

**REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA**

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**STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1991**

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**REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL**

**F-101**

**STATE OF CALIFORNIA  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 1991**

**MARCH 1992**



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

Kurt R. Sjoberg  
Auditor General (acting)

660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

March 31, 1992

F-101

Honorable Robert Campbell, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 2163  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents the financial report of the State of California for the year ended June 30, 1991. This financial report includes a financial section with the State's general purpose financial statements presented on a basis in conformity with generally accepted accounting principles (GAAP) and a statistical section with important labor, income, and population statistics.

The financial statements show that the State's General Fund spent approximately \$2.6 billion more than it generated in revenues for the fiscal year ended June 30, 1991, and ended the fiscal year with a fund deficit of \$3.5 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 this audit to comply with the California Government Code, Section 10534.

Respectfully submitted,

KURT R. SJOBERG  
Auditor General (acting)

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**FINANCIAL SECTION**



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

Kurt R. Sjoberg  
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**Independent Auditors' Report**

MEMBERS OF THE JOINT LEGISLATIVE AUDIT COMMITTEE  
STATE OF CALIFORNIA

We have audited the general purpose financial statements of the State of California as of and for the year ended June 30, 1991, as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these statements based on our audit. We did not audit the financial statements of the pension trust funds, which reflect total assets constituting 79 percent of the fiduciary funds. We also did not audit the financial statements of certain enterprise funds, which reflect total assets and revenues constituting 92 percent and 94 percent, respectively, of the enterprise funds. In addition, we did not audit the University of California funds. The financial statements of the pension trust funds, certain enterprise funds, and the University of California funds referred to above were audited by other auditors who furnished their reports to us, and our opinion, insofar as it relates to the amounts included for the pension trust funds, certain enterprise funds, and the University of California funds, is based solely upon the reports of other independent auditors.

We conducted our audit in accordance with generally accepted auditing standards. 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.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of California as of June 30, 1991, and the results of its operations and the cash flows of its proprietary funds for the year then ended, in conformity with generally accepted accounting principles.

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

OFFICE OF THE AUDITOR GENERAL

CURT DAVIS, CPA  
Deputy Auditor General

December 20, 1991

**GENERAL PURPOSE FINANCIAL STATEMENTS**



**STATE OF CALIFORNIA**  
**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS**  
**As of June 30, 1991**  
**(In Thousands)**

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		University of California
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
<b>ASSETS</b>									
Cash and pooled investments	\$ 182,119	\$ 587,890	\$ 477,576	\$ 3,592,407	\$ 17,620	\$ 10,808,252			\$ 2,707,804
Investments				8,219,833		87,809,387			15,473,973
Amount on deposit with U.S. Treasury						4,983,788			
Receivables (net)	97,927	105,860	192	405,076	1,820	3,951,224			1,169,451
Due from other funds	2,965,886	3,902,489	220,024	547,873	230,718	4,388,420			370,475
Due from other governments	41,078	2,650,718		59,190	18,694	1,337,782			75,636
Prepaid expenses	180,055	396,403	19	10,697	5,489	24,848			
Inventory, at cost				14,618	57,045				90,734
Net investment in direct financing leases				1,343,441					
Advances and loans receivable	102,452	591,431		6,723,974	22,923	127,799			27,030
Deferred charges				1,217,725					33,620
Fixed assets				4,837,799	236,967	9,075	\$10,733,600		8,966,181
Other assets	784	4,467		297,381	8,362	48,490			253,133
Amount to be provided for retirement of long-term obligations								\$10,562,826	
<b>Total Assets</b>	<b>\$ 3,570,301</b>	<b>\$ 8,239,258</b>	<b>\$ 697,811</b>	<b>\$27,270,014</b>	<b>\$599,638</b>	<b>\$113,489,065</b>	<b>\$10,733,600</b>	<b>\$10,562,826</b>	<b>\$29,168,037</b>
<b>LIABILITIES AND FUND EQUITY</b>									
<b>Liabilities</b>									
Accounts payable	\$ 485,898	\$ 493,646	\$ 89,029	\$ 277,993	\$ 63,395	\$ 3,193,837			\$ 1,111,025
Due to other funds	4,412,393	3,110,138	128,698	766,118	45,650	4,011,248			151,640
Due to other governments	684,717	938,769	6,900	96,771	230	8,983,168			
Dividends payable				69,000					
Advances from other funds		861	30,430	338,687	62,597	14,390			27,030
Tax overpayments	1,127,953	12,966				42,509			
Benefits payable				4,106,682		556,340			
Deposits	20	8,998		232,375	754	1,748,023			201,877
Contracts and notes payable				4,052	38,470				
Lottery prizes and annuities				1,489,614					
Compensated absences payable	98,095			14,194	24,210			\$ 601,499	
Mortgages and other borrowings									760,393
Net assets available for benefits									15,269,435
Capital lease obligations					12,111			1,323,531	365,756
Advance collections	51,341	71,055		1,005,235	44,309	15,040			
General obligation bonds payable				4,835,395				7,735,955	
Revenue bonds payable				8,608,728					1,331,481
Interest payable	157,125			358,309					
Other liabilities	45,470	264,509	801	35,794	1,808	732,074		901,841	
<b>Total Liabilities</b>	<b>7,063,012</b>	<b>4,900,942</b>	<b>255,858</b>	<b>22,238,947</b>	<b>293,534</b>	<b>19,296,629</b>		<b>10,562,826</b>	<b>19,218,637</b>
<b>Fund Equity</b>									
Contributed capital				213,072	98,986				
Investment in general fixed assets							\$10,733,600		7,008,711
Retained earnings									
Reserved for regulatory requirements				441,335					
Unreserved				4,376,660	207,118				
Fund balances									
Reserved for encumbrances	368,946	1,233,896	366,873						
Reserved for advances and loans	102,452	591,431				113,413			
Reserved for pension benefits						88,088,243			
Reserved for continuing appropriations	44,396	717,007	212,480						
Reserved for other specific purposes	50,245	76,094							
<b>Total Reserved</b>	<b>566,039</b>	<b>2,618,428</b>	<b>579,353</b>			<b>94,192,436</b>			<b>1,525,190</b>
Unreserved									
Budgetary basis undesignated-available for appropriation (deficit)	(1,779,362)	(3,338,736)							
Budgetary to GAAP adjustments	(2,279,388)	4,058,624							
Undesignated (deficit)	(4,058,750)	719,888	(137,400)						1,415,499
<b>Total Fund Equity (Deficit)</b>	<b>(3,492,711)</b>	<b>3,338,316</b>	<b>441,953</b>	<b>5,031,067</b>	<b>306,104</b>	<b>94,192,436</b>	<b>10,733,600</b>		<b>9,949,400</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 3,570,301</b>	<b>\$ 8,239,258</b>	<b>\$ 697,811</b>	<b>\$27,270,014</b>	<b>\$599,638</b>	<b>\$113,489,065</b>	<b>\$10,733,600</b>	<b>\$10,562,826</b>	<b>\$29,168,037</b>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Governmental Fund Types</u>			<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Capital</u>	<u>Expendable</u>
		<u>Revenue</u>	<u>Projects</u>	<u>Trust</u>
<b>Revenues</b>				
Taxes . . . . .	\$36,138,339	\$ 1,902,759		\$3,623,760
Intergovernmental . . . . .		15,024,782		
Licenses and permits . . . . .	150,589	1,575,911		
Natural resources . . . . .	68,782		\$ 102,846	
Insurance premiums . . . . .				536,853
Charges for services . . . . .	149,012	212,550		27,081
Fees . . . . .	455,245	845,453		149,157
Penalties . . . . .	11,012	277,890		850
Interest . . . . .	426,728	229,601	45,870	563,667
Other . . . . .	291,835	291,379		178,275
Total Revenues . . . . .	<u>37,691,542</u>	<u>20,360,325</u>	<u>148,716</u>	<u>5,079,643</u>
<b>Expenditures</b>				
<b>Current</b>				
General government . . . . .	1,684,040	1,128,100		599,853
Education . . . . .	20,087,857	2,262,282		306,522
Health and welfare . . . . .	13,188,505	11,400,664		5,275,708
Resources . . . . .	521,129	982,711		4,573
State and consumer services . . . . .	271,220	315,489		14,736
Business and transportation . . . . .	106,396	4,395,754		60,169
Correctional programs . . . . .	2,535,160	170,305		
Property tax relief . . . . .	930,233			
Capital outlay . . . . .			942,404	457
<b>Debt service</b>				
Principal retirement . . . . .	388,400			
Interest and fiscal charges . . . . .	732,155	65,894	34,144	
Total Expenditures . . . . .	<u>40,445,095</u>	<u>20,721,199</u>	<u>976,548</u>	<u>6,262,018</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from general obligation bonds . . . . .		1,603,820	1,352,180	
Operating transfers in . . . . .	492,543	1,298,791	206,856	276,187
Operating transfers out . . . . .	(365,647)	(1,189,689)	(153,234)	(63,888)
Net Other Financing Sources (Uses)	<u>126,896</u>	<u>1,712,922</u>	<u>1,405,802</u>	<u>212,299</u>
<b>Excess of Revenues and Other Sources Over</b>				
(Under) Expenditures and Other Uses . . . . .	(2,626,657)	1,352,048	577,970	(970,076)
Fund Balances (Deficit), July 1, 1990 . . . . .	(866,054)	1,986,268	(136,017)	7,074,269
Fund Balances (Deficit), June 30, 1991 . . . . .	<u>\$ (3,492,711)</u>	<u>\$ 3,338,316</u>	<u>\$ 441,953</u>	<u>\$6,104,193</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE—BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**GENERAL FUND**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>Revenues</b>			
Taxes . . . . .		\$36,827,563	
Licenses and permits . . . . .		44,593	
Natural resources . . . . .		68,782	
Charges for services . . . . .		86,164	
Fees . . . . .		455,245	
Penalties . . . . .		10,927	
Interest . . . . .		395,246	
Other . . . . .		<u>294,311</u>	
<b>Total Revenues . . . . .</b>		<u><b>38,182,831</b></u>	
<b>Expenditures</b>			
<b>Current</b>			
General government . . . . .	\$ 1,598,653	1,534,859	\$ 63,794
Education . . . . .	21,313,548	21,189,615	123,933
Health and welfare . . . . .	13,641,091	13,350,323	290,768
Resources . . . . .	553,271	523,352	29,919
State and consumer services . . . . .	275,143	270,566	4,577
Business and transportation . . . . .	110,206	107,115	3,091
Correctional programs . . . . .	2,564,031	2,514,071	49,960
Property tax relief . . . . .	1,002,303	987,700	14,603
<b>Debt Service</b>			
Principal retirement . . . . .	386,569	386,569	
Interest and fiscal charges . . . . .	<u>696,499</u>	<u>696,499</u>	
<b>Total Expenditures . . . . .</b>	<u><b>\$42,141,314</b></u>	<u><b>41,560,669</b></u>	<u><b>\$580,645</b></u>
<b>Other Financing Sources (Uses)</b>			
Operating transfers in . . . . .		485,200	
Operating transfers out . . . . .		(374,393)	
Other additions . . . . .		<u>1,271,133</u>	
<b>Net Other Financing     Sources (Uses) . . . . .</b>		<u><b>1,381,940</b></u>	
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses . . . . .</b>			
		(1,995,898)	
<b>Fund Balance, July 1, 1990, as restated . . . . .</b>			
		<u>680,123</u>	
<b>Fund Balance (Deficit), June 30, 1991 . . . . .</b>			
		<u><b>\$ (1,315,775)</b></u>	

