment in UCSF Stanford Health Care	—	—	—	6,843	—	—	6,843
Total Assets	**$ 8,035,530**	**$ 356,206**	**$ 5,598,987**	**$ 20,125,030**	**$ 708,476**	**$ 57,016,091**	**$ 91,840,320**
LIABILITIES AND FUND EQUITY							
Liabilities							
Accounts payable	$ 1,630,137	$ 240	$ 107,783	$ 89,265	$ —	$ 570,250	$ 2,397,675
Due to component units	104,058	2,000	—	29,099	—	—	135,157
Deposits	377,208	—	—	—	708,476	—	1,085,684
Compensated absences	403,382	—	—	—	—	—	403,382
Commercial paper and other borrowings	1,034	—	—	893,717	—	—	894,751
Capital lease obligations	—	—	—	1,164,555	—	—	1,164,555
Revenue bonds payable	—	1,605	—	3,110,285	—	—	3,111,890
Securities lending obligation	2,277,820	—	834,129	—	—	9,347,615	12,459,564
Total Liabilities	**4,793,639**	**3,845**	**941,912**	**5,286,921**	**708,476**	**9,917,865**	**21,652,658**
Fund Equity							
Investment in general fixed assets	—	—	—	13,368,849	—	—	13,368,849
Fund balances							
Employees' pension benefits	—	—	—	—	—	47,098,226	47,098,226
Reserved for other specific purposes	1,141,573	323,241	3,681,542	579,094	—	—	5,725,450
Undesignated	2,100,318	29,120	975,533	890,166	—	—	3,995,137
Total Fund Equity	**3,241,891**	**352,361**	**4,657,075**	**14,838,109**	**––**	**47,098,226**	**70,187,662**
Total Liabilities and Fund Equity	**$ 8,035,530**	**$ 356,206**	**$ 5,598,987**	**$ 20,125,030**	**$ 708,476**	**$ 57,016,091**	**$ 91,840,320**

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, 2001
(amounts in thousands)

	Current Funds	Loan Funds	Endowment and Similar Funds	Plant Funds
REVENUES AND OTHER ADDITIONS				
Student tuition and fees	$ 1,189,515	$ —	$ —	$ 17,731
U.S. government	4,947,104	2,515	—	62,613
Local government	113,513	—	—	—
Sales and services				
Educational activities	779,711	—	—	—
Medical centers	2,856,719	—	—	—
Auxiliary enterprises	676,412	—	—	—
Private gifts, grants, and contracts	1,045,326	682	48,036	138,799
Investment income				
Endowment activities	158,621	—	8,778	—
Securities lending	144,776	—	—	—
Other	220,786	11,187	—	73,526
Net appreciation (depreciation) in fair value of investments	104,208	772	(501,074)	16,442
Expended for plant facilities (including $504,584 of current funds)	—	—	—	1,531,770
UCSF Stanford Health Care distributions (net)	—	—	—	(8,557)
Retirement of indebtedness	—	5,800	—	257,766
Other revenues	281,467	—	—	—
Transfers in – primary government	3,440,085	—	—	199,290
Other additions	56,627	4,770	48,959	10,153
Total Revenues and Other Additions	**16,014,870**	**25,726**	**(395,301)**	**2,299,533**
EXPENDITURES AND OTHER DEDUCTIONS				
Current fund expenditures				
Educational and general	8,310,815	—	—	—
Medical centers	2,729,610	—	—	—
Auxiliary enterprises	532,013	—	—	—
Department of Energy laboratories	3,070,379	—	—	—
Securities lending fees and rebates	138,085	—	—	—
Plant fund expenditures (including noncapitalized expenditures of $16,489)	—	—	—	425,988
Issuance of debt obligations	—	—	—	464,116
Debt service				
Principal retirement	—	5,800	—	253,509
Interest	—	—	—	257,144
Disposal of plant assets	—	—	—	228,515
Other	71,540	7,119	5,596	109,196
Total Expenditures and Other Deductions	**14,852,442**	**12,919**	**5,596**	**1,738,468**
TRANSFERS AMONG FUNDS				
Mandatory contractual arrangements				
Loan funds matching grants	(51)	51	—	—
Principal and interest	(338,211)	—	—	338,211
Nonmandatory (discretionary allocations)	(582,979)	215	62,809	520,889
Total Transfers Among Funds	**(921,241)**	**266**	**62,809**	**859,100**
Net Increase (Decrease) in Fund Balances	**241,187**	**13,073**	**(338,088)**	**1,420,165**
Fund Balances, July 1, 2000	**3,000,704 ***	**339,288**	**4,995,163**	**13,417,944 ***
Fund Balances, June 30, 2001	**$ 3,241,891**	**$ 352,361**	**$ 4,657,075**	**$ 14,838,109**

*Restated

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, 2001
(amounts in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Total (Memorandum Only)
REVENUES			
Student tuition and fees	$ 1,189,515	$ —	$ 1,189,515
U.S. government appropriations, grants and contracts	363,585	1,487,872	1,851,457
Local government grants and contracts	2,438	118,501	120,939
Sales and services			
Education activities	779,711	—	779,711
Medical centers	2,856,719	—	2,856,719
Auxiliary enterprises	676,412	—	676,412
Private gifts, grants and contracts	91,264	942,311	1,033,575
Investment income			
Endowment and similar funds	36,371	122,250	158,621
Securities lending	97,232	47,544	144,776
Other	199,561	21,225	220,786
Net appreciation in fair value of investments	71,133	33,075	104,208
Department of Energy laboratories	31,118	3,070,379	3,101,497
Other revenues	281,467	—	281,467
Transfers in – primary government	2,968,857	398,670	3,367,527
Total Revenues	**9,645,383**	**6,241,827**	**15,887,210**
EXPENDITURES AND MANDATORY TRANSFERS			
Educational and general			
Instructional	2,397,811	183,919	2,581,730
Research	391,534	1,927,468	2,319,002
Public service	237,746	156,973	394,719
Academic support	919,080	141,053	1,060,133
Student services	324,390	18,550	342,940
Institutional support	593,035	45,167	638,202
Operation and maintenance of plant	430,727	1,104	431,831
Student financial aid	200,211	342,047	542,258
Mandatory transfers			
Loan fund matching grant	(181)	232	51
Debt service	118,205	108,720	226,925
Total Educational and General Expenditures, and Mandatory Transfers	**5,612,558**	**2,925,233**	**8,537,791**
Medical centers			
Expenditures	2,723,723	5,887	2,729,610
Mandatory transfers	59,194	—	59,194
Total Medical Centers	**2,782,917**	**5,887**	**2,788,804**
Auxiliary enterprises			
Expenditures	524,735	7,278	532,013
Mandatory transfers	52,092	—	52,092
Total Auxiliary Enterprises	**576,827**	**7,278**	**584,105**
Department of Energy laboratories	—	3,070,379	3,070,379
Securities lending fees and rebates	92,824	45,261	138,085
Total Expenditures and Mandatory Transfers	**9,065,126**	**6,054,038**	**15,119,164**
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
Restricted receipts in excess of restricted expenditures	—	71,033	71,033
Nonmandatory transfers	(493,998)	(88,981)	(582,979)
Other	(9,967)	(4,946)	(14,913)
Total Other Transfers and Additions (Deductions)	**(503,965)**	**(22,894)**	**(526,859)**
Net Increase in Fund Balances	**$ 76,292**	**$ 164,895**	**$ 241,187**

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 accounting principles generally accepted in the United States of America (GAAP). The provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, an amendment of GASB Statement No. 33, have been implemented in this report.

The following GASB Statements are required to be implemented for the year ending June 30, 2002, and will significantly change the presentation of the financial statements:

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, except for the retroactive provisions for infrastructure;

GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34;

GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment of GASB Statements No. 21 and No. 34; and

Certain provisions of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Under the new standards, the financial report should consist of the management's discussion and analysis (MD&A), basic financial statements, and required supplementary information. The MD&A should provide an analytical overview of the government's financial activities. The basic financial statements should include the government-wide financial statements, fund financial statements, and notes to the financial statements.

In addition, the new standards require the government to report all capital assets, including infrastructure assets, in the government-wide statement of net assets and to report depreciation expense in the statement of activities. For the fund financial statements, the government is required to report separate columns for General Fund and for other major governmental and enterprise funds. The government is also required to present a summary reconciliation between the government-wide financial statements and the fund financial statements.

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 $805 million of capital lease arrangements between the building authorities and the State has 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 94250-5875.

Discretely presented component units are reported in separate columns in the combined financial statements. These 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 and because expenditures for the support of various university 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: The State Compensation Insurance Fund (SCIF), the 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.

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, and other public corporations. It is a component unit of the State because the State appoints all five voting members of SCIF's governing board and has the authority to approve or modify SCIF's budget. Copies of SCIF's financial statements for the year ended December 31, 2000, may be obtained from the State Compensation Insurance Fund, 1275 Market Street, San Francisco, California 94103.

CHFA was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. 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 CHFA's governing board and has the authority to approve or modify its budget. Copies of CHFA's financial statements may be obtained from the California Housing Finance Agency, 1121 L Street, 7th Floor, 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 because the majority of members of their governing boards are appointed by or are members of the primary government, 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 94250-5875. 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;

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, and acquisition of health facilities;

The *California Educational Facilities Authority*, which issues revenue bonds to finance loans for students attending 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 district agricultural associations' financial report is as of and for the year ended December 31, 2000);

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 development 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). 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. 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 CADA, it does have an ongoing financial interest. Based upon the appointment authority, the primary government has the ability to indirectly influence CADA to undertake special projects for the citizenry of the participants. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2001, CADA had total assets of $15.3 million, total liabilities of $8.3 million, and reserved and unreserved retained earnings of $0.1 million and $5.9 million, respectively. Total revenues for the fiscal year were $6.5 million and expenses were $5.3 million, resulting in a net income of $1.2 million. Because the primary government does not have an equity interest in CADA, 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, 1522 14th Street, Sacramento, California 95814.