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES—BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**SPECIAL REVENUE FUNDS**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
<b>Revenues</b>			
Taxes . . . . .		\$ 149,848	
Intergovernmental . . . . .		14,801,171	
Licenses and permits . . . . .		1,575,911	
Charges for services . . . . .		206,842	
Fees . . . . .		845,453	
Penalties . . . . .		271,290	
Interest . . . . .		240,483	
Other . . . . .		<u>307,787</u>	
<b>Total Revenues . . . . .</b>		<u>18,398,785</u>	
<b>Expenditures</b>			
<b>Current</b>			
General government . . . . .	\$ 1,210,250	1,128,100	\$ 82,150
Education . . . . .	2,330,290	2,252,539	77,751
Health and welfare . . . . .	11,636,683	11,347,325	289,358
Resources . . . . .	1,207,970	1,194,906	13,064
State and consumer services . . . . .	345,325	315,486	29,839
Business and transportation . . . . .	4,550,246	4,198,514	351,732
Correctional programs . . . . .	<u>178,337</u>	<u>176,254</u>	<u>2,083</u>
<b>Total Expenditures . . . . .</b>	<u>\$21,459,101</u>	<u>20,613,124</u>	<u>\$845,977</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from general obligation bonds . . . . .		1,603,820	
Operating transfers in . . . . .		7,004,449	
Operating transfers out . . . . .		<u>(5,228,693)</u>	
<b>Net Other Financing         Sources (Uses) . . . . .</b>		<u>3,379,576</u>	
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses . . . . .</b>		1,165,237	
<b>Fund Balances, July 1, 1990, as restated . . . . .</b>		<u>1,326,457</u>	
<b>Fund Balances, June 30, 1991 . . . . .</b>		<u>\$ 2,491,694</u>	

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN RETAINED EARNINGS/FUND BALANCES**  
**ALL PROPRIETARY FUND TYPES AND PENSION TRUST FUNDS**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Proprietary Fund Types</u>		<u>Fiduciary</u> <u>Fund Type</u>
	<u>Enterprise</u>	<u>Internal</u> <u>Service</u>	<u>Pension</u> <u>Trust</u>
Operating Revenues			
Lottery ticket sales . . . . .	\$2,131,921		
Services and sales . . . . .	922,789	\$883,450	
Earned premiums (net) . . . . .	1,765,539		
Investment and interest . . . . .	822,200		\$ 6,793,184
Contributions . . . . .			4,595,786
Rent . . . . .	107,015		
Other . . . . .	<u>16,475</u>		<u>27,834</u>
Total Operating Revenues . . . . .	<u>5,765,939</u>	<u>883,450</u>	<u>11,416,804</u>
Operating Expenses			
Lottery prizes . . . . .	1,061,545		
Personal services . . . . .	234,604	391,316	15,289
Supplies . . . . .	23,440	14,216	
Services and charges . . . . .	820,749	374,453	114,340
Depreciation . . . . .	93,924	47,888	
Benefit payments . . . . .	1,729,474		4,128,074
Interest expense . . . . .	670,143		
Refunds . . . . .			172,267
Accrual of deferred charges . . . . .	<u>(29,787)</u>		
Total Operating Expenses . . . . .	<u>4,604,092</u>	<u>827,873</u>	<u>4,429,970</u>
Operating Income . . . . .	<u>1,161,847</u>	<u>55,577</u>	<u>6,986,834</u>
Nonoperating Revenues (Expenses)			
Grants received . . . . .	1,256		
Grants provided . . . . .	(19,585)		
Interest revenue . . . . .	563,413	3,157	
Interest expense and fiscal charges . . . . .	(220,352)	(8,958)	
Gain on early extinguishment of debt . . . . .	9		
Other . . . . .	<u>6,255</u>	<u>(1,616)</u>	
Net Nonoperating Revenues (Expenses) . . . . .	<u>330,996</u>	<u>(7,417)</u>	
Operating transfers in . . . . .	66,480		
Operating transfers out . . . . .	<u>(93,203)</u>	<u>(17,936)</u>	
Operating Transfers . . . . .	<u>(26,723)</u>	<u>(17,936)</u>	
Net Income . . . . .	1,466,120	30,224	6,986,834
Dividends paid . . . . .	(358,187)		
Lottery payments for education . . . . .	(770,936)		
Retained Earnings/Fund Balances July 1, 1990 . . . . .	<u>4,480,998</u>	<u>176,894</u>	<u>81,101,409</u>
Retained Earnings/Fund Balances June 30, 1991 . . . . .	<u>\$4,817,995</u>	<u>\$207,118</u>	<u>\$88,088,243</u>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
For the Fiscal Year Ended June 30, 1991  
(In Thousands)**

	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
Cash Flows From Operating Activities		
Operating income . . . . .	\$ 1,161,847	\$ 55,577
Adjustments to reconcile operating income with net cash provided by (used in) operating activities		
Interest expense on operating debt . . . . .	670,143	
Interest on investments . . . . .	(258,402)	
Depreciation . . . . .	93,924	47,888
Deferred charges of water projects . . . . .	(21,946)	
Accretion of capital appreciation bonds . . . . .	16,603	
Provisions and allowances . . . . .	5,711	
Other . . . . .	11,064	298
Change in assets and liabilities		
Change in receivables . . . . .	71,126	414
Change in due from other funds . . . . .	370,890	(43,811)
Change in due from other governments . . . . .	(4,992)	(9,690)
Change in prepaid expenses . . . . .	(8,650)	(2,657)
Change in inventory . . . . .	2,187	668
Change in net investment in direct financing leases . . . . .	(483,609)	
Change in advances and loans receivable . . . . .	(209,274)	(5,056)
Change in other assets . . . . .	(17,543)	(306)
Change in accounts payable . . . . .	(7,688)	6,543
Change in due to other funds . . . . .	(403,035)	(129)
Change in due to other governments . . . . .	41,699	15
Change in lottery prizes and annuities . . . . .	246,438	
Change in benefits payable . . . . .	522,198	
Change in deposits . . . . .	11,054	386
Change in compensated absences payable . . . . .	4,177	230
Change in advance collections . . . . .	12,042	15,585
Change in other liabilities . . . . .	(3,084)	290
Total adjustments . . . . .	<u>661,033</u>	<u>10,668</u>
Net Cash Provided by (Used in) Operating Activities . . . . .	<u>1,822,880</u>	<u>66,245</u>
Cash Flows From Noncapital Financing Activities		
Dividends paid . . . . .	(331,187)	
Advances from other funds . . . . .	66,207	
Return of advances from other funds . . . . .	(143,828)	
Proceeds from revenue bonds . . . . .	845,494	
Retirement of general obligation bonds . . . . .	(198,415)	
Retirement of revenue bonds . . . . .	(440,536)	
Interest paid on operating debt . . . . .	(663,797)	(764)
Operating transfers in . . . . .	48,497	
Operating transfers out . . . . .	(54,740)	(27,988)
Grants provided . . . . .	(36,740)	
Grants received . . . . .	1,256	
Other revenue (expenses) . . . . .	5,313	122
Lottery payments for education . . . . .	(754,613)	
Net Cash Provided by (Used in) Noncapital Financing Activities . . . . .	<u>(1,657,089)</u>	<u>(28,630)</u>

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CASH FLOWS (Continued)**  
**ALL PROPRIETARY FUND TYPES**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Proprietary Fund Types</u>	
	<u>Enterprise</u>	<u>Internal Service</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Acquisition of fixed assets . . . . .	(362,014)	(32,307)
Proceeds from sale of fixed assets . . . . .	158,075	3,458
Unamortized water project costs . . . . .	(8,157)	
Advances from other funds . . . . .	9	1,277
Return of advances from other funds . . . . .	(12,191)	(21,000)
Principal paid on notes payable . . . . .	(3,448)	(30,336)
Payment of capital lease obligations . . . . .	(2,625)	(1,368)
Proceeds from revenue bonds . . . . .	770,688	
Retirement of general obligation bonds . . . . .	(33,670)	
Retirement of revenue bonds . . . . .	(76,470)	
Interest paid . . . . .	(226,500)	(8,436)
Interest from direct financing leases . . . . .	5,178	
Contributed capital . . . . .	(1,935)	26,229
Operating transfers in . . . . .	17,003	
Operating transfers out . . . . .	(21,162)	
Acquisition of software . . . . .		(3,109)
Payment of deferred costs . . . . .		(1,615)
Payment of bond fund administration costs . . . . .		(8)
Net Cash Provided by (Used in) Capital and Related Financing Activities . . . . .	<u>202,781</u>	<u>(67,215)</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments . . . . .	(1,246,110)	
Advances and loans provided . . . . .	(10,087)	(2,400)
Collection of advances and loans . . . . .	2,045	
Proceeds from maturity and sale of investments . . . . .	466,051	
Interest and gains on investments . . . . .	824,448	3,680
Net Cash Provided by (Used in) Investing Activities . . . . .	<u>36,347</u>	<u>1,280</u>
Net Increase (Decrease) in Cash and Pooled Investments . . . . .	404,919	(28,320)
Cash and Pooled Investments at July 1, 1990 . . . . .	3,187,488	45,940
Cash and Pooled Investments at June 30, 1991 . . . . .	<u>\$ 3,592,407</u>	<u>\$ 17,620</u>

**Noncash Transactions**

Noncash transactions are those portions of investing and financing activities that affected assets and liabilities but did not result in cash receipts or payments during the period. The following noncash transactions occurred during the year. An enterprise fund and internal service funds made installment purchases totaling \$2 million and \$23.9 million, respectively, to acquire equipment and software.