The affiliation between the University of California, San Francisco (UCSF) Medical Center and Stanford University, creating UCSF

Stanford Health Care, a separate non-profit corporation, was terminated on March 31, 2000. The majority of the University of California's share of the net assets was distributed to the university on April 1, 2000. The university's remaining investment in UCSF Stanford Health Care is accounted for as a joint venture using the equity method of accounting.

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

A related organization is an organization for which a primary government is accountable because that government appoints a voting majority of the organization's governing board, but which is not financially accountable to the State.

Chapter 854 of the Statutes of 1996 created two state-chartered, non-profit market institutions, a Power Exchange and an Independent System Operator, to ensure a reliable supply of electricity. The Power Exchange is responsible for providing an efficient and competitive auction to meet the electricity loads of exchange customers; it is open on a non-discriminatory basis to all electricity providers. The Independent System Operator is responsible for providing centralized control of the statewide transmission grid to ensure the efficient use and reliable operation of the transmission system. A five-member oversight board, comprised of three Governor's appointees, an appointee of the Senate Committee on Rules, and an appointee of the Speaker of the Assembly, oversees the two institutions and appoints governing boards that are broadly representative of the State's electricity users and providers. The State's accountability for these institutions does not extend beyond making the appointments. Since the primary government is not financially accountable for the Power Exchange and the Independent System Operator, the financial information of these two institutions is not included in the financial statements of this report.

In January 2001, the Power Exchange went bankrupt due to a spike in demand for electricity starting in the summer of 2000, coupled with a rise in the price of natural gas. Under the Governor's direction, the Department of Water Resources has assumed responsibility for purchasing power for the Power Exchange's customers.

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.

An account group is 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 that 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 the following 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 the following four fiduciary fund types.

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

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

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

An *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 the following 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 because 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 revenues and the related prize expenses 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 the 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 revenues and expenditures in a special revenue fund, as required by GAAP. Revenues 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 those of the primary government.

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 the leases, jurisdiction of the facilities and projects will be with the primary government agency, the University of California, or the 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 2 to 100 years, using the straight-line method of depreciation. Dormitory facilities, which represent 17.9% 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 at 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, 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 for 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 in proprietary funds when incurred. 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 represent 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 balances* for governmental funds, trust funds, and certain component units.

Contributed capital is the permanent fund capital of a proprietary fund. In the past, contributed capital was created when a residual equity transfer was received by a proprietary fund, when a general fixed asset was "transferred" to a proprietary fund, or when a grant was received that was externally restricted to capital acquisition or construction. As described in Note 17, capital contributions are now recognized as revenues.

Retained earnings are divided into two sections: *reserved for regulatory requirement*s and *unreserved*. The reserved for regulatory requirements section 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 fund balance of the special revenue funds has been reduced by $50 million for corrections related to the prior year statements. The beginning retained earnings of the enterprise funds has been increased by $109 million for corrections related to the prior year statements. The beginning retained earnings of the discretely presented component units has been increased by $2 million for corrections related to the prior year statements.

The beginning fund balance of the University of California has been increased by $128 million as a result of the implementation of GASB Statement No. 33, which establishes accounting and financial reporting standards for transactions in which the university receives value without directly giving equal value in exchange. Gifts are recorded as revenue when received. Unconditional pledges of private gifts are recorded as revenue in the year promised, and state capital appropriations received in advance of the capital expenditure are recorded as deferred revenue, or accrued revenue if not received in advance of the capital expenditure.

M. Guaranty Deposits

The State is the 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 GAAP. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

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

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

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

Appropriations are generally available for expenditure or encumbrance either in the year appropriated or for a period of three years if the legislation does not specify a period of availability. At the end of the availability period, the encumbering authority for the unencumbered balance lapses. Some appropriations continue indefinitely, while others are available until fully spent. Generally, encumbrances must be liquidated within two years from the end of the period when the appropriation is available. If the encumbrances are not liquidated within this additional two-year period, the spending authority for the 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 of 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 cannot 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 because 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 94250-5875.

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 in Table 1, page 42.

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 consist of funds that are not subject to annual appropriated budgets and that derive their receipts from sources other than general and special taxes, licenses, fees, or other state revenues. 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, 2001, of $225 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 $194 million in the General Fund and an increase to the fund equity of $1.9 billion in special revenue funds, $353 million in enterprise funds, $599 million in trust and agency funds, and $22 million in component units.

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 $617 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 the fund balance of $7.4 billion in special revenue funds and $295 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 equity of $679 million in special revenue funds and $43 million in enterprise 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 $28.1 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. These adjustments caused a $152 million increase 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 to the fund equity of $101 million in the General Fund, $69 million in capital projects funds, $123 million in enterprise funds, $240 million in trust and agency funds, and $77 million in component units, and a decrease in fund equity of $36 million in special revenue funds and $27 million in internal service funds.

Timing Difference

Liabilities budgeted in subsequent years: The primary government does not, on a budgetary basis, accrue liabilities for which there is no existing appropriation or no currently available appropriation. The adjustments made to account for these liabilities in accordance with GAAP caused a net decrease to the fund balance of $729 million in the General Fund and $129 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 they are included on a GAAP basis. These adjustments caused an increase to the fund equity of $235 million in the special revenue funds and $70.6 billion in the component units, of which $70.2 billion is related to the University of California.

Table 1

Reconciliation of Budgetary Basis Fund Balance and GAAP Basis Fund Equity

June 30, 2001
(amounts in thousands)

	Total Budgetary Fund Classifications	Primary Government: Governmental Fund Types: General	Governmental Fund Types: Special Revenue	Governmental Fund Types: Capital Projects	Proprietary Fund Types: Enterprise	Proprietary Fund Types: Internal Service	Fiduciary Fund Types: Trust and Agency	Component Units
Perspective Difference								
Budgetary/Legal basis annual report								
General Fund	$ 9,017,520	$ 9,017,520	$ —	$ —	$ —	$ —	$ —	$ —
Other governmental cost funds	10,362,979	—	10,071,326	89,497	352	11,483	189,973	348
Non-governmental cost funds	334,579,656	—	7,878,788	357,508	4,468,626	621,591	318,553,638	2,699,505
Total Budgetary Fund Balances Reclassified into GAAP Statement Fund Structure	**$ 353,960,155**	**9,017,520**	**17,950,114**	**447,005**	**4,468,978**	**633,074**	**318,743,611**	**2,699,853**
Basis Difference								
Advances and loans receivable		(193,721)	1,920,893	—	353,412	—	599,123	22,212
Escheat property		(617,208)	—	—	—	—	—	—
Authorized and unissued bonds		—	(7,445,000)	(294,739)	—	—	—	—
Provision for long-term obligations		—	—	—	(2,791,186)	—	—	—
Encumbrances		—	679,299	—	43,494	—	—	—
Fixed assets		—	—	—	1,525,933	—	—	—
Fund balances in agency funds		—	—	—	—	—	(28,121,454)	—
California accounting practices for insurance		—	—	—	—	—	—	152,132
Other		100,838	(36,485)	69,138	123,161	(27,496)	239,738	77,283
Timing Difference								
Liabilities budgeted in subsequent years		(729,114)	(129,339)	—	—	—	—	—
Entity Difference								
Entities not included in the State's accounting system		—	235,460	—	—	—	—	70,555,507
GAAP Fund Equity, June 30, 2001		**$ 7,578,315**	**$ 13,174,942**	**$ 221,404**	**$ 3,723,792**	**$ 605,578**	**$ 291,461,018**	**$ 73,506,987**

NOTE 3. DEPOSITS AND INVESTMENTS

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 4% 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 $5.6 billion, that 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 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 $15 million. Approximately $2 million of these deposits is related to principal and interest payments due to bondholders. The remaining $13 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 187 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, 2001, this difference was immaterial to the valuation of the program. The pool is run with "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 Local Agency Investment Fund is all voluntary.

Certain funds that 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. Most of the $823 million in 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, an investment trust fund.

Table 2

Condensed Statement of Net Assets – Local Agency Investment Fund
June 30, 2001
(amounts in thousands)

Assets	
Cash and pooled investments	$ 17,692,124
Due from other funds	244,159
Total Assets	**$ 17,936,283**
Liabilities	
Due to other funds	$ 478
Due to other governments	230,713
Other liabilities	3,107
Total Liabilities	**234,298**
Net Assets Held in Trust for Pool Participants	**$ 17,701,985**

Table 3

Condensed Statement of Changes in Net Assets – Local Agency Investment Fund
Year Ended June 30, 2001
(amounts in thousands)

Changes in net assets resulting from operations	$ 871,691
Distributions to participants	(871,691)
Changes in net assets resulting from depositor transactions	5,173,597
Total Change in Net Assets	**5,173,597**
Net Assets Held in Trust for Pool Participants, July 1, 2000	**12,528,388**
Net Assets Held in Trust for Pool Participants, June 30, 2001	**$ 17,701,985**

As of June 30, floating-rate notes and mortgage-backed assets comprised less than 4.5% of the pooled investments. For the floating-rate notes in the portfolio, the interest received by the State Treasurer's pooled investment program rises or falls 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 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 eight repurchase agreements, with a carrying value of approximately $920 million. As of June 30, the State Treasurer's Office did not have any repurchase agreements outstanding.