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA  
COMBINED BALANCE SHEET  
UNIVERSITY OF CALIFORNIA FUNDS  
As of June 30, 1991  
(In Thousands)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>	<u>Retirement System Funds</u>	<u>Total</u>
<b>ASSETS</b>						
Cash and pooled investments . . . .	\$ 1,200,867	\$ 41,343	\$ 169,309	\$ 1,022,597	\$ 273,688	\$ 2,707,804
Investments . . . . .			795,378		14,678,595	15,473,973
Receivables (net) . . . . .	712,039	247,423	280		209,709	1,169,451
Due from other funds . . . . .	218,835				151,640	370,475
Due from other governments . . . .	75,636					75,636
Inventory . . . . .	90,734					90,734
Advances and loans receivable . . .			27,030			27,030
Deferred charges . . . . .	33,620					33,620
Fixed assets . . . . .				8,966,181		8,966,181
Other assets . . . . .	<u>246,029</u>			<u>7,104</u>		<u>253,133</u>
<b>Total Assets . . . . .</b>	<b><u>\$2,577,760</u></b>	<b><u>\$288,766</u></b>	<b><u>\$991,997</u></b>	<b><u>\$9,995,882</u></b>	<b><u>\$15,313,632</u></b>	<b><u>\$29,168,037</u></b>
<b>LIABILITIES AND FUND EQUITY</b>						
<b>Liabilities</b>						
Accounts payable . . . . .	\$ 1,029,857		\$ 3,073	\$ 37,955	\$ 40,140	\$ 1,111,025
Due to other funds . . . . .	130,869			16,714	4,057	151,640
Advances from other funds . . . . .		\$ 2,000		25,030		27,030
Deposits . . . . .	118,026		83,851			201,877
Mortgages and other borrowings . .				760,393		760,393
Net assets available for benefits . . . . .					15,269,435	15,269,435
Capital lease obligations . . . . .				365,756		365,756
Revenue bonds payable . . . . .		<u>49,726</u>		<u>1,281,755</u>		<u>1,331,481</u>
<b>Total Liabilities . . . . .</b>	<b><u>1,278,752</u></b>	<b><u>51,726</u></b>	<b><u>86,924</u></b>	<b><u>2,487,603</u></b>	<b><u>15,313,632</u></b>	<b><u>19,218,637</u></b>
<b>Fund Equity</b>						
Investment in general fixed assets . . . . .				7,008,711		7,008,711
<b>Fund balances</b>						
Reserved for other specific purposes . . . . .	485,950	190,871	619,487	228,882		1,525,190
Undesignated . . . . .	<u>813,058</u>	<u>46,169</u>	<u>285,586</u>	<u>270,686</u>		<u>1,415,499</u>
<b>Total Fund Equity . . . . .</b>	<b><u>1,299,008</u></b>	<b><u>237,040</u></b>	<b><u>905,073</u></b>	<b><u>7,508,279</u></b>		<b><u>9,949,400</u></b>
<b>Total Liabilities and Fund Equity . . . . .</b>	<b><u>\$2,577,760</u></b>	<b><u>\$288,766</u></b>	<b><u>\$991,997</u></b>	<b><u>\$9,995,882</u></b>	<b><u>\$15,313,632</u></b>	<b><u>\$29,168,037</u></b>

See the notes accompanying the financial statements.



**STATE OF CALIFORNIA  
 COMBINED STATEMENT OF REVENUES,  
 EXPENDITURES, AND CHANGES IN FUND BALANCES  
 UNIVERSITY OF CALIFORNIA CURRENT FUNDS  
 For the Fiscal Year Ended June 30, 1991  
 (In Thousands)**

<b>Revenues and Other Additions</b>	
Tuition and fees . . . . .	\$ 508,893
Federal appropriations, grants, and contracts . . . . .	1,027,972
State appropriations, grants, and contracts . . . . .	2,308,557
Private gifts, grants, and contracts . . . . .	335,038
Sales and services	
Educational activities . . . . .	521,930
Auxiliary enterprises . . . . .	455,581
Teaching hospitals . . . . .	1,481,519
Local government . . . . .	56,295
Major Department of Energy laboratories . . . . .	2,270,738
Other . . . . .	<u>338,390</u>
<b>Total Revenues and Other Additions . . . . .</b>	<b><u>9,304,913</u></b>
<b>Expenditures and Other Deductions</b>	
Instruction . . . . .	1,639,782
Research . . . . .	1,169,701
Public services . . . . .	151,662
Academic support . . . . .	605,835
Teaching hospitals . . . . .	1,450,550
Student services . . . . .	226,573
Institutional support . . . . .	393,877
Operation and maintenance of plant . . . . .	285,797
Student financial aid . . . . .	228,509
Auxiliary enterprises . . . . .	379,283
Major Department of Energy laboratories . . . . .	2,258,051
Other . . . . .	<u>27,883</u>
<b>Total Expenditures and Other Deductions . . . . .</b>	<b><u>8,817,503</u></b>
<b>Other Financing Uses</b>	
Transfers out . . . . .	<u>(321,514)</u>
<b>Net Increase in Fund Balance . . . . .</b>	<b>165,896</b>
Fund Balances, July 1, 1990 . . . . .	<u>1,133,112</u>
Fund Balances, June 30, 1991 . . . . .	<b><u>\$1,299,008</u></b>

See the notes accompanying the financial statements.

**STATE OF CALIFORNIA**  
**COMBINED STATEMENT OF CHANGES IN FUND BALANCES**  
**UNIVERSITY OF CALIFORNIA FUNDS**  
**For the Fiscal Year Ended June 30, 1991**  
**(In Thousands)**

	<u>Current Funds</u>	<u>Loan Funds</u>	<u>Endowment &amp; Similar Funds</u>	<u>Plant Funds</u>
<b>Revenues and Other Additions</b>				
Unrestricted current fund revenues				
General . . . . .	\$ 3,393,520			
Auxiliary enterprises and hospitals . . .	1,937,100			
Restricted gifts, grants, and contracts . .	3,635,903	\$ 336	\$ 28,254	\$ 58,622
Investment and interest income . . . . .	163,265	7,786	2,848	40,934
Net gain (loss) on sale of investments . .	(3,441)		46,424	3,411
Governmental grants and contracts . . . .		3,027		1,672
Student fees for debt service . . . . .				8,486
Governmental appropriations . . . . .				84,765
Expended for plant facilities (including \$315,390 financed from current funds) . . . . .				579,533
Retirement of indebtedness . . . . .				72,804
Other . . . . .	<u>178,566</u>	<u>4,281</u>	<u>526</u>	<u>979</u>
<b>Total Revenues and Other     Additions . . . . .</b>	<u>9,304,913</u>	<u>15,430</u>	<u>78,052</u>	<u>851,206</u>
<b>Expenditures and Other Deductions</b>				
Current fund expenditures . . . . .	8,789,620			
Plant fund expenditures . . . . .				295,366
Debt service				
Principal retirement . . . . .				72,804
Interest . . . . .				106,588
Disposals of plant assets . . . . .				139,315
Other . . . . .	<u>27,883</u>	<u>7,303</u>	<u>2,035</u>	<u>2,689</u>
<b>Total Expenditures and     Other Deductions . . . . .</b>	<u>8,817,503</u>	<u>7,303</u>	<u>2,035</u>	<u>616,762</u>
Transfers in (out) . . . . .	<u>(321,514)</u>	<u>(1,504)</u>	<u>11,618</u>	<u>311,400</u>
<b>Net Increase in Fund Balances . .</b>	<b>165,896</b>	<b>6,623</b>	<b>87,635</b>	<b>545,844</b>
Fund Balances, July 1, 1990 . . . . .	<u>1,133,112</u>	<u>230,417</u>	<u>817,438</u>	<u>6,962,435</u>
Fund Balances, June 30, 1991 . . . . .	<u>\$ 1,299,008</u>	<u>\$ 237,040</u>	<u>\$ 905,073</u>	<u>\$ 7,508,279</u>

See the notes accompanying the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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## NOTES TO THE FINANCIAL STATEMENTS

### 1. Definition of the Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California over which the governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. The financial statements include accounts of various boards, commissions, agencies, authorities, retirement systems, the workers' compensation insurance fund, and the State's public universities.

### 2. Summary of Significant Accounting Policies

#### A. *Basis of Presentation*

The accompanying financial statements present the financial position and the results of operations of the State for the year ended June 30, 1991. Except for the University of California and the State Compensation Insurance Fund, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. The financial statements of the University of California have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and by the Governmental Accounting Standards Board.

The University of California receives an annual appropriation from the State's General Fund. For the year ended June 30, 1991, approximately \$2.1 billion was accrued or disbursed from the General Fund to the University of California. This amount is reported as expenditures in the General Fund and as revenues in the University of California funds. Since this amount originally came from General Fund revenues and was ultimately spent in the University of California funds, revenues and expenditures in the amount of \$2.1 billion are reported twice in the accompanying financial statements.

The financial statements of the State Compensation Insurance Fund have been prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of the State of California. These accounting practices represent a comprehensive basis of accounting other than GAAP. The financial statements of the State Compensation Insurance Fund, included in the State's general purpose financial statements, are as of and for the year ended December 31, 1990. The State Compensation Insurance Fund represents 19.9 percent and 34.5 percent, respectively, of the assets and revenues of the enterprise funds.

#### B. *Fund Accounting*

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

### *Governmental Fund Types*

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

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

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

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

### *Proprietary Fund Types*

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

*Enterprise Funds* account for goods or services provided to the general public on a continuing basis either when the State intends that all or most of the cost involved is to be financed by user charges or when 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*

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

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

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

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

*General Fixed Assets Account Group*

This account group records those governmental fixed assets not reported in a proprietary fund or a trust fund.

*General Long-Term Obligations Account Group*

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

*University of California*

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

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

*Loan Funds* account for resources available primarily for loans to students and faculty.

*Endowment and Similar Funds*—Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the Regents of the University of California; the principal is maintained while the income may be expended.

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

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

C. *Basis of Accounting*

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

The accounts of 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. Tax revenues generally are recognized when cash is received and are adjusted when overpayments and underpayments of taxes can be identified. 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.

The State's accounting practices include an exception to the modified accrual basis of accounting with respect to vacation-leave expenditures. These expenditures are recorded when paid because no satisfactory basis exists for determining the current liability. However, the liability for earned leave of academic-year faculty of the California State University and the special schools of the California State Department of Education is accrued at June 30, as explained in Note 10.

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 and Pension Trust Funds*

The accounts of these fund types are reported using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned, and expenses are recognized when they are incurred.

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

For purposes of the statement of cash flows, the State considers all cash and pooled investments in the State's pooled investment program, as discussed in Note 5, to be cash equivalents.

#### *University of California*

The University of California funds are accounted for on the accrual basis of accounting except for depreciation, which is recorded only on the investments of endowment and similar funds in real estate. Accrued compensated absences and other immaterial accruals and deferrals are omitted.