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 would 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 71 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $6.7 billion. The maturities of investments made with the proceeds from reverse repurchase agreements were matched to the maturities of the agreements. As of June 30, the State Treasurer's Office did not have any reverse repurchase agreements outstanding.

Enterprise funds, internal service funds, trust and agency funds, 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 the California State Teachers' Retirement System (CalSTRS) had $290.2 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 value is 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 $144 million were held for investment purposes as of June 30, 2001. 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, 2001, CalPERS had approximately $142 million net exposure to losses from forward foreign currency exchange transactions related to the $32.8 billion international debt and equity portfolios. CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

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

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

The State Constitution, state statutes, and agency policies permit CalPERS and CalSTRS to lend their securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Third-party securities lending agents have been contracted to lend domestic and international equity and debt securities. All securities loans can be terminated on demand by the lender or the borrower. Collateral, in the form of cash or other securities, is required at 102% and 105% of the fair value of domestic and international securities loaned, respectively, for both CalPERS and CalSTRS. As of June 30, 2001, 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 four securities lending agents was 42 days, 22 days, 29 days, and 30 days, respectively. In accordance with CalPERS investment guidelines, the cash collateral was invested in short-term investment funds that at June 30, 2001, had weighted average maturities of 147 days, 147 days, 172 days, and 120 days, respectively, for the four portfolios.

For CalSTRS, cash collateral received on each security loan was invested in short-term investments that at June 30, 2001, 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 $87.1 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; and

3. Uninsured and unregistered, with securities held by the counterparty, its trust department, or 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, 2001
(amounts in thousands)

	Interest Rates*	Maturity	Category 1	Category 2	Category 3	Total Fair Value
Pooled Investments **						
U.S. government securities	3.37 - 6.95	1 day – 5 years	$ 20,469,513	$ —	$ —	$ 20,469,513
Negotiable certificates of deposit	3.74 - 6.67	1 day – 1 year	8,187,946	—	—	8,187,946
Commercial paper	3.67 - 6.54	1 day – 150 days	14,537,088	—	—	14,537,088
Corporate bonds	5.26 - 6.65	1 day – 5 years	2,504,340	—	—	2,504,340
Bank notes	3.74 - 6.67	1 day – 1 year	1,651,276	—	—	1,651,276
Total Pooled Investments			**47,350,163**	**––**	**––**	**47,350,163**
Separately Invested Funds Subject to Categorization						
Equity securities			136,615,474	—	—	136,615,474
Securities lending collateral			32,034,826	—	—	32,034,826
Mortgage loans and notes			14,426,208	—	—	14,426,208
U.S. government and agencies			10,745,830	209,351	—	10,955,181
Debt securities – STRS			19,108,496	—	—	19,108,496
Corporate bonds			11,072,814	94,904	—	11,167,718
Commercial paper			1,286,048	—	—	1,286,048
Other investments			3,980,482	54,291	—	4,034,773
Total Separately Invested Funds Subject to Categorization			**229,270,178**	**358,546**	**––**	**229,628,724**
Separately Invested Funds Not Subject to Categorization						
Investments held by broker-dealers under securities loans with cash collateral						31,604,134
Real estate						17,923,941
Venture capital and private equity funds						7,148,443
Investment contracts						2,745,523
Mutual funds						2,609,992
Insurance contracts						24,598
Other						8,170,741
Total Separately Invested Funds Not Subject to Categorization						**70,227,372**
Total Investments			**$ 276,620,341**	**$ 358,546**	**$ ––**	**$ 347,206,259**

* These interest rates represent high and low monthly averages for each investment type during the year.
** Approximately 3.5% 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 equity securities, fixed-income securities, and a domestic and foreign indexed fund. The equity portion of the investment portfolio may include both domestic and foreign common and preferred stocks, along with a modest exposure to private equities. Private equities include venture capital partnerships, buy-outs and international funds. The fixed-income portion of the investment portfolio may include both domestic and foreign securities, along with certain AAA-rated mortgage-backed securities. These mortgage-backed securities are used to diversify the portfolio and reduce market risk exposure. 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 authorized loans, primarily to faculty members, under the university's Mortgage Origination Program, with terms up to 30 years.

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 fund groups are invested in either the GEP, the HIP, or the 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. 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 Board of Regents. As of June 30, the securities in this pool had a weighted average maturity of 142 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, 2001
(amounts in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
Separately Invested Funds Subject to Categorization				
Equity securities	$ 27,519,987	$ —	$ —	$ 27,519,987
Securities lending collateral	12,470,281	—	—	12,470,281
U.S. government and agency securities	4,637,011	—	—	4,637,011
Corporate bonds	10,085,933	—	—	10,085,933
Other investments	636,595	—	—	636,595
Total Separately Invested Funds Subject to Categorization	**55,349,807**	**––**	**––**	**55,349,807**
Separately Invested Funds Not Subject to Categorization				
Investments held by broker-dealers under securities loans with cash collateral				12,045,340
Venture capital and private equity funds				892,761
Insurance contracts				299,770
Mutual funds				1,510,494
Mortgage loans				389,089
Other investments				194,229
Total Separately Invested Funds Not Subject to Categorization				**15,331,683**
Total Investments	**$ 55,349,807**	**$ ––**	**$ ––**	**$ 70,681,490**

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" category. The swap agreements are expected to reduce interest-rate risk associated with variable-rate bonds issued by CHFA. As of June 30, 2001, CHFA had interest-rate swap agreements of $1.7 billion in notional amounts. CHFA is potentially exposed to loss in the event that the counterparties are unable to perform to the terms of the agreements. However, 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, 2001. Included in the investments of the special purpose authorities are the investments of SCIF as of December 31, 2000. SCIF represents 85% of the fair value of the authorities' investments.

Table 6

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

June 30, 2001

(amounts in thousands)

	Category 1	Category 2	Category 3	Total Fair Value
Separately Invested Funds Subject to Categorization				
Securities lending collateral	$ 687,376	$	$	$ 687,376
U.S. government securities	627,430	—	—	627,430
Corporate bonds	3,483,121	—	—	3,483,121
Mortgage loans and notes	1,712,374	—	—	1,712,374
Commercial paper	32,103	—	—	32,103
Investment agreements	—	551,840	—	551,840
Other investments	194,296	—	—	194,296
Total Separately Invested Funds Subject to Categorization	**6,736,700**	**551,840**	**––**	**7,288,540**
Separately Invested Funds Not Subject to Categorization				
Investment agreements				1,312,333
Mutual funds				256,143
Total Separately Invested Funds Not Subject to Categorization				**1,568,476**
Total Investments	**$ 6,736,700**	**$ 551,840**	**$ ––**	**$ 8,857,016**

* For special purpose authorities pooled investments, see the footnote in Table 4.

The State Department of Insurance permits insurance companies to lend a certain portion of their securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. A third party lending agent has been contracted to lend U.S. Treasury notes and bonds. Collateral, in the form of cash and other securities, is adjusted daily and is required at approximately 102% of the fair value of securities loaned. Collateral securities received are not permitted to be pledged or sold unless the borrower defaults. The maximum loan term is one year. In accordance with SCIF's investment guidelines, cash collateral was invested in short-term investments at December 31, 2000, with maturities matching the related loans. Interest income on these investments is shared by the borrower, the custodian bank, and the state fund.

NOTE 4. DUE FROM OTHER FUNDS, DUE TO OTHER FUNDS, ADVANCES TO OTHER FUNDS, 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 to Other funds, Advances from Other Funds, Due from Primary Government, and Due to Component Units are shown in Table 7. The total Due from Other Funds is greater than the total Due to Other Funds by $6.2 billion. The total Advances to Other Funds is less than the total Advances from Other Funds by the same amount. The State anticipates that, within 12 months after June 30, 2001, the Electric Power Fund will issue long-term revenue bonds and use the proceeds to repay $6.2 billion owed to the General Fund. This situation results in the General Fund's asset being reported as Due from Other Funds, a current asset, and the Electric Power Fund's liability being reported as Advances from Other Funds, a long-term liability.