#### **D. Fixed Assets**

##### *General Fixed Assets Account Group*

General fixed assets are presented in the accompanying 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.

##### *Proprietary Fund Types*

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. See Note 9. They are depreciated over their estimated useful lives ranging from 3 to 100 years using the straight-line method of depreciation. Water projects, which represent 59.3 percent of the fixed assets of the enterprise funds, are depreciated over their service lives ranging from 30 to 100 years. Toll bridge and California State University

dormitory facilities, which represent 17.2 percent and 10.1 percent, respectively, of the fixed assets of the enterprise funds, are not depreciated.

#### *Fiduciary Fund Types*

Equipment in the pension trust funds is recorded at cost. The fixed assets are not depreciated.

#### *University of California*

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

#### *E. Budgetary Accounting*

The State's annual budget is prepared on a modified accrual basis. The governor recommends a budget for approval by the Legislature each fiscal year. Under state law, the State cannot adopt a spending plan that exceeds anticipated revenues.

Under the state constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the budget act, as approved by the Legislature and signed by the governor, are the primary sources of annual expenditure authorizations. The budget can be amended throughout the year by special legislative appropriations, budget revisions, or executive orders. Amendments to the initial budget for fiscal year 1990-91 were legally made, and they are included in the budget data in the accompanying financial statements.

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

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall control of appropriations.

### **3. Budgetary Basis Financial Statements**

#### *A. Budgeted Revenues*

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

#### *B. General Fund Reconciliation of Budgetary Basis With GAAP Basis*

The State annually reports its financial condition based on GAAP (GAAP basis) and also based on the State's budgetary provisions (budgetary basis). The State of California Annual Report (the budgetary basis financial report) is prepared in accordance with statutory



and regulatory requirements and is used for reporting on the execution of the State's budget. The accounting records of state agencies are maintained on the budgetary basis for the primary purpose of maintaining accountability of the State's budget and other fiscal legislation; these records are used as the basis for audit. After the budgetary basis financial report is prepared, adjustments are made to prepare the GAAP basis financial statements.

The accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual (Budgetary Basis) is compiled on the budgetary basis. This statement is reconciled with the general purpose financial statements prepared in accordance with GAAP as shown below. The primary differences between the budgetary basis accounting practices and GAAP are as follows:

*Medi-Cal Program Liability*

Medi-Cal (California Medical Assistance Program) expenditures are, by law, accounted for on a cash basis. They are reported on the accrual basis in accordance with GAAP. The accrued liability of \$712 million is net of \$113 million expected to be received from the federal government in fiscal year 1991-92 for expenditures of prior years.

*Advances and Loans Receivable*

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets.

*Tax Overpayments*

On the budgetary basis, all tax receipts are recorded as revenues. On the GAAP basis, the portion of receipts representing taxpayer overpayments are accrued as liabilities. This amount includes \$600 million of sales taxes to be refunded as a result of the State's loss of *Aerospace Corp. v. State Board of Equalization*. In a final decision, a State appellate court held that the State must refund sales taxes it had erroneously imposed on the nontaxable portion of sales to the federal government.

*Restatement of Fund Balance*

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

*Other*

Other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP.

The following adjustments increased the deficit in the fund balance by \$439 million. A liability for pension costs totaling \$168 million was not accrued on the budgetary basis because the State cancelled the appropriation and deferred payment until fiscal year 1991-92. The State also deferred payment of University of California pension costs totaling \$26 million until fiscal year 1991-92. In addition, a liability of approximately \$98 million for compensated absences is not recorded on the budgetary basis. As discussed in Note 10, this liability is for earned leave of faculty of the California State University and special schools of the California Department of Education. Certain other obligations, totaling \$75 million, were not accrued on the budgetary basis because no money remained in the appropriation to pay for them. Liabilities for claims arising from lawsuits, totaling \$60 million, and federal audit exceptions, totaling \$12 million, were not accrued on the budgetary basis because no money had been appropriated as of June 30, 1991.

The major reclassification is reporting the \$1.271 billion overpayment of school apportionments as a reduction of education expenditures rather than as other additions.

**STATE OF CALIFORNIA  
GENERAL FUND  
RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS  
As of and for the Year Ended June 30, 1991  
(In Thousands)**

	Adjustments to the Budgetary Basis						GAAP Basis
	Budgetary Basis	Medi-Cal Program Liability	Advances and Loans Receivable	Tax Overpayments	Restatement of Fund Balance	Other	
<b>ASSETS</b>							
Cash and pooled investments	\$ 182,119						\$ 182,119
Receivables (net)	97,927						97,927
Due from other funds	3,142,530					\$ (176,644)	2,965,886
Due from other governments	41,078						41,078
Prepaid expenses	180,055						180,055
Advances and loans receivable	7,005		\$102,452			(7,005)	102,452
Other assets	784						784
<b>Total Assets</b>	<b>\$ 3,651,498</b>		<b>\$102,452</b>			<b>\$ (183,649)</b>	<b>\$ 3,570,301</b>
<b>LIABILITIES AND FUND EQUITY</b>							
<b>Liabilities</b>							
Accounts payable	\$ 533,710					\$ (47,812)	\$ 485,898
Due to other funds	3,577,311	\$ 712,151				122,931	4,412,393
Due to other governments	602,296					82,421	684,717
Tax overpayments				\$ 1,127,953			1,127,953
Deposits	20						20
Compensated absences payable						98,095	98,095
Advance collections	51,341						51,341
Interest payable	157,125						157,125
Other liabilities	45,470						45,470
<b>Total Liabilities</b>	<b>4,967,273</b>	<b>712,151</b>		<b>1,127,953</b>		<b>255,635</b>	<b>7,063,012</b>
<b>Fund Equity</b>							
<b>Fund balances</b>							
Reserved for encumbrances	368,946						368,946
Reserved for advances and loans			\$102,452				102,452
Reserved for continuing appropriations	44,396						44,396
Reserved for other specific purposes	50,245						50,245
<b>Total Reserved</b>	<b>463,587</b>		<b>102,452</b>				<b>566,039</b>
<b>Unreserved</b>							
Undesignated (deficit)	(1,779,362)	(712,151)		(1,127,953)		(439,284)	(4,058,750)
<b>Total Fund Equity (Deficit)</b>	<b>(1,315,775)</b>	<b>(712,151)</b>	<b>102,452</b>	<b>(1,127,953)</b>		<b>(439,284)</b>	<b>(3,492,711)</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$ 3,651,498</b>	<b>\$ 0</b>	<b>\$102,452</b>	<b>\$ 0</b>		<b>\$ (183,649)</b>	<b>\$ 3,570,301</b>
<b>REVENUES</b>							
Taxes	\$36,827,563		\$ (21,408)	\$ (571,287)	\$ (10,012)	\$ (86,517)	\$36,138,339
Licenses and permits	44,593					105,996	150,589
Natural resources	68,782						68,782
Charges for services	86,164					62,848	149,012
Fees	455,245						455,245
Penalties	10,927					85	11,012
Interest	395,246		23,235			8,247	426,728
Other	294,311					(2,476)	291,835
<b>Total Revenues</b>	<b>38,182,831</b>		<b>1,827</b>	<b>(571,287)</b>	<b>(10,012)</b>	<b>88,183</b>	<b>37,691,542</b>
<b>EXPENDITURES</b>							
<b>Current</b>							
General government	1,534,859				(6,519)	155,700	1,684,040
Education	21,189,615		40,408		5,637	(1,147,803)	20,087,857
Health and welfare	13,350,323	\$ (86,448)			(159,348)	83,978	13,188,505
Resources	523,352				(2,714)	491	521,129
State and consumer services	270,566		1,902		(1,502)	254	271,220
Business and transportation	107,115				(820)	101	106,396
Correctional programs	2,514,071				(22,043)	43,132	2,535,160
Property tax relief	987,700		(49,394)		(9,001)	928	930,233
<b>Debt service</b>							
Principal retirement	386,569					1,831	388,400
Interest and fiscal charges	696,499					35,656	732,155
<b>Total Expenditures</b>	<b>41,560,669</b>	<b>(86,448)</b>	<b>(7,084)</b>		<b>(196,310)</b>	<b>(825,732)</b>	<b>40,445,095</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Operating transfers in	485,200		(5,448)			12,791	492,543
Operating transfers out	(374,393)		9,620			(874)	(365,647)
Other additions	1,271,133					(1,271,133)	
<b>Net Other Financing Sources (Uses)</b>	<b>1,381,940</b>		<b>4,172</b>			<b>(1,259,216)</b>	<b>126,896</b>
<b>Excess of Revenues and Other Sources Over (Under)</b>							
Expenditures and Other Uses	(1,995,898)	86,448	13,083	(571,287)	186,298	(345,301)	(2,626,657)
Fund Balance (Deficit), July 1, 1990, as restated	680,123	(798,599)	89,369	(556,666)	(186,298)	(93,983)	(866,054)
<b>Fund Balance (Deficit), June 30, 1991</b>	<b>\$ (1,315,775)</b>	<b>\$ (712,151)</b>	<b>\$102,452</b>	<b>\$ (1,127,953)</b>	<b>\$ 0</b>	<b>\$ (439,284)</b>	<b>\$ (3,492,711)</b>

C. *Special Revenue Funds Restatement of Beginning Fund Balance*

Beginning with the fiscal year ended June 30, 1991, the State changed the budgetary basis of accounting for encumbrances of certain funds included in the special revenue fund type. This change is similar to the change made to the General Fund in fiscal year 1989-90. The budgetary basis for these funds now reports encumbrances in the same manner as the GAAP basis, that is, as a reservation of fund balance, reduced to reflect anticipated reimbursements. The budgetary basis beginning fund balance has been restated by \$1.569 billion to reflect the budgetary basis change in accounting for encumbrances.

D. *Special Revenue Funds Reconciliation of Budgetary Basis With GAAP Basis*

The primary differences between the budgetary basis accounting practices and GAAP for special revenue funds are as follows:

*Grant Commitments to Local Agencies*

Grants to local agencies are generally recorded as encumbrances on the budgetary basis when the commitments are made. However, in accordance with GAAP, these commitments are not reported as encumbrances. See Note 14.

*Encumbrances*

In addition to the difference in accounting for certain commitments as encumbrances as discussed above, the State did not record certain encumbrances on a budgetary basis that are recorded on a GAAP basis.

*Advances and Loans Receivable*

Loans made to other funds or to other governments are recorded as expenditures on the budgetary basis. However, in accordance with GAAP, these loans are recorded as assets.

*Other*

Certain other adjustments and reclassifications are necessary to present the financial statements in accordance with GAAP. These items include amounts designated for future highway construction, deposits for condemnation proceedings, liabilities for claims arising from lawsuits, and various miscellaneous items.

**RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS  
(In Thousands)**

Budgetary Basis Fund Balance . . . . .	\$ 2,491,694
Grant commitments to local agencies . . . . .	1,614,510
Encumbrances . . . . .	(1,450,234)
Advances and loans receivable . . . . .	591,431
Other . . . . .	90,915
GAAP Basis Total Fund Equity . . . . .	<u>\$ 3,338,316</u>

**E. Budgetary Basis Undesignated Fund Balance—Available for Appropriation**

The budgetary basis undesignated fund balance available for appropriation represents the amount of funding available to finance the State's budgetary plan for the next year. However, there was a deficit in this account as of June 30, 1991. Thus, there was no funding available from the current year to finance the fiscal year 1991-92 budgetary plan. The following schedule reconciles the budgetary basis fund balance with the budgetary basis undesignated—available for appropriation and the GAAP basis undesignated fund balance (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>
Budgetary Basis Fund Balance (Deficit) . . . . .	\$(1,315,775)	\$ 2,491,694
Reserved for encumbrances . . . . .	(368,946)	(2,684,130)
Reserved for continuing appropriations . . . . .	(44,396)	(3,146,300)
Reserved for other specific purposes . . . . .	<u>(50,245)</u>	<u>                    </u>
Unreserved		
Budgetary basis undesignated—available for appropriation (deficit) . . . . .	<u>(1,779,362)</u>	<u>(3,338,736)</u>
GAAP Basis Adjustments:		
Liability for the Medi-Cal program . . . . .	(712,151)	
Tax overpayments . . . . .	(1,127,953)	
Reserved for encumbrances . . . . .		1,450,234
Reserved for continuing appropriations . . . . .		2,429,293
Reserved for other specific purposes . . . . .		(76,094)
Other . . . . .	<u>(439,284)</u>	<u>255,191</u>
GAAP Basis Undesignated (Deficit) . . . . .	<u><u>\$(4,058,750)</u></u>	<u><u>\$ 719,888</u></u>

**4. Fund Deficits**

The special revenue fund type and the capital projects fund type had positive fund equities as of June 30, 1991. However, 20 of the 27 special revenue funds that receive bond proceeds had deficits at June 30, 1991. Additionally, 5 of the 10 capital projects funds that receive bond proceeds had deficits at June 30, 1991. These deficits result from the way the State has financed certain projects since the passage of the Federal Tax Reform Act of 1986. The State, before issuing bonds, temporarily borrows from its own pooled investments to pay project costs. These loans are recorded as a liability of the fund rather than being recorded in the General Long-Term Obligations Account Group. Because both the liability and the cash proceeds from the loan are reported in the fund, any expenditure recorded in the fund creates a temporary deficit. The deficit will be eliminated when the State later issues the bonds and uses the proceeds to repay the loan.

At June 30, 1991, the deficits in the 20 special revenue funds totaled \$1.124 billion. All of these funds had bonds authorized but unissued that exceeded their deficit. In total, these funds had \$5.626 billion in authorized but unissued bonds.

At June 30, 1991, the deficits in the 5 capital projects funds totaled \$41 million. Each of these funds had bonds authorized but unissued that exceeded its deficit. In total, these funds had \$417 million in authorized but unissued bonds.

In addition, the enterprise fund type had a positive fund equity as of June 30, 1991. However, one enterprise fund, the Hazardous Substance Cleanup Fund, had a deficit in retained earnings of \$73 million on June 30, 1991. This deficit occurred because the State has not recovered hazardous waste cleanup costs from responsible parties.

## **5. Cash and Pooled Investments, Investments, and Reverse Repurchase Agreements**

The State Treasurer's Office and the treasurer of the Regents of the University of California each administer a pooled investment program. These programs enable the treasurers to combine available cash from all funds within their respective systems and to invest cash that exceeds current needs. The enterprise funds, trust and agency funds, and University of California funds also have separate investments.

The State Treasurer's Office has agreements with certain banks to maintain cash on deposit that does not earn interest income for the State. Income earned on these deposits compensates the banks for services and uncleared checks that are deposited in the State's accounts. At June 30, 1991, the agreements provided that the State maintain approximately \$139 million on deposit to compensate the banks for services and \$234 million to compensate the banks for uncleared checks.

As of June 30, 1991, the average remaining life of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 7 months. The average remaining life of the securities in the pooled investment program administered by the treasurer of the Regents of the University of California was approximately 19 months. These securities are reported at cost if purchased and at market value at the date of acquisition if donated.

The following sections, A through C, relate to the activities of the State, excluding the University of California. Section D presents the investments of the University of California.

### **A. Deposits**

All demand and time deposits, totaling approximately \$434 million, that were held by financial institutions at year end were insured by federal depository insurance or by collateral held by the State or by an agent of the State 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, 1991, the State had amounts on deposit with fiscal agents totaling approximately \$18 million. These deposits, which were for principal and interest payments due to bond holders, are required by federal banking regulations to be collateralized.

## B. Investments

State statutes, bond resolutions, and investment policy resolutions allow the State to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

All investments reported as of June 30, 1991, were insured or registered in the State's name or held by the State or an agent of the State in the State's name except for \$676 million in the enterprise funds and \$163 million in the trust and agency funds. These investments included uninsured and unregistered investments held by the trust department or the agent of another party to the transaction of which \$204 million are in the State's name and \$635 million are not in the State's name. The types of investments reported at year end are representative of the types of investments made during the fiscal 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 fiscal year.

The following table presents the carrying value and market value of the investments that were reported by the State on June 30, 1991 (in thousands):

	<u>Pooled Investments</u>		<u>Separately Invested Funds</u>			
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Enterprise Funds Carrying Value</u>	<u>Enterprise Funds Market Value</u>	<u>Trust and Agency Funds Carrying Value</u>	<u>Trust and Agency Funds Market Value</u>
U.S. government securities and U.S. government agency securities . . .	\$ 4,336,971	\$ 4,558,986	\$4,759,069	\$4,956,280	\$ 3,965,832	\$ 4,328,400
Canadian government securities . . . . .			75,487	81,130		
State and municipal securities . . . . .			56,140	55,785		
Certificates of deposit . . . . .	3,911,651	3,918,406	25,024	25,024	1,280,512	1,280,512
Bankers' acceptances . . . . .	1,341,100	1,353,742	14,880	14,880		
Commercial paper . . . . .	4,721,534	4,721,534	74,503	74,503	843,211	843,211
Corporate bonds . . . . .	1,811,531	1,837,645	1,705,787	1,690,375	9,036,080	9,089,179
Mortgage loans and notes . . . . .					10,474,258	11,033,243
Other debt securities . . . . .			11,176	11,173	19,653,846	19,983,037
Repurchase agreements . . . . .					350,000	350,000
Equity securities . . . . .			2,425	4,150	33,093,787	41,418,357
Real estate . . . . .					6,769,149	6,399,651
Investment agreements . . . . .			1,464,227	1,464,227	21,667	21,667
Mutual funds . . . . .					269,284	269,067
Other investments . . . . .			31,115	31,115	2,051,761	2,049,643
<b>Total Investments . . . . .</b>	<b><u>\$16,122,787</u></b>	<b><u>\$16,390,313</u></b>	<b><u>\$8,219,833</u></b>	<b><u>\$8,408,642</u></b>	<b><u>\$87,809,387</u></b>	<b><u>\$97,065,967</u></b>

The market values of the investments in certain certificates of deposit, bankers' acceptances, commercial paper, and repurchase agreements approximate their carrying values because of the short-term nature of those securities.

Included in the investments of the enterprise funds are the investments of the State Compensation Insurance Fund as of and for the year ended December 31, 1990. The State Compensation Insurance Fund represents 57 percent of the carrying value and market value of the enterprise funds' investments.

*C. Reverse Repurchase Agreements*

The California Government Code allows the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract amount 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 or provide securities or cash of equal value, the State will suffer an economic loss equal to the difference between the market value plus the accrued interest of the underlying securities and the agreement obligation, including accrued interest. During fiscal year 1990-91, the State entered into 21 reverse repurchase agreements by temporarily selling investments with a carrying value of approximately \$2.5 billion. At June 30, 1991, the State did not have any reverse repurchase agreements.

*D. Investments of the University of California*

As discussed in Note 2A, the financial statements of the University of California have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and by the Governmental Accounting Standards Board. The investments of the endowment and similar funds and the investments of the pooled investment program are reported at cost if purchased. They are recorded at market value at the date of acquisition if donated. The investments of the University of California Retirement System Funds are reported at market value. As of June 30, 1991, the pooled and temporary investments had a carrying value of approximately \$2.6 billion, which approximates market value.

The following schedule presents the investments other than those of the pooled investment program as of June 30, 1991 (in thousands):

	<u>Endowment and Similar Funds</u>		<u>University of California Retirement System Funds</u>	
	<u>Carrying Value</u>	<u>Market Value</u>	<u>Carrying Value</u>	<u>Market Value</u>
Common stocks . . . . .	\$ 435,543	\$ 886,240	\$4,952,067	\$ 9,167,323
Bonds . . . . .	228,374	232,900	2,781,921	2,904,466
Bond substitutes . . . . .	117,211	198,848	1,047,937	1,605,401
Mortgage loans and notes . . . . .	5,072	4,718	1,741	1,578
Miscellaneous investments . . . . .	3,232	3,232	999,827	999,827
Real estate . . . . .	5,946			
Total Investments . . . . .	<u>\$ 795,378</u>	<u>\$ 1,325,938</u>	<u>\$9,783,493</u>	<u>\$14,678,595</u>



## 6. Restricted Assets

The following schedule presents a summary of the legal restrictions on assets of the enterprise funds and the purposes for which the assets were restricted as of June 30, 1991 (in thousands):

<u>Purpose</u>	<u>Cash and Pooled Investments</u>	<u>Investments</u>	<u>Due From Other Funds</u>	<u>Other Assets</u>
Debt service . . . . .	\$1,515,507	\$1,190,062	\$ 1,001	
Construction . . . . .	423,891		11,747	
Deposits . . . . .	5,062			\$ 227,313
Equipment repair and replacement . . . . .	81,686		2,885	
Operations . . . . .	2,201			
Total Restricted Assets . . . . .	<u>\$2,028,347</u>	<u>\$1,190,062</u>	<u>\$15,633</u>	<u>\$ 227,313</u>

## 7. Net Investment in Direct Financing Leases

The State Public Works Board has entered into lease-purchase agreements with various state agencies. See Note 14A. 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 for the correctional and higher educational institutions and energy efficiency projects for various state agencies. Upon expiration of these leases, jurisdiction of the facilities and projects will be with the respective institution or agency.