Table 7

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

June 30, 2001 (amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances from Other Funds	Due from Primary Government	Due from Component Units	Due to Component Units
General Fund	**$ 12,854,223**	**$ 2,584,372**	**$ 44,649**	**$ 617,208**	**$ ––**	**$ ––**	**$ 121,371**
Special Revenue							
Federal	231,314	4,859,536	—	—	—	—	—
Transportation Construction	1,395,987	150,907	—	—	—	—	261
Transportation Safety	108,442	116,458	—	—	—	—	—
Business and Professions Regulatory and Licensing	47,270	46,569	4,201	—	—	—	—
Environmental and Natural Resources	276,374	275,897	—	—	—	—	—
Financing to Local Governments	40,716	21,873	—	—	—	—	—
Cigarette and Tobacco Tax	202,281	230,254	—	—	—	—	95,839
Local Revenue	245,653	49,797	—	—	—	—	—
Unemployment Programs	760,904	74,698	—	—	—	—	—
Financing to the Public	4,324	4,089	—	—	—	—	—
Trial Courts	170,972	6,934	—	—	—	—	—
Other Special Revenue	166,703	75,339	—	13,585	—	—	2,686
Total Special Revenue	**3,650,940**	**5,912,351**	**4,201**	**13,585**	**––**	**––**	**98,786**
Capital Projects							
Prison Construction	71	156	—	—	—	—	—
Higher Education Construction	790	4,421	—	—	—	—	—
Natural Resources Acquisition and Enhancement	35,773	249	—	—	—	—	—
Building Authorities	22,167	486	—	—	—	—	—
Other Capital Projects	1,261	5,201	—	—	—	—	—
Total Capital Projects	**60,062**	**10,513**	**––**	**––**	**––**	**––**	**––**
Enterprise							
Housing Loan	10,803	358	—	—	—	—	—
Water Resources	71,640	50,391	19,877	—	—	—	—
Toll Facilities	1,250	8,667	—	—	—	—	—
California State University	17,329	17,160	—	—	—	—	—
Leasing of Public Assets	135,728	98,617	—	—	—	—	—
State Lottery	13,448	284,450	—	—	—	—	—
Electric Power	17,000	116,000	—	6,169,000	—	—	—
Public Employees' Benefits	18	2,617	—	—	—	—	—
Other Enterprise	38,712	4,622	—	2,500	—	—	—
Total Enterprise	**305,928**	**582,882**	**19,877**	**6,171,500**	**––**	**––**	**––**
Internal Service							
Architecture Revolving	53,526	—	—	—	—	—	—
Service Revolving	83,563	159,848	—	—	—	—	—
Prison Industries	16,453	1,661	—	—	—	—	—
Stephen P. Teale Data Center	25,839	76	—	—	—	—	—
Health and Human Services Agency Data Center	78,428	3,000	—	—	—	—	—
Water Resources Revolving	60,916	74,640	—	19,877	—	—	—
Public Employees' Health Care	3,073	8,203	—	—	—	—	—
Equipment Service	16,204	12,489	—	—	—	—	—
Other Internal Service	148	467	—	4,201	—	—	—
Total Internal Service	**338,150**	**260,384**	**––**	**24,078**	**––**	**––**	**––**

(continued)

Table 7

Schedule of Due from Other Funds, Due to Other Funds, Advances to Other Funds, Advances from Other Funds, Due from Primary Government, and Due to Component Units (continued)

June 30, 2001 (amounts in thousands)

	Due from Other Funds	Due to Other Funds	Advances to Other Funds	Advances from Other Funds	Due from Primary Government	Due from Component Units	Due to Component Units
Expendable Trust							
Unemployment	9,638	49,981	—	—	—	—	—
School Employees	933	5,631	—	—	—	—	—
Unemployment Compensation Disability	23,184	17,110	—	—	—	—	—
California State University and Colleges Trust	7,960	15,580	—	—	—	—	—
Student Loan	470	7,271	—	—	—	—	—
Housing Loan	5,376	582	—	—	—	—	—
Unclaimed Property	23,432	—	617,208	—	—	—	—
Deferred Compensation Plan	—	241	—	—	—	—	—
Other Expendable Trust	28,187	3,432	—	—	—	—	2,600
Total Expendable Trust	**99,180**	**99,828**	**617,208**	**––**	**––**	**––**	**2,600**
Pension Trust							
Public Employees' Retirement	11,085	—	—	—	—	—	—
State Teachers' Retirement	7,850	3,360	—	—	—	—	—
Judges' Retirement	—	380	—	—	—	—	—
Judges' Retirement II	—	283	—	—	—	—	—
Legislators' Retirement	—	232	—	—	—	—	—
Teachers Health Benefit	26	86	—	—	—	—	—
Volunteer Firefighters	—	76	—	—	—	—	—
Peace Officers/Firefighters	—	33	—	—	—	—	—
Total Pension Trust	**18,961**	**4,450**	**––**	**––**	**––**	**––**	**––**
Agency							
Revenue Collecting and Disbursing	5,579,130	6,569,937	—	31,064	—	—	35
Deposit	20,662	856,900	—	—	—	—	—
Departmental Trust	4,025	331	—	—	—	—	—
Other agency	402,462	526,456	—	—	—	—	17,740
Total Agency	**6,006,279**	**7,953,624**	**––**	**31,064**	**––**	**––**	**17,775**
Investment Trust							
Local agency investment	244,159	478	—	—	—	—	—
Total Investment Trust	**244,159**	**478**	**––**	**––**	**––**	**––**	**––**
University of California							
Current Funds	—	—	—	—	204,796	212	104,058
Loan Funds	—	—	—	—	—	—	2,000
Endowment and Similar Funds	—	—	—	—	—	35,372	—
Plant Funds	—	—	—	—	17,996	1,379	29,099
Retirement System Funds	—	—	—	—	—	98,194	—
Total University of California	**––**	**––**	**––**	**––**	**222,792**	**135,157**	**135,157**
Special Purpose Authorities							
California Housing Finance Agency	—	—	2,500	—	—	—	—
Non-major component units	—	—	—	—	17,740	—	—
Total Special Purpose Authorities	**––**	**––**	**2,500**	**––**	**17,740**	**––**	**––**
Total	**$ 23,577,882**	**$ 17,408,882**	**$ 688,435**	**$ 6,857,435**	**$ 240,532**	**$ 135,157**	**$ 375,689**

(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 $2.2 million in the internal service funds and $121 million for the building authorities in the capital projects funds.

Table 8

Schedule of Restricted Assets
June 30, 2001
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due from Other Funds	Other Assets
Primary Government				
Debt service	$ 869,043	$ 73,148	$ 637	$ 224
Construction	365,900	27,099	2,501	23
Deposits	5,651	—	—	—
Equipment repair and replacement	44,981	—	1,160	127
Operations	130	—	—	—
Other	32,909	—	—	—
Total Primary Government	**1,318,614**	**100,247**	**4,298**	**374**
Discretely Presented Component Units				
University of California				
Risk insurance	—	249,538	—	—
Debt service requirements	—	163,957	—	—
Plant acquisition, construction, and renovation	—	2,604	—	—
Plant renewal and replacement	—	489	—	—
Special Purpose Authorities				
Debt service	791,803	1,284,142	—	—
District fairs	1	—	—	—
Total Discretely Presented Component Units	**791,804**	**1,700,730**	**––**	**––**
Total All Restricted Assets	**$ 2,110,418**	**$ 1,800,977**	**$ 4,298**	**$ 374**

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
2002	$ 379,060	$ 105,862	$ 65,277	$ 550,199
2003	376,043	105,043	59,487	540,573
2004	372,164	105,139	59,020	536,323
2005	370,866	103,761	58,925	533,552
2006	354,314	98,816	58,670	511,800
Thereafter	3,539,912	1,168,836	592,685	5,301,433
Total Minimum Lease Payments	**5,392,359**	**1,687,457**	**894,064**	**7,973,880**
Less: Unearned income	2,159,529	689,191	331,169	3,179,889
Net Investment in Direct Financing Leases	**$ 3,232,830**	**$ 998,266**	**$ 562,895**	**$ 4,793,991**

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 assets account group are fixed assets related to capital leases totaling $3.8 billion.

Table 10

Schedule of Changes in General Fixed Assets

(amounts in thousands)

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
Land	$ 2,165,135	$ 118,308	$ 14,692	$ 2,268,751
Structures and improvements	11,948,210	605,776	233,086	12,320,900
Equipment	2,149,988	252,542	151,459	2,251,071
Construction in progress	1,292,141	245,528	218,613	1,319,056
Total	**$ 17,555,474**	**$ 1,222,154**	**$ 617,850**	**$ 18,159,778**

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, 2001
(amounts in thousands)

Primary Government	Enterprise Funds	Internal Service Funds
State water projects	$ 4,495,092	$ —
Toll facilities	1,163,062	—
Other land, improvements, buildings and equipment	1,040,574	1,149,937
Construction in progress	551,015	585
Total Primary Government Fixed Assets	**7,249,743**	**1,150,522**
Less: Accumulated depreciation	2,156,481	612,629
Net Primary Government Fixed Assets	**$ 5,093,262**	**$ 537,893**

Discretely Presented Component Units	University of California	Special Purpose Authorities
Real estate		
Buildings and improvements	$ 10,197,706	$ 623,188
Land	331,929	50,502
Furniture and equipment	3,692,681	156,812
Libraries and collections	2,547,291	—
Construction in progress	1,435,921	895
Total Discretely Presented Component Unit Fixed Assets	**18,205,528**	**831,397**
Less: Accumulated depreciation	—	282,048
Net Discretely Presented Component Unit Fixed Assets	**$ 18,205,528**	**$ 549,349**

NOTE 8. LONG-TERM OBLIGATIONS

As of June 30, the primary government had long-term obligations totaling $28.8 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 $1.2 billion for workers' compensation claims, $814 million for net pension obligations, $400 million owed for lawsuits, and the University of California pension liability of $95 million. These other liabilities do not have required payment schedules or will be paid when funds are appropriated. Of the total long-term obligations outstanding, 96% will be paid by the General Fund and 4% will be paid by special revenue funds. The changes in the general long-term obligations account group during the year ended June 30, 2001, are summarized in Table 12.