The minimum lease payments to be received are summarized below (in thousands):

<u>Year Ending June 30</u>	
1992 . . . . .	\$ 179,668
1993 . . . . .	167,461
1994 . . . . .	164,425
1995 . . . . .	164,562
1996 . . . . .	164,258
Thereafter . . . . .	<u>1,743,807</u>
Total minimum lease payments . . . . .	2,584,181
Less unearned income . . . . .	<u>1,240,740</u>
Net investment in direct financing leases . . . . .	<u>\$1,343,441</u>

## 8. Deferred Charges

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

## 9. Fixed Assets

This is the first year that the general fixed assets account group is reported; therefore, beginning balances are not presented. The following is a summary of general fixed asset balances for the year ended June 30, 1991 (in thousands):

Land . . . . .	\$ 1,395,105
Structures and improvements . . . . .	6,011,923
Equipment . . . . .	2,112,160
Construction in progress . . . . .	<u>1,214,412</u>
Total Fixed Assets . . . . .	<u>\$10,733,600</u>

The following schedule summarizes the fixed assets of the enterprise funds, internal service funds, pension trust funds, and the University of California as of June 30, 1991 (in thousands):

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Pension Trust</u>	<u>University of California</u>
State water projects . . . . .	\$3,322,689			
Toll facilities . . . . .	804,996			
Other land, improvements, buildings, and equipment . . . . .	755,112	\$ 436,040	\$9,075	\$ 8,174,830
Construction in progress . . . . .	<u>904,103</u>			<u>791,351</u>
Total Fixed Assets . . . . .	5,786,900	436,040	9,075	8,966,181
Less accumulated depreciation . . . . .	<u>(949,101)</u>	<u>(199,073)</u>		
Net Fixed Assets . . . . .	<u>\$4,837,799</u>	<u>\$ 236,967</u>	<u>\$9,075</u>	<u>\$ 8,966,181</u>

## 10. Compensated Absences Payable

As of June 30, 1991, the State's estimated liability for compensated absences related to accumulated vacation leave amounted to approximately \$737 million. Of this amount, \$601 million is reported in the General Long-Term Obligations Account Group, \$38 million is reported in the proprietary fund types, and \$98 million for earned leave compensation of academic-year faculty of the California State University and of the special schools of the State Department of Education is reported as a current liability in the State's General Fund. Accumulated sick-leave balances do not vest to employees. However, unused sick-leave balances convert to service credits upon retirement.

## 11. General Obligation Bonds

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

**A. Changes in Bond Indebtedness**

The following schedule summarizes the changes in general obligation bond debt for the year ended June 30, 1991 (in thousands):

	<u>Balance July 1, 1990</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1991</u>
General long-term obligations . . . . .	\$ 5,168,355	\$2,956,000	\$ 388,400	\$ 7,735,955
Enterprise funds . . . . .	<u>5,063,595</u>		<u>228,200</u>	<u>4,835,395</u>
Total General Obligation Bonds . . .	<u>\$10,231,950</u>	<u>\$2,956,000</u>	<u>\$ 616,600</u>	<u>\$12,571,350</u>

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

**B. Bonds Outstanding and Bonds Authorized but Unissued**

The following schedule shows general obligation bonds outstanding and bonds authorized but unissued as of June 30, 1991 (in thousands):

	<u>Outstanding</u>	<u>Authorized but Unissued</u>
<b>General Long-Term Obligations</b>		
New Prison Construction . . . . .	\$ 1,642,000	\$ 643,000
School Facilities . . . . .	1,363,700	1,807,000
State School Building Lease-Purchase . . . . .	1,293,475	157,000
Higher Education Facilities . . . . .	966,950	449,000
County Jail Capital Expenditure . . . . .	426,175	
Clean Water . . . . .	249,050	222,000
County Correctional Facility Capital Expenditure . . . . .	233,000	254,000
California Park and Recreational Facilities . . . . .	199,150	138,000
Clean Water and Water Conservation . . . . .	194,750	28,000
California Safe Drinking Water . . . . .	165,480	202,000
California Parklands . . . . .	145,800	25,000
County Correctional Facility Capital Expenditure and Youth Facility . . . . .	143,000	357,000
California Wildlife, Coastal, and Park Land Conservation . .	133,150	637,000
State, Urban, and Coastal Park . . . . .	112,625	17,000
State Beach, Park, Recreational and Historical Facilities . . .	90,825	
Fish and Wildlife Habitat Enhancement . . . . .	50,500	25,000
Community Parklands . . . . .	46,100	52,000
Passenger Rail and Clean Air . . . . .	43,800	956,200
Health Science Facilities Construction Program . . . . .	42,815	
Senior Center . . . . .	37,500	
Lake Tahoe Acquisitions . . . . .	34,350	42,000
Community College Construction Program . . . . .	31,250	
State Construction Program . . . . .	29,700	
Water Conservation and Water Quality . . . . .	25,000	125,000
State Higher Education Construction Program . . . . .	19,200	

	<u>Outstanding</u>	<u>Authorized but Unissued</u>
<b>General Long-Term Obligations (Continued)</b>		
Recreation and Fish and Wildlife Enhancement . . . . .	9,000	
Harbor Development . . . . .	6,110	
Junior College Construction Program . . . . .	1,500	
Clean Air and Transportation Improvement . . . . .		1,990,000
Housing and Homeless . . . . .		450,000
Earthquake Safety and Public Buildings Rehabilitation . . . . .		300,000
California Earthquake Safety and Housing Rehabilitation . . . . .		150,000
California Library Construction and Renovation . . . . .		75,000
Clean Water and Water Reclamation . . . . .		65,000
Water Conservation . . . . .		60,000
Total General Long-Term Obligations . . . . .	<u>7,735,955</u>	<u>9,226,200</u>
<b>Enterprise Funds</b>		
Veterans . . . . .	3,378,315	639,900
California Water Resources Development . . . . .	1,252,880	180,000
State School Building Aid . . . . .	162,595	40,000
Hazardous Substance Cleanup . . . . .	37,500	50,000
First-Time Home Buyers . . . . .	4,105	185,000
Total Enterprise Funds . . . . .	<u>4,835,395</u>	<u>1,094,900</u>
Total General Obligation Bonds . . . . .	<u>\$12,571,350</u>	<u>\$10,321,100</u>

**C. Debt Service Requirements**

The following schedule shows the debt service requirements for general obligation bonds, including interest of \$8.7 billion, as of June 30, 1991 (in thousands):

<u>Year Ending June 30</u>	<u>General Long-Term Obligations</u>	<u>Enterprise Funds</u>
1992 . . . . .	\$ 1,054,437	\$ 534,053
1993 . . . . .	994,989	509,186
1994 . . . . .	951,146	505,330
1995 . . . . .	906,517	498,758
1996 . . . . .	860,082	480,555
Thereafter . . . . .	<u>7,797,897</u>	<u>6,198,899</u>
Total . . . . .	<u>\$12,565,068</u>	<u>\$8,726,781</u>

**12. Revenue Bonds**

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

The Department of Water Resources, the California State University, the California Transportation Commission, the State Public Works Board, and the University of California issued revenue bonds to acquire or construct state facilities. The California Housing Finance Agency, the Department of Veterans Affairs, and the California National Guard issued revenue bonds allowing the State to make loans to finance housing development and to finance the acquisition of farms and homes by California veterans and National Guard members. When the farm and home loans financed by the revenue bonds are fully paid, the farms and homes become the property of private individuals or entities.

**A. Changes in Bond Indebtedness**

The following schedule summarizes the changes in revenue bond debt for the year ended June 30, 1991 (in thousands):

	<u>Balance July 1, 1990</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 1991</u>
Enterprise funds . . . . .	\$7,489,155	\$1,632,785	\$513,212	\$8,608,728
University of California . . . . .	<u>1,326,974</u>	<u>14,875</u>	<u>10,368</u>	<u>1,331,481</u>
Total Revenue Bonds . . . . .	<u>\$8,816,129</u>	<u>\$1,647,660</u>	<u>\$523,580</u>	<u>\$9,940,209</u>

**B. Revenue Bonds Outstanding**

The following schedule shows revenue bonds outstanding as of June 30, 1991 (in thousands):

	<u>Outstanding</u>
<b>Enterprise Funds</b>	
California Housing Finance Agency . . . . .	\$3,878,655
Department of Water Resources . . . . .	1,641,338
Department of Veterans Affairs . . . . .	1,205,875
State Public Works Board . . . . .	1,562,840
California State University . . . . .	226,738
California Transportation Commission . . . . .	80,591
California National Guard . . . . .	<u>12,691</u>
Total Enterprise Funds . . . . .	<u>8,608,728</u>
<b>University of California</b>	
Regents of the University of California . . . . .	<u>1,331,481</u>
Total Revenue Bonds . . . . .	<u>\$9,940,209</u>

**C. Debt Service Requirements**

The following schedule shows the debt service requirements for revenue bonds, including interest of \$12.2 billion, as of June 30, 1991 (in thousands):

<u>Year Ending June 30</u>	<u>Enterprise Funds</u>	<u>University of California</u>
1992 .....	\$ 766,460	\$ 106,601
1993 .....	784,549	105,760
1994 .....	791,076	107,053
1995 .....	744,631	107,408
1996 .....	753,017	108,372
Thereafter .....	<u>14,068,565</u>	<u>3,664,874</u>
Total .....	<u>\$17,908,298</u>	<u>\$4,200,068</u>

**D. Early Extinguishments of Debt**

During the year ended June 30, 1988, the California Transportation Commission (commission) issued approximately \$50 million of 1987 San Francisco Bay Toll Bridge Revenue Refunding Bonds—Series A and used \$49 million of the proceeds, along with an additional \$5 million of 1981 Series A bonds and 1982 Series B Retirement Interest and Revenue Fund monies, to satisfy a debt of approximately \$46 million for the 1981 Series A bonds and 1982 Series B bonds. The commission used the \$54 million to purchase United States government securities and placed the securities in irrevocable escrow with the State Treasurer’s Office. The investment and interest will be sufficient to redeem the 1981 Series A and 1982 Series B bonds as they become due. As of June 30, 1991, \$20.9 million of the Series A and B bonds remained outstanding.

Since the escrow arrangements effectively release the commission from its obligations for the \$20.9 million, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

During the year ended June 30, 1989, the Department of Water Resources issued \$160 million of Central Valley Project Water System Revenue Bonds, Series F, and used \$151.9 million of the proceeds to satisfy a debt of \$133.4 million for Central Valley Project Facilities Revenue Bonds, Series G. The department invested the \$151.9 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer’s Office. The investment and interest will be sufficient to redeem the Series G bonds as they become due. As of June 30, 1991, the entire \$133.4 million of the Series G bonds remained outstanding.

During the year ended June 30, 1986, the Department of Water Resources issued \$206.7 million of Central Valley Project Facilities Revenue Bonds, Series H, and used \$183.5 million of the proceeds to satisfy a debt of \$163.7 million for Series C and D bonds. The department invested the \$183.5 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer’s Office. The investment and interest will be sufficient to pay all principal and interest on the Series C and D bonds as

they become due and to redeem such bonds on December 1, 1992. As of June 30, 1991, the entire \$163.7 million of the Series C and D bonds remained outstanding.

During the year ended June 30, 1985, the Department of Water Resources issued \$239.5 million of Central Valley Project Facilities Revenue Bonds, Series G, and used \$236.9 million of the proceeds to satisfy a debt of \$200 million for Series B revenue bonds. The department invested the \$236.9 million in United States government securities and placed the securities in irrevocable escrow with the State Treasurer's Office. The investment and interest will be sufficient to pay all principal and interest on the Series B revenue bonds as they become due and to redeem such bonds on December 1, 1992. As of June 30, 1991, \$190.6 million of the Series B revenue bonds remained outstanding.

Since the escrow arrangements effectively release the Department of Water Resources from its obligations for the \$133.4 million of the Series G bonds, the \$163.7 million of the Series C and D bonds, and the remaining \$190.6 million of the Series B bonds, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

During the year ended June 30, 1985, the California Student Loan Authority (authority) used a total of \$112 million, comprised of \$43.6 million in proceeds from a bond issued to the Student Loan Marketing Association and an additional \$68.4 million of 1983 Series A Student and Parent Loan Revenue bond monies, to satisfy the debt on remaining 1983 Series A bonds. The authority invested the \$112 million in United States government securities and placed the securities in irrevocable escrow with Bank of America. The investment and interest will be sufficient to pay all principal and interest on the 1983 Series A bonds as they become due and to redeem such bonds on December 1, 1991. As of June 30, 1991, \$64 million of the 1983 Series A bonds remain outstanding.

Since the escrow arrangements effectively release the authority from its obligation for the remaining \$64 million of the 1983 Series A bonds, the liability for the bonds is not included on the combined balance sheet, nor are the related investments.

### **13. No-Commitment Debt**

State legislation created various authorities to provide certain private and public entities with a low-cost source of capital financing for constructing or obtaining land, facilities, or equipment deemed to be in the public interest. This debt is secured solely by the credit of the private and public entities and, except for approximately \$42 million in Pollution Control Bonds administered by the State Treasurer's Office, is administered by trustees independent of the State. The State has no obligation for this debt. Accordingly, these bonds are not reported in the accompanying financial statements.

The following schedule shows no-commitment debt outstanding as of June 30, 1991 (in thousands):

	<u>Outstanding</u>
Health Facilities Financing Authority . . . . .	\$4,853,934
Pollution Control Financing Authority . . . . .	3,508,747
Educational Facilities Authority . . . . .	1,012,000
Alternative Energy Source Financing Authority . . . . .	91,130
School Finance Authority . . . . .	28,070
Urban Waterfront Area Restoration Financing Authority . . . . .	<u>3,330</u>
Total No-Commitment Debt . . . . .	<u>\$9,497,211</u>

#### 14. Commitments

##### A. Leases

The aggregate amount of lease commitments for facilities and equipment, excluding leases between the University of California and nonstate entities, in effect as of June 30, 1991, is approximately \$4.3 billion. This amount does not include any future escalation charges for real estate taxes and operating expenses. Most state leases are classified as operating leases, and they contain clauses providing for termination. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

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

<u>Year Ending June 30</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Total</u>
1992 . . . . .	\$ 185,770	\$ 225,012	\$ 410,782
1993 . . . . .	167,188	215,265	382,453
1994 . . . . .	145,901	209,880	355,781
1995 . . . . .	124,070	203,952	328,022
1996 . . . . .	100,061	200,175	300,236
Thereafter . . . . .	<u>297,510</u>	<u>2,200,771</u>	<u>2,498,281</u>
Total Minimum Lease Payments . . . . .	<u>\$1,020,500</u>	3,255,055	<u>\$4,275,555</u>
Less amount representing interest . . . . .		<u>1,553,657</u>	
Present Value of Net Minimum Lease Payments		<u>\$1,701,398</u>	

Lease expenditures for the year ended June 30, 1991, amounted to approximately \$364 million.

Included in the capital lease commitments are lease-purchase agreements that certain state agencies have entered into with the State Public Works Board amounting to a present value of net minimum lease payments of \$1.3 billion, which represents 79 percent of the total present value of minimum lease payments. See Note 7.

Also included in the capital lease commitments are some lease-purchase agreements to acquire office buildings and electronic data processing and other equipment. The acquisition or development of the office buildings is financed by joint powers authorities and private



corporations that then lease the facilities to the State. Upon expiration of these leases, title to the facilities and equipment will pass to the State.

The following schedule presents a summary of the capital lease commitments as of June 30, 1991 (in thousands):

	<u>Present Value of Minimum Lease Payments</u>	<u>Interest</u>	<u>Total Minimum Lease Payments</u>
Leases with the State Public Works Board for:			
California State Prison			
Corcoran . . . . .	\$ 266,671	\$ 201,623	\$ 468,294
Del Norte . . . . .	238,574	260,474	499,048
Madera . . . . .	137,509	135,496	273,005
Amador . . . . .	145,138	76,192	221,330
Kern . . . . .	68,093	34,140	102,233
California State University			
San Jose . . . . .	29,575	28,208	57,783
Long Beach . . . . .	16,659	17,793	34,452
Sacramento . . . . .	16,057	21,414	37,471
Northridge . . . . .	16,927	20,618	37,545
San Luis Obispo . . . . .	5,774	5,192	10,966
Chico . . . . .	1,991	2,720	4,711
University of California			
Irvine . . . . .	88,162	97,844	186,006
Davis . . . . .	69,588	107,039	176,627
Berkeley . . . . .	62,419	59,320	121,739
Los Angeles . . . . .	49,970	60,149	110,119
San Diego . . . . .	49,167	45,705	94,872
Santa Cruz . . . . .	23,311	24,224	47,535
Santa Barbara . . . . .	23,139	20,859	43,998
Various state energy efficiency projects . . . . .	34,717	21,730	56,447
Subtotal . . . . .	<u>1,343,441</u>	<u>1,240,740</u>	<u>2,584,181</u>
Leases with nonstate entities for:			
Ronald Reagan Building . . . . .	187,130	172,401	359,531
San Francisco State Building . . . . .	48,790	72,168	120,958
Franchise Tax Board . . . . .	36,870	26,342	63,212
Department of Corrections . . . . .	14,155	7,262	21,417
Legislature . . . . .	9,118	2,012	11,130
Department of Motor Vehicles . . . . .	6,996	2,686	9,682
Department of General Services			
Telecommunications Division . . . . .	6,444	10,195	16,639
Health and Welfare Agency Data Center . . . . .	5,666	3,961	9,627
Santa Ana Civic Center . . . . .	3,540	2,172	5,712
Equipment . . . . .	30,871	5,977	36,848
Other . . . . .	8,377	7,741	16,118
Subtotal . . . . .	<u>357,957</u>	<u>312,917</u>	<u>670,874</u>
Total Capital Leases . . . . .	<u>\$ 1,701,398</u>	<u>\$ 1,553,657</u>	<u>\$ 3,255,055</u>

Rental expenditures under capital and noncancelable operating leases between the University of California and nonstate entities for the year ended June 30, 1991, totaled \$64.7 million. Minimum payments required under these leases in fiscal year 1991-92 are \$30.1 million and decrease in amount thereafter.

**B. *Highway Construction***

The State has made commitments of \$2.1 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.

**C. *Other***

As of June 30, 1991, the State, excluding the University of California, had other commitments totaling \$3.1 billion. These commitments included loan and grant programs for housing, school building aid, community college and county jail construction, community parks, supply systems for water, energy conservation, and forest resource improvement totaling approximately \$2.7 billion. These commitments are expected to be funded from existing program resources and from the proceeds of revenue and general obligation bonds to be issued. The total commitments also include approximately \$37 million for the construction of portable classrooms and the construction and rehabilitation of toll bridge facilities, approximately \$333 million for the construction of water projects and the purchase of water and power, and up to \$42 million for the operation and maintenance of the lottery's on-line gaming network. Construction projects of the University of California, totaling \$1.2 billion, had been authorized as of June 30, 1991.

**15. Fund Balance Reserved for Other Specific Purposes**

***General Fund***

The reserve represents the unencumbered balances of appropriations restricted for future educational purposes in accordance with Article XVI, Section 8, of the State Constitution.

***Special Revenue Funds***

Of the \$76 million reserve, \$48 million represents condemnation deposits and \$28 million is reserved for transfer to the State's General Fund.

***Trust and Agency Funds***

The reserve represents assets of the Unemployment Fund, the Unemployment Compensation Disability Insurance Fund, and other expendable trust funds that are not available for future appropriations other than those for which the funds were established.

*University of California*

The reserve in the current funds represents funds for which outside sources or donors specify the use. The reserve in the endowment and similar funds primarily consists of income-generating gifts in which, by definition, the principal is maintained and invested and only the income is used. In the plant funds, the reserve consists of monies designated to finance the acquisition and construction of capital assets. Finally, the reserve in the loan funds consists of monies designated for various loans to students and faculty.

**16. Major Tax Revenues**

Tax revenues for the year ended June 30, 1991, are as follows (in thousands):

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
Sales and use . . . . .	\$13,303,093	\$1,229,728	
Personal income . . . . .	16,827,199		
Bank and corporation . . . . .	4,425,363		
Unemployment insurance . . . . .			\$1,779,654
Disability insurance . . . . .			1,819,404
Cigarette and tobacco . . . . .	146,001	523,183	
Other . . . . .	<u>1,436,683</u>	<u>149,848</u>	<u>24,702</u>
Total . . . . .	<u>\$36,138,339</u>	<u>\$1,902,759</u>	<u>\$3,623,760</u>

**17. Pension Trusts**

The State administers five defined benefit contributory retirement plans: the Public Employees' Retirement System, the State Teachers' Retirement System, the Judges' Retirement System, the Legislators' Retirement System, and the University of California Retirement System. The University of California Retirement System is reported in the University of California fund type. The other pension funds are included in the fiduciary fund type. Additional information for each retirement system can be found in each system's separately issued financial report.