Table 12

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

	Balance July 1, 2000	Additions	Deductions	Balance June 30, 2001
Compensated absences payable	$ 1,227,649	$ 746,652	$ 668,720	$ 1,305,581
Certificates of participation and commercial paper	622,656	3,636,400	3,807,011	452,045
Capital lease obligations	3,407,790	46,575	112,913	3,341,452
General obligation bonds payable	17,838,290	3,793,815	1,189,855	20,442,250
Revenue bonds payable	843,850	—	29,245	814,605
Other liabilities	1,881,603	871,130	279,659	2,473,074
Total	**$ 25,821,838**	**$ 9,094,572**	**$ 6,087,403**	**$ 28,829,007**

NOTE 9. COMPENSATED ABSENCES

As of June 30, the estimated liability for compensated absences related to accumulated vacation and annual leave totaled approximately $2.0 billion. Of this amount, $1.3 billion is reported in the general long-term obligations account group, $72 million is reported in the proprietary fund types, $143 million is reported in the General Fund, and $443 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
2002	$ 10,145	$ 6,525	$ 16,670
2003	10,005	6,136	16,141
2004	9,902	5,727	15,629
2005	9,799	5,290	15,089
2006	9,682	4,804	14,486
Thereafter	66,067	24,474	90,541
Total	**$ 115,600**	**$ 52,956**	**$ 168,556**

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
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
2006	12,415	13,175	25,590
Thereafter	238,020	123,253	361,273
Total	**$ 294,065**	**$ 195,564**	**$ 489,629**

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, 2001, the general obligation commercial paper program had $336 million in outstanding commercial paper notes and the enterprise fund commercial paper program had no 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 primary government has other borrowing that consists of an interim loan for $4.3 billion to the Electric Power Fund. The interim loan was structured with both taxable and tax-exempt components of $2.3 billion and $2.0 billion, respectively. The interim loan is collateralized by revenues and investment income. The financing was structured as a term loan due to be paid on or before October 31, 2001, from the proceeds of the sale of long-term bonds. Because bonds were not issued by October 31, 2001, the interim financing converted to a three-year term loan with quarterly principal and interest payments.

The primary government has a Revenue Bond Anticipation Note (BAN) program that consists of borrowing up to $82 million for the development and construction of housing on certain campuses of the California State University. As of June 30, 2001, $68 million in BANs outstanding existed in anticipation of issuing housing revenue bonds to the public. A BAN program provided financing for up to $4.1 million for the Humbolt State University Student Union in anticipation of issuing student union revenue bonds to the public. As of June 30, 2001, the amount of BANs outstanding for this purpose was $3.4 million.

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 $51 million, are various unsecured financing agreements with commercial banks that total approximately $23 million.

The University of California established in October 1996 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 Board of Regents. At June 30, 2001, 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 $6.7 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 $3.3 billion in the general long-term obligations account group and $67 million in internal service funds. Lease expenditures for the year ended June 30 amounted to approximately $688 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 $3.2 billion. This amount represents 97% 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 $805 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 passes 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
2002	$ 261,239	$ 391,391	$ 9,638	$ 662,268
2003	220,780	388,374	9,582	618,736
2004	156,580	384,498	8,970	550,048
2005	96,306	383,363	9,193	488,862
2006	69,612	366,768	5,692	442,072
Thereafter	189,867	3,729,459	46,003	3,965,329
Total Minimum Lease Payments	**$ 994,384**	**5,643,853**	**89,078**	**$ 6,727,315**
Less: Amount representing interest		2,302,401	22,130	
Present Value of Net Minimum Lease Payments		**$ 3,341,452**	**$ 66,948**	

The aggregate amount of discretely presented component units' lease commitments for land, facilities, and equipment in effect as of June 30, 2001, was 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 $124 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
2002	$ 125,771	$ 61,129	$ 25,845	$ 212,745
2003	121,337	56,726	24,372	202,435
2004	115,151	50,456	18,997	184,604
2005	109,331	45,621	15,492	170,444
2006	104,799	36,650	12,776	154,225
Thereafter	1,243,872	119,943	47,218	1,411,033
Total Minimum Lease Payments	**1,820,261**	**$ 370,525**	**$ 144,700**	**$ 2,335,486**
Less: Amount representing interest	655,706			
Present Value of Net Minimum Lease Payments	**$ 1,164,555**			

NOTE 13. COMMITMENTS

The primary government has made commitments of $4.1 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, 2001, the primary government had other commitments totaling $35.6 billion that are not included as a liability on the balance sheet. These commitments included loan and grant programs for housing, school building aid, harbor facilities, and rail system construction totaling approximately $1.3 billion. In addition to the loan and grant commitments, the primary government had approximately $882 million for the construction of water projects and the purchase of power, up to $69 million for the operation and maintenance of the California State Lottery's automated gaming system, and $33.3 billion for long-term power purchase contracts. 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 $2.2 billion. Special purpose authorities had outstanding commitments to provide $455 million for loans under various housing revenue bond programs and $74 million for loans to other governments for infrastructure improvements.

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; it 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 in 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, $11.4 billion of general obligation bonds had been authorized but not issued. This amount includes $4.0 billion that has been authorized by the applicable finance committee for future issuance in the form of commercial paper notes. Of this amount, $336 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, 2000	$ 17,838,290	$ 3,513,400	$ 21,351,690
Additions	3,793,815	78,725	3,872,540
Deductions	(1,189,855)	(233,855)	(1,423,710)
Balance, June 30, 2001	**$ 20,442,250**	**$ 3,358,270**	**$ 23,800,520**

Table 18 shows the debt service requirements for all general obligation bonds, including interest of $14.5 billion, as of June 30, 2001.

Table 18

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

Year Ending June 30	General Long–Term Obligations	Enterprise Funds
2002	$ 2,527,538	$ 332,630
2003	2,415,015	299,074
2004	2,252,193	296,648
2005	2,089,393	302,945
2006	1,946,831	306,997
Thereafter	21,424,825	4,152,598
Total	**$ 32,655,795**	**$ 5,690,892**

Current Year Defeasances: During the year ended June 30, 2001, the primary government issued approximately $359 million in veterans general obligation bonds, the proceeds of which were used to immediately refund previously issued veterans general obligation bonds of approximately $359 million. In addition, approximately $76 million of veterans general obligation bonds were refunded by veterans home-purchase revenue bonds (see Note 15, Revenue Bonds). The advance refunding reduced the debt service payments by $140 million and resulted in an economic gain of $14 million.

On October 17, 2000, the primary government issued $117 million in various purpose general obligation refunding bonds for an advance refunding of $125 million in outstanding general obligation bonds maturing in years 2008 to 2012. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term obligations account group. This advance refunding reduced the debt service payments by $7 million and resulted in an economic gain of $4 million.

On November 29, 2000, the primary government issued $148 million in various purpose general obligation refunding bonds for an advance refunding of $146 million in outstanding general obligation bonds maturing in years 2005 to 2012. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term obligations account group. This advance refunding reduced the debt service payments by $4 million and resulted in an economic gain of $4 million.

On February 27, 2001, the primary government issued $354 million in various purpose general obligation refunding bonds for an advance refunding of $356 million in outstanding general obligation bonds maturing in years 2005 to 2017. The primary government placed the net proceeds into an irrevocable trust to pay the debt service on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term obligations account group. This advance refunding reduced the debt service payments by $22 million and resulted in an economic gain of $10 million.

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, 2001, 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, 2001
(amounts in thousands)

Primary Government	
General Long-Term Obligations	
Building Authorities	
California State University	$ 29,915
Los Angeles	191,470
San Francisco	371,180
San Bernardino	58,950
Oakland	150,255
Riverside	12,835
Total General Long-Term Obligations	**814,605**
Enterprise Funds	
Housing Loan	570,940
Water Resources	2,426,415
California State University	487,453
Leasing of Public Assets	5,318,080
Total Enterprise Funds	**8,802,888**
Total Primary Government	**9,617,493**
Discretely Presented Component Units	
University of California	3,111,890
Special Purpose Authorities	7,827,167
Total Discretely Presented Component Units	**10,939,057**
Total	**$ 20,556,550**

Table 20 shows the debt service requirements as of June 30, 2001. The debt service requirements primarily represent bond principal payments. Table 20 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
2002	$ 30,590	$ 347,238	$ 459,117
2003	31,975	359,759	247,265
2004	33,450	385,972	263,653
2005	35,080	401,752	283,360
2006	37,155	432,686	305,960
Thereafter	646,355	7,120,887	9,400,128
Total	**$ 814,605**	**$ 9,048,294**	**$ 10,959,483**

Current-Year Defeasances: For the year ended June 30, 2001, the primary government issued approximately $180 million of home purchase revenue bonds to refund approximately $104 million of outstanding revenue bonds, and $76 million of veterans general obligation bonds. The proceeds of those bonds that could not be called for immediate redemption 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. The advance refunds reduced the debt service payments by $49 million and resulted in an economic gain of $5 million.

The primary government also issued approximately $163 million in revenue bonds for Leasing Of Public Assets to advance refund approximately $164 million of outstanding lease revenue bonds. After payment of approximately $2 million in underwriter discount, insurance, and other bond issuance costs, and receipt of approximately $13 million for original bond premium, together with other available moneys of $903,000, the net proceeds of approximately $174 million were deposited in various escrow accounts held by the State Treasurer, as escrow trustee, to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements. The advance refunding reduced the primary government's aggregate debt service payments by $9 million over the next 14 years and resulted in an economic gain of $6 million.

In May 2001, the primary government issued $261 million in Central Valley Project Water System Revenue Bonds, Series W, to advance refund $207 million of outstanding revenue bonds and redeem commercial paper borrowings of $41 million. The advance refunding reduced the primary government's aggregate debt service payments by approximately $11 million over the next 20 years and resulted in an economic gain of $8 million. The new proceeds of the advance refundings (after payment of underwriting refunding fees, other issuance costs, and deposits to the Debt Service Reserve Accounts) were used to purchase securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded bonds. As a result, the advance refunded bonds are considered to be defeased and the related liabilities have been removed from the financial statements.

For the year ended June 30, 2001, the California Housing Finance Agency (CHFA), a discretely presented component unit, issued $165 million of home mortgage revenue bonds at variable rates to refund $162 million in outstanding home mortgage revenue bonds. The refunding will decrease the debt service cash outflow for the housing bonds by approximately $13 million and result in an economic gain of approximately $21 million. 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 the debt was $3 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, 2001, the outstanding balance of revenue bonds defeased in prior years was approximately $1.9 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, 2001, the outstanding balance of University of California revenue bonds defeased in prior years was $668 million.

NOTE 16. MAJOR TAX REVENUES

Tax revenues for the year ended June 30, 2001, are presented in Table 21.

Table 21

Schedule of Major Tax Revenues
Year Ended June 30, 2001
(amounts in thousands)

	General Fund	Special Revenue Funds	Expendable Trust Funds
Personal income	$ 44,629,742	$ —	$ —
Sales and use	21,346,386	5,038,838	—
Bank and corporation	6,580,178	—	—
Unemployment insurance	—	—	2,999,983
Disability insurance	—	—	2,799,286
Insurance	1,502,250	—	—
Inheritance, estate, and gift	1,102,980	—	—
Cigarette and tobacco	126,825	1,024,718	—
Other	316,362	354,808	61,871
Total	**$ 75,604,723**	**$ 6,418,364**	**$ 5,861,140**

NOTE 17. FUND EQUITY

A. Fund Deficits

The following funds had deficits at June 30, 2001, as shown in Table 22.

Table 22

Schedule of Fund Deficits
June 30, 2001
(amounts in thousands)

	Capital Projects Funds	Enterprise Funds	Internal Service Funds
Higher Education Construction	$ 1,715	$ —	$ —
All Other Capital Projects	4,080	—	—
Public Employees' Benefits	—	118,515	—
Water Resources Revolving	—	—	9,010
Architecture Revolving	—	—	1,307
Total	**$ 5,795**	**$ 118,515**	**$ 10,317**

B. Changes to Contributed Capital

GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires capital contributions to be recognized in proprietary funds and in other governmental entities that use proprietary fund accounting as revenues, not contributed capital. However, the prior period contributed capital is not to be restated until a statement is issued requiring the restatement of the prior period balances. As a result, the current year capital contributions of $64 million, $27 million, and $488,000 to enterprise funds, internal service funds, and discretely presented component units, respectively, have not increased the balance of contributed capital. The change to contributed capital is an increase of $21 million to the discretely presented component units for a prior period adjustment. The State's contributed capital accounts are shown in Table 23.

Table 23

Contributed Capital
(amounts in thousands)

	Balance June 30, 2001
Enterprise Funds	$ 296,484
Internal Service Funds	347,083
Discretely Presented Component Units	21,213
Total	**$ 664,780**

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 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 $1.4 billion as of June 30, 2001. This estimate is based on an actuarial review of the State 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 service fees, industrial disability leave benefits, and incurred but not reported amounts. The estimated total liability of approximately $1.9 billion is discounted to $1.4 billion, using a 4.0% interest rate. Of the total, $153 million is included in the General Fund, $91 million in the special revenue funds, $19 million in the proprietary fund types, and $1.2 billion 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 that 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 7.5%. 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	
	2001	2000	2001	2000
Unpaid claims, beginning	$ 1,091,000	$ 990,000	$ 362,300	$ 330,000
Incurred claims	617,500	361,000	247,800	241,700
Claim payments	(280,000)	(260,000)	(207,300)	(209,400)
Unpaid Claims, Ending	**$ 1,428,500**	**$ 1,091,000**	**$ 402,800**	**$ 362,300**

NOTE 19. SEGMENT INFORMATION

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

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

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

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

Toll Facilities: Toll fees and interest earned on investments.

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

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

State Lottery: The sale of lottery tickets.

Electric Power: The sale of electric power.

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, 2001

(amounts in thousands)

	Housing Loan	Water Resources	School Building Aid	Toll Facilities	California State University	Leasing of Public Assets	State Lottery	Electric Power	Public Employees' Benefits	Other Enterprise
Operating revenue ………	$ 242,713	$ 1,087,030	$ 25,324	$ 5,917	$ 227,442	$ 391,132	$ 2,894,842	$ 2,733,000	$ 170,021	$ 133,040
Depreciation ………………	1,180	75,388	15,899	18,521	—	—	6,132	—	—	185
Amortization (recovery) of deferred charges ……..	—	(98,291)	—	430	153	5,705	1,502	—	—	—
Operating income (loss) ..	16,995	144,908	(11,022)	(15,023)	49,909	27,133	1,005,599	83,000	(98,204)	29,697
Operating transfers in …..	2,219	—	—	2,401	25,612	7,108	—	—	—	4,621
Operating transfers out …	2,219	—	18,122	—	35,527	1,799	—	—	—	595
Net income (loss) ……….	15,625	(19,501)	(29,144)	(27,551)	30,101	27,301	—	—	(135,930)	178,691
Grants received …………	—	—	—	—	219	—	—	—	—	46,509
Grants provided …………	—	—	—	15,786	—	—	—	—	—	—
Property, plant, and equipment										
Additions ……………….	165	45,726	—	684	75,825	288,249	2,612	—	—	3,142
Deductions …………….	1,180	75,388	15,899	18,521	—	—	6,158	—	—	185
Net working capital ………	709,278	74,344	61,077	13,454	396,046	344,941	(28,968)	4,342,000	641,993	620,797
Total assets ………………	3,393,326	4,964,654	222,881	607,619	1,368,365	5,734,983	3,432,932	12,162,000	651,740	1,033,793
Bonds and other long-term liabilities ……	3,020,371	3,350,581	—	—	567,901	5,318,080	2,493,371	10,469,000	760,508	213,998
Total equity ………………	310,860	984,344	222,653	584,845	738,154	204,581	—	—	(118,515)	796,870

NOTE 20. CONDENSED FINANCIAL STATEMENTS – DISCRETELY PRESENTED COMPONENT UNITS

Tables 26 and 27 present summary financial statements of the special purpose authorities, which are SCIF, 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.

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, 2000. 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; they 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, 2001
(amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non-Major Component Units	Total
Assets				
Due from primary government	$ —	$ —	$ 17,740	$ 17,740
Other current assets	413,817	964,308	730,511	2,108,636
Investments	7,526,190	1,236,469	94,357	8,857,016
Advances and loans receivable	—	6,695,608	22,212	6,717,820
Fixed assets	205,783	—	343,566	549,349
Total Assets	**$ 8,145,790**	**$ 8,896,385**	**$ 1,208,386**	**$ 18,250,561**
Liabilities				
Other current liabilities	$ 1,139,783	$ 368,270	$ 23,107	$ 1,531,160
Benefits payable	5,563,175	—	—	5,563,175
Revenue bonds payable	—	7,688,313	138,854	7,827,167
Contracts and notes payable	—	—	9,734	9,734
Total Liabilities	**6,702,958**	**8,056,583**	**171,695**	**14,931,236**
Fund Equity				
Contributed capital	—	—	21,213	21,213
Retained earnings				
Reserved for regulatory requirements	—	737,503	—	737,503
Unreserved	1,442,832	102,299	1,015,478	2,560,609
Total Fund Equity	**1,442,832**	**839,802**	**1,036,691**	**3,319,325**
Total Liabilities and Fund Equity	**$ 8,145,790**	**$ 8,896,385**	**$ 1,208,386**	**$ 18,250,561**

Table 27

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

Year Ended June 30, 2001
(amounts in thousands)

	State Compensation Insurance Fund	California Housing Finance Agency	Non-Major Component Units	Total
Operating Revenues				
Earned premiums (net)	$ 1,759,462	$ —	$ —	$ 1,759,462
Other revenue	50,647	473,908	258,290	782,845
Total Operating Revenues	**1,810,109**	**473,908**	**258,290**	**2,542,307**
Operating Expenses				
Depreciation	2,550	229	14,360	17,139
Benefit payments	1,912,647	—	3,162	1,915,809
Interest expense	—	428,848	3,203	432,051
Amortization of deferred charges	218,044	1,470	—	219,514
Other operating expenses	127,321	65,737	147,621	340,679
Total Operating Expenses	**2,260,562**	**496,284**	**168,346**	**2,925,192**
Operating Income (Loss)	**(450,453)**	**(22,376)**	**89,944**	**(382,885)**
Nonoperating Revenues (Expenses)				
Investment and interest income (loss)	723,710	106,485	4,360	834,555
Dividends paid	(104,146)	—	—	(104,146)
Other nonoperating revenues (expenses), net	—	20,141	19,808	39,949
Net Nonoperating Revenues (Expenses)	**619,564**	**126,626**	**24,168**	**770,358**
Net Income (Loss)	**169,111**	**104,250**	**114,112**	**387,473**
Retained Earnings, July 1, 2000	**1,273,721**	**735,552**	**901,366 ***	**2,910,639**
Retained Earnings, June 30, 2001	**$ 1,442,832**	**$ 839,802**	**$ 1,015,478**	**$ 3,298,112**

* 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 $14.1 billion of debt outstanding, which is not debt of the State.

The State has also entered into transactions that involve debt issued by four special purpose trusts that were created by another special purpose authority, 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 that may prevent the utilities from offering electricity at lower rates in a competitive market. As of June 30, the special purpose trusts had approximately $3.9 billion of debt outstanding. Like the debt of special purpose authorities, the debt of the special purpose trusts is not a debt of the State.

In addition, the State participated in transactions involving debt issued by the Bay Area Toll Authority, which is not part of the State's reporting entity. The debt was issued to finance improvements to existing bridges and to design and construct new bridges. As of June 30, the Bay Area Toll Authority had $400 million of debt outstanding, which 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, 2001; legal proceedings that were in progress as of June 30, 2001, and were settled or decided against the primary government as of November 16, 2001, and legal proceedings having a high probability of resulting in a decision against the primary government as of November 16, 2001, 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 the 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 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 December 1998, an interim settlement agreement was entered into between the primary government and Stringfellow defendants requiring both parties to waive all claims against each other. Finalization of this agreement is contingent upon the settlement or judgment in related actions involving the primary government and its insurance carriers, which could be held 100% liable for all clean-up costs. A trial date has not yet been set for the action against the primary government insurance carriers, but as of January 1, 2002, the primary government or the defendants in the Stringfellow action can nullify the interim agreement under certain circumstances. If either party chooses to terminate the settlement agreement, the primary government's appeal would likely be reinstated.

Estimates of the total clean-up costs for the Stringfellow site range from $500 million to $690 million. However, approximately $325 million has already been spent on clean-up by the primary government, the United States Environment Protection Agency and Stringfellow defendants. Therefore, the primary government's potential liability for the remaining clean-up costs ranges from $175 million to $365 million and from $90 million to $100 million for past clean-up costs incurred by defendants. The amount of primary government liability depends on whether the 1998 interim agreement becomes final, and on whether all or a portion of any judgment or clean-up expenses against the primary government is satisfied by recoveries from its insurance carriers.

The primary government reached a settlement agreement for a lawsuit, *Thomas Hayes v. Commission on State Mandates*, related to state-mandated costs for special education programs for handicapped students. Under the terms of the agreement, the primary government has appropriated $270 million from its General Fund to the Superintendent of Public Instruction for allocation on a one-time basis to schools districts, county offices of education, and special education local plan areas. The agreement also requires the primary government to appropriate $25 million each fiscal year for ten years, beginning in fiscal year 2001-02, for allocation to school districts pursuant to a prescribed calculation. However, in any year in which certain provisions of Article XVI of the California Constitution are operative, this appropriation is not required. In addition, the primary government appropriated $100 million to the Superintendent of Public Instruction to perform specific computations with respect to special education local planning areas and affected pupils and to permanently increase the amount per unit of average daily attendance for those areas.

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. Judgment was entered on January 9, 2001, and all three plaintiff groups filed notices of appeal on time. All parties have reached agreement on an extensive joint appendix on appeal, and opening briefs were due on November 5, 2001.

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. In June 2001, the parties entered into a partial settlement of this action that requires further court proceedings. The primary government agreed to uncap future industrial disability retirement benefits to affected state employees. The parties also agreed that the district court would form a class of local public entity employers to resolve issues regarding the rights of PERS under state law with regard to those local public entity employers. The parties are in the process of establishing the scope of the prospective class of local public entity employers, and liability cannot be predicted at this time. An unfavorable outcome to the primary government is possible, and total damages depend upon the court's rulings on the state law class issues and the extent of retrospective relief, if any, awarded.

The primary government has prevailed in a lawsuit, *Sonoma County, et al., v. Commission on State Mandates*. This case was disclosed in the prior year's footnotes. Final judgment in favor of the primary government was entered in court records on July 18, 2001.

The primary government is party to several lawsuits and regulatory proceedings related to the Department of Water Resources (DWR) entering into contracts and arrangements for the purchase and sale of electric power to assist in mitigating the effect of a state-wide energy supply emergency. Legislation established the Department of Water Resources Electric Power Fund (Power Fund) on January 19, 2001, and subsequent legislation expanded the powers of the fund to incur debt for the purposes of the fund and to use amounts in the fund for the purchase of power. As authorized by this legislation, the DWR began selling electricity to end-use customers of three companies, collectively referred to as the investor-owned utilities (IOUs) in January 2001. The DWR purchases power from wholesale suppliers under long-term contracts and in short-term and spot market transactions. DWR electricity is delivered to end-use customers through the transmission and distribution systems of the IOUs, and payments from the end-use customers are collected for the DWR by the IOUs pursuant to service agreements approved and/or ordered by the California Public Utilities Commission (CPUC). Legislation authorizes the DWR and the CPUC to enter into an agreement with respect to charges for the purposes of the legislation to provide for recovery by the DWR of its revenue requirements. The DWR financed its power purchases with advances from the state's General Fund, loans from financial institutions, and revenues from power sales to customers. The DWR is authorized to issue bonds in an amount not to exceed $13.4 billion and payable solely from the Power Fund and to deposit the proceeds of the bonds in the Power Fund for use for any of the Power Fund's purposes.

The lawsuits and regulatory proceedings include, among others, an IOU contesting the DWR's determination that its revenue requirement submissions to the CPUC are just and reasonable, and a CPUC filing with the Federal Energy Regulatory Commission to protest the reasonableness of long-term contracts entered into by the DWR. The CPUC has approved only interim rates for the sale of power provided by the DWR. In addition, other lawsuits and regulatory proceedings in which the primary government is a party may affect the price or supply of energy in California. In one case, the California Power Exchange Corporation (CalPX), certain IOUs, and others have brought suit against the State of California, claiming that the State's assumption of the CalPX's block forward contracts after the CalPX filed bankruptcy in early 2001 was unconstitutional. The plaintiffs argue that they are entitled to damages of $1.1 billion, which is their estimation of the fair value of the block forward contracts at the time the DWR assumed them. Under the block forward contracts, which expire in December 2001, management estimates that the Power Fund will have paid approximately $350 million for energy provided by the contracts. These lawsuits and regulatory proceedings could impact the timing of the sale of bonds, the revenue requirements and rate structure needed to repay the debt, and the terms and conditions of the power purchase contracts. Because the legal and regulatory proceedings are in an early stage, the ultimate outcome of these matters cannot presently be determined.

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 and the University of California are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government and the University of California 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, 2001. 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 three defined contribution plans, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF). 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, the SPOFF, and the RBF, 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.

CalSTRS administers two defined benefit retirement plans within the State Teacher's Retirement Fund: the Defined Benefit Program, and the Cash Balance Benefit Program. CalSTRS also offers, through a third-party administrator, a defined contribution plan that meets the requirements of Internal Revenue Code Section 403(b). The Teachers' Health Benefits Fund provides post-employment health benefits to retired members of the DB Program. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for 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 1,350 public agencies as of June 30, 2001.

The excess of the actuarial value of assets over the actuarial accrued liability of the PERF for the primary government and other participating agencies was $26.4 billion at June 30, 2000. This is a result of the difference between the actuarial value of assets of $162.4 billion and the actuarial accrued liability of $136.0 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 the PERF is not a material portion of the program. The primary government employees served by the PERF include: 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, 2001, was approximately $11.6 billion.

All employees who work half-time or more 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 by 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 9.0% of their salary over the base compensation amount.

The required employer contribution rates for the primary government, without group term life insurance benefits, are shown in Table 28. The employer contribution rates for employees in the industrial member and the safety member categories who are covered by group term life insurance are 0.03% and 0.006%, respectively. All other categories are 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, 2001

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members			
First tier	8.31 %	(8.31) %	— %
Second tier	6.60	(6.60)	—
Industrial	7.22	(7.22)	—
California Highway Patrol	13.71	—	13.71
Peace officers and firefighters	13.88	(11.15)	2.73
Other safety members	12.60	(5.80)	6.80

For the year ended June 30, 2001, the annual pension cost (APC) and the amount of contributions made by the primary government were $163 million and $173 million, respectively. 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, 2000, 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 were 59 employers participating in the JRF for the year ended June 30, 2001. The payroll for employees covered by the JRF for the year ended June 30, 2001, was approximately $150 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 rate of active plan members is based on a percentage of salary over a base compensation amount. For the year ended June 30, 2001, 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 (a "pay as you go" basis).

The annual pension cost (APC) and the amount of contributions made to the JRF for the year ended June 30, 2001, were $159 million and $91 million, respectively. The net pension obligation (NPO) of the JRF at June 30, 2001, was $803 million, an increase of $68 million over last year's balance of $735 million. The APC is comprised of $162 million for the annual required contribution (ARC), $55 million for interest on the NPO, and $58 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, 2000, is also shown in Table 29. The aggregate cost method that was used for the June 30, 2000, 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 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, 2001, was approximately $53 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, 2001, the required contribution rate for the JRF II was 8.0%. For the year ended June 30, 2001, the primary government's contribution rate for the JRF II was 18.13% of applicable member compensation.

Actuarial valuations for the JRF II are required to be carried out annually. The legislated primary government contribution rate is 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, 2001, the annual pension cost (APC) and the amount of contributions made for the JRF II were approximately $9.6 million and $9.8 million, respectively. The APC and the percentage of APC contributed for the year ended June 30, 2001, are shown in Table 29. Information on the last valuation, which was performed as of June 30, 2000, 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 2001 was approximately $3 million.

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

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

Funding Policy: The contribution requirements of the LRF are based on actuarially determined rates. An actuarial valuation of the LRF's assets and liabilities is required at least every two years. For the year ended June 30, 2001, the actual contributions made by employees were approximately 1.1% of covered payroll. For the year ended June 30, 2001, the primary government's actuarially determined funding rate was 0.00% of covered payroll.

For the year ended June 30, 2001, the annual pension cost (APC) was determined to be approximately zero and the amount of contributions made by the primary government was zero as well.

The net pension obligation (NPO) of the LRF on June 30, 2001, was approximately $10.3 million, essentially the same as last year. There was no APC because the annual required contribution (ARC) equaled zero and the interest on the NPO closely approximated the 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, 2000, is also shown in Table 29. The aggregate cost method that was used for the June 30, 2000, 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 were 57 fire departments participating in the VFF for the year ended June 30, 2001.

The excess of the actuarial value of assets over the actuarial accrued liability of VFF was approximately zero at June 30, 2000. This is a result of the difference between the actuarial value of assets of $2.3 million and the actuarial accrued liability of $2.3 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 it 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, 2001, contributions by the primary government to the SPOFF were approximately $33 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 depends only on the amount contributed to the participant's account and on earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 2001, there were approximately 32,400 participants.

G. State Teachers' Retirement Fund

Plan Description: CalSTRS administers the State Teachers' Retirement Fund (STRF), which includes the Defined Benefit Program (DB Program), the Defined Benefit Supplement Program (DBS), 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, 2001, the DB Program had approximately 1,200 contributing employers. At June 30, 2000, there were approximately 496,000 plan members, and 165,000 benefit recipients. The primary government is a non-employer contributor to the DB Program. The payroll for employees covered by the DB Program in 2001 was approximately $18.6 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the balance of member accounts. Vesting occurs immediately. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program. DBS Program assets of $210 million are combined with the assets of the DB Program in the STRF.

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 is automatically covered unless the employee elects, within 60 days of hire or the election period determined by the employer, to participate in the DB Program or an alternative plan provided by the employer. At June 30, 2001, the CBB Program had 24 contributing school districts and approximately 12,000 contributing participants. Assets of the CBB Program of $15.8 million are combined with the assets of the DBB Program in the STRF.

Funding Policy: DB Program benefits are funded by contributions from members, employers, and 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.

The DB Program contribution rate of members was 8.0% of applicable member earnings through December 31, 2000. Beginning January 1, 2001, through December 31, 2011, the contribution rate of members is 6% 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 2.54% of the previous calendar year's member payroll. After the DB Program becomes fully funded, the primary government contributes 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 transfers annually to the DB Program an amount equal to 1.98% 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, there was established under Education Code Section 22955 a statutory contribution rate of 0.52%, adjustable annually in 0.25% increments up to a maximum of 1.51%, of the creditable earnings of the immediately preceding calendar year. This rate is reduced to zero if there is no unfunded obligation or normal cost deficit. As of the June 30, 2000, actuarial valuation, there was no unfunded obligation or normal cost deficit for benefits in place as of July 1, 1999.

From January 1, 2001, through January 11, 2001, the DBS Program contribution rate was 2% of applicable member earnings. There is currently no employer or primary government contribution to the program.

For the year ended June 30, 2001, the annual pension cost (APC) for the DB Program was approximately $2.0 billion, and the employer and the primary government contributions were approximately $1.9 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.

Table 29

Actuarial Information – Pension Trusts – Primary Government

June 30, 2001

	Public Employees' Retirement	Judges' Retirement	Judges' Retirement II	Legislators' Retirement	State Teachers' Retirement Defined Benefit Program
Last actuarial valuation	June 30, 2000	June 30, 2000	June 30, 2000	June 30, 2000	June 30, 2000
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	10 Years	None	Average of 15 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	3.75-18.38	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 to 5	3.75	3.00	3.50	2.00
Annual pension costs (in millions)					
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
Year ended 6/30/01	163	159	9.6	—	2,035
Percent contribution					
Year ended 6/30/99	100 %	63 %	101 %	— %	115 %
Year ended 6/30/00	100	54	100	—	183
Year ended 6/30/01	106	57	102	—	115
Net pension obligation (in millions)					
Year ended 6/30/99	$ —	$ 673.0	$ —	$ 10.7	$ —
Year ended 6/30/00	—	735.2	—	10.3	—
Year ended 6/30/01	—	803.0	—	10.6	—
Funding as of last valuation (in millions)					
Actuarial value – assets	$ 65,948	N/A	$ 40.5	N/A	$ 102,225
Actuarial accrued liabilities (AAL) – entry age	59,685	N/A	41.6	N/A	93,124
Excess of actuarial value of assets over AAL (EAV)	6,263	N/A	(1.1)	N/A	9,101
Covered payroll	11,191	N/A	43.0	N/A	18,244
Funded ratio	110.5 %	N/A	97.4 %	N/A	110 %
EAV as percent of covered payroll	56.0 %	N/A	(2.6) %	N/A	50 %

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 limit on the maximum amount that can be contributed annually. At June 30, 2001, the 403(b) program had approximately 378 participating employers (school districts) and 2,655 plan members.

I. Teachers' Health Benefits Fund

Plan Description: The Teachers' Health Benefits Fund (THBF) was established pursuant to Chapter 1032, Statutes of 2000 (SB 1435), to provide postemployment health benefits to retired members of the DB Program. Beginning July 1, 2001, funds from the THBF are used to pay Medicare Part A premiums for DB Program members who are retired or will retire prior to January 1, 2006, and who meet certain other eligibility criteria.

Funding Policy: The THBF is funded as needed, from that portion of the monthly DB Program statutory employer contribution that exceeds the DB Program annual required contribution. Management believes that the current source of THBF funding will be adequate to provide for the statutory THBF benefits.

J. 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, an employee must have five years of service 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 to the University of California Retirement Plan 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. Either action results in the member's forfeiture of 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.

Employees may be required to contribute 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, 2001, employee contributions to the University of California Retirement Plan were redirected to the University of California Defined Contribution Plan.

In January 2001, the Board of Regents approved changes to the benefit provisions that became effective January 1, 2001, These changes increased the actuarial accrued liability by approximately $800 million.

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 program 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 Department of Energy laboratories were required to make contributions to the plan sufficient to maintain the promised benefits and the qualified status of the plan, as determined by the plan's consulting actuary.

The University of California maintains two defined contribution plans that provide savings incentives and additional retirement security for all eligible university employees. The Defined Contribution Plan (DC Plan) accepts both after-tax and pretax contributions. In addition, the university has established a Tax Deferred 403(b) Plan (403(b) Plan). There are no employer contributions to either of these two plans. Participants in the DC Plan and the 403(b) Plan may direct their elective and nonelective contributions to investment funds managed by the treasurer of the regents of the university. Participants 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, 2001, participants contributed $377 million and $238 million to the 403(b) Plan and the DC Plan, respectively.

Table 30

Actuarial Information – University of California – Discretely Presented Component Unit

June 30, 2001

	University of California Retirement Plan	Voluntary Early Retirement Incentive Plan
Last actuarial valuation	June 30, 2001	June 30, 2001
Actuarial cost method	Entry Age Normal	Unit Credit
Amortization method	Level % of Payroll, Open	N/A
Remaining amortization period	18.2 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	4.0	4.0
Annual pension costs (in millions)		
Year ended 6/30/99	$ —	$ —
Year ended 6/30/00	—	—
Year ended 6/30/01	—	—
Percent contribution		
Year ended 6/30/99	N/A	N/A
Year ended 6/30/00	N/A	N/A
Year ended 6/30/01	N/A	N/A
Net pension obligation (in millions)		
Year ended 6/30/99	$ —	$ —
Year ended 6/30/00	—	—
Year ended 6/30/01	—	—
Funding as of last valuation (in millions)		
Actuarial value – assets	$ 40,554	$ 84.6
Actuarial accrued liabilities (AAL)	27,451	40.6
Excess of actuarial value of assets over AAL (EAV)	13,103	44.0
Covered payroll	6,539	N/A
Funded ratio	148 %	208 %
EAV as percent of covered payroll	200 %	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 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 110,132 annuitants were enrolled to receive health benefits and approximately 89,134 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 $409 million.

Also, the University of California, a discretely presented component unit, provides to retired employees certain health plan benefits 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 35,900 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, 2001, was approximately $124 million.

NOTE 25. SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2001, but prior to the date of the auditor's report.

From July 1, 2001 through November 16, 2001, the primary government issued $1.0 billion in general obligation bonds to retire previously issued commercial paper. In addition, the primary government issued $5.7 billion in revenue anticipation notes that will mature on June 28, 2002.

In April 2001, Standard and Poor's lowered its rating on California's general obligation bonds from "AA" to "A+." In May 2001, Moody's

Investors Service also lowered its rating on California's general obligation bonds, from "Aa2" to "Aa3."

Moody's placed California's general obligation bond rating under review for possible downgrade. Moody's cited increased concerns regarding the State's economically sensitive General Fund revenues and other recent developments that threaten the timely issuance of the power revenue bonds, the proceeds of which would shore up the State's projected liquidity position.

From July 1, 2001, to November 16, 2001, the Regents of the University of California issued approximately $177 million in revenue bonds, and the special purpose authorities, which are discretely presented component units, issued approximately $346 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 (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a - b) / c)
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
June 30, 2000	65,948	59,685	6,263	110.5	11,191	56.0

Judges' Retirement Fund II

(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) (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll or (UAAL as a Percent of Covered Payroll) ((a - b) / c)
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
June 30, 2000	40,503	41,619	(1,116)	97.3	42,983	(2.6)

[1] Actuarial valuations for the Judges' Retirement Fund and the Legislators' Retirement Fund are performed using the aggregate cost valuation method. The schedule of funding progress is not required if the aggregate cost method is used.

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 (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a - b) / c)
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
June 30, 2000	102,225	93,124	9,101	109.8	18,224	49.9

University of California Retirement System

(amounts in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Liability (AAL) (b)	Excess of the Actuarial Value of Assets Over AAL (a - b)	Funded Ratio (a / b)	Covered Payroll (c)	Excess as a Percentage of Covered Payroll ((a - b) / c)
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
June 30, 2001	40,554	27,451	13,103	147.7	6,539	200.4

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