*A. Public Employees' Retirement System*

*Plan Description*

The Public Employees' Retirement System (PERS) is an agent multiple-employer public employees' retirement system. It is administered by the Board of Administration (board) of the PERS. The board also administers other retirement systems and programs. The PERS had approximately 685,000 active and inactive members at June 30, 1991, excluding current benefit recipients of approximately 257,000. The membership includes employees of the State of California, nonteaching school employees, and employees of California public agencies. These employees are covered under 1,200 contracts with the PERS. The payroll of member agencies covered by the PERS was approximately \$18.4 billion in fiscal year 1990-91. At June 30, 1991, the PERS had approximately 239,000 state members. The State's payroll covered by the

PERS was approximately \$7.5 billion out of a total payroll of approximately \$10.3 billion, which includes the payroll of the University of California of approximately \$2.4 billion.

All employees of member agencies who work halftime or more are eligible to participate in the PERS. The PERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, and highest average compensation over an established period of one to three years. Vesting occurs after five or ten years, depending on the plan. All plans provide death and disability benefits. The benefit provisions for state and nonteaching school employees are established by statute. The benefits for public agencies are established by contract with the PERS in accordance with the provisions of the Public Employees' Retirement Law.

Employees of the State of California who are covered by the PERS are classified into the following groups: safety members, consisting of employees in law enforcement and fire prevention and suppression; industrial members, consisting of employees of the youth and adult correctional facilities who are not safety members; and miscellaneous members, consisting of all other members and representing the majority of state employees. The State offers certain groups of employees in the industrial and miscellaneous categories two retirement options: a first tier and a second tier option. In the first tier, employees contribute a percentage of their payroll to the PERS. In the second tier, employees elect not to contribute to the PERS in exchange for reduced benefits.

Upon separation from the PERS, members can elect to have their accumulated contributions refunded with interest credited through the date of refund. The annual rate of interest credited to members' accounts cannot be less than the actuarial interest assumption.

State employees become vested after five years if they are covered by the first tier plan and after ten years if they are covered by the second tier plan. The retirement benefits of state employees vary according to the plan under which they are covered. The benefits of the largest group, miscellaneous members in the first tier plan, are based on a formula that, at age 60, provides benefits equal to 2 percent of the highest compensation over twelve consecutive months multiplied by the years of service. Early retirement options at reduced benefits are also available.

All employees of member agencies contribute to the PERS except for the state employees in the second tier plan. The contribution rates vary between the plan and the employer. The state employees' contribution rates range from 5 percent of the monthly salary over \$513 for industrial and miscellaneous members in the first tier plan who are also covered by social security up to 8 percent of the monthly salary over \$863 for certain safety members who are not covered by social security.

Employers are required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the actuaries and actuarial consultants of the PERS and adopted by the board.

*Investment Matters*

Statutes authorize the PERS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian for the majority of the investments.

Equity securities are reported at cost, subject to adjustment for market declines that are other than temporary. Fixed-income securities are reported at amortized cost. The market value, where disclosed, is based on published market prices and quotations from major investment brokers.

*Funding Status and Progress*

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the PERS on a going-concern basis, assess the progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the PERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1990. Significant actuarial assumptions used in the valuation include the following: (a) a rate of return on the investment of present and future assets of 8.5 percent per year compounded annually; (b) projected salary increases of 5 percent per year compounded annually, attributable to inflation; (c) additional salary increases of 0.5 percent per year attributable to across-the-board salary increases and 1.5 percent per year attributable to merit raises; and (d) post-retirement benefit increases based on the contracts with the member agencies.

The following schedule shows the total unfunded pension benefit obligation of the PERS and the State's portion of the total on June 30, 1990 (in thousands):

	<u>Total PERS</u>	<u>State's Portion</u>
Pension benefit obligation to:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits . . . . .	\$ 24,167,079	\$ 11,667,809
Current employees:		
Accumulated employee contributions, including allocated investment earnings . . . . .	10,427,968	3,527,431
Employer-financed vested . . . . .	20,793,323	11,278,373
Employer-financed nonvested . . . . .	<u>1,180,808</u>	<u>599,198</u>
Total pension benefit obligation . . . . .	56,569,178	27,072,811
Net assets available for benefits, at cost (market value of \$56 billion and \$24 billion, respectively) . . . . .	<u>49,362,068</u>	<u>21,427,326</u>
Unfunded pension benefit obligation . . . . .	<u>\$ 7,207,110</u>	<u>\$ 5,645,485</u>

Effective February 1991, the PERS adopted new noneconomic actuarial assumptions with respect to decrement and mortality rates. This change increased the pension benefit obligation by \$882 million. Effective October 1990, the PERS adopted a policy to base benefits for State members on the highest compensation over 12 consecutive months. This change increased the pension benefit obligation by \$1.6 billion.

*Contribution Requirements*

The PERS uses the entry-age normal actuarial cost method, which is a projected-benefit cost method. The method takes into account those benefits that are expected to be earned in the future as well as those already accrued.

According to this cost method, the normal cost for an employee is the level amount that would fund the projected benefit if it were paid annually from the date of employment until retirement. The PERS uses a modification of the entry-age cost method in which the employer's total normal cost is expressed as a level percentage of payroll. The PERS also uses the level percentage of payroll method to amortize any unfunded actuarial liability. The amortization period of the unfunded actuarial liability varies by agency but is no longer than 40 years.

The significant assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation, as previously described.

The required contributions consist of a normal cost of 8.9 percent of covered payroll and an amortization of unfunded liabilities of 1.749 percent of covered payroll. The following schedule shows the actual contributions during fiscal year 1990-91 (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Payroll</u>
Employer . . . . .	\$1,409,848	7.65 %
Members . . . . .	<u>1,131,578</u>	<u>6.14</u>
Total . . . . .	<u>\$2,541,426</u>	<u>13.79 %</u>

The rates at which the State was required to contribute to the PERS during fiscal year 1990-91 were as follows:

	<u>Normal Cost</u>	<u>Unfunded Liability</u>	<u>Total Rate</u>
Miscellaneous members:			
First tier . . . . .	8.718 %	1.072 %	9.790 %
Second tier . . . . .	6.112	.280	6.392
Industrial . . . . .	16.726	(16.726)	0
Highway patrol . . . . .	18.081	(18.081)	0
Peace officers and firefighters . . . . .	14.425	(.723)	13.702
Other safety members . . . . .	17.905	(17.905)	0

The actual contributions, also expressed as a percentage of payroll, of the State and the PERS members for the year ended June 30, 1991, were as follows (amounts in thousands):

	<u>Amount</u>	<u>Percentage of Covered Payroll</u>
Miscellaneous:		
Employer . . . . .	\$ 680,292	12.12%
Members . . . . .	219,350	3.91
Industrial:		
Employer . . . . .	37,606	16.72
Members . . . . .	8,090	3.60
Highway patrol:		
Employer . . . . .	48,715	18.09
Members . . . . .	15,743	5.85
Peace officers and firefighters:		
Employer . . . . .	186,534	15.70
Members . . . . .	87,574	7.37
Other safety:		
Employer . . . . .	42,232	17.92
Members . . . . .	13,770	5.84
Total Contributions . . . . .	<u>\$1,339,906</u>	

*Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1990, 1989, and 1988 (amounts in thousands). Additional trend information is available in the separately issued financial report of the PERS for the year ended June 30, 1991.

	<u>June 30</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Net assets available for benefits . . . . .	\$49,362,100	\$43,714,200	\$38,220,600
Pension benefit obligation . . . . .	56,569,200	49,241,900	45,067,900
Percentage funded . . . . .	87%	89%	85%
Unfunded pension benefit obligation . . . . .	\$ 7,207,100	\$ 5,527,700	\$ 6,847,300
Annual covered payroll . . . . .	16,297,600	14,659,400	13,559,700
Unfunded pension benefit obligation as a percentage of covered payroll . . . . .	44%	37%	50%

**B. State Teachers' Retirement System**

*Plan Description*

The State Teachers' Retirement System (STRS) is a cost-sharing multiple-employer retirement system that provides pension benefits to teachers and certain other employees of the California public school system. At June 30, 1991, the STRS had approximately 1,150 contributing employers (school districts). Additionally, the State is a nonemployer contributor to the STRS.

Membership in the pension plan is mandatory for all employees who hold a teaching certificate and who are eligible for membership. At June 30, 1991, the STRS had approximately 176,000 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them. Also, the STRS had approximately 300,000 vested and nonvested active members.

Members become fully vested in retirement benefits after five years of credited service. In general, the STRS provides defined retirement benefits based on the members' final compensation, age, and length of service. In addition, benefits are provided for disability and for survivors upon the death of eligible members. Final compensation is defined as the average salary earnable for either the highest three consecutive years of credited service or the highest one year of compensation if an employer elects to pay for the additional cost. At age 60, the benefit formula provides benefits equaling 2 percent of final compensation multiplied by the years of service. Early retirement options are also available.

Members are eligible for disability benefits before age 60 after five years of credited service. The disability benefits range up to 90 percent of final compensation. Also available are family benefits if the deceased member had at least one year of credited service.

The members' accumulated contributions and accrued interest are refundable to employees upon separation.

The following is a summary of the sources of contributions:

- |                     |  |
|---------------------|--|
| Members             | — 8 percent of applicable member earnings  |
| Employers           | — 8.25 percent of applicable member earnings   |
| State of California | — Beginning July 1, 1991, annual contributions are 4.3 percent of the prior calendar year covered payroll.<br>— Under certain provisions of the California Education Code, employers are required to make contributions of .415 percent of payroll to the State. These contributions are subsequently appropriated by the State to the STRS. Actual appropriations for fiscal year 1990-91 were \$46.9 million, or .398 percent of payroll. An additional amount of approximately \$7.6 million was received in fiscal year 1990-91 for General Fund transfer deficiencies for the year ended June 30, 1990. |

#### *Investment Matters*

The STRS is authorized to invest in obligations of the United States government, the Canadian government, United States corporations with a rating of BBB or above, and private placements. The STRS may also invest in notes collateralized by first



mortgages and deeds of trust for real estate located in the United States, common and preferred stocks of corporations domiciled in the United States or Canada, real properties, mutual funds, units of participation in commingled index funds, and other investments.

The majority of the securities held in the investment portfolio at June 30, 1991, is in the custody of or controlled by the State Street Bank and Trust Company, the STRS' master custodian.

Debt securities and mortgage loans are reported at amortized cost. Equity securities are reported at average cost. Short-term and other investments are reported at cost, which approximates market value. Real estate equity investments consist of commercial real estate and are reported at cost, which approximates net realizable value.

*Funding Status*

The amount shown below as pension benefit obligation is a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The amount is the actuarial present value of credited projected benefits and is intended to help users assess the STRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. This measure is independent of the actuarial methods used to calculate the contribution requirements described below.

The pension benefit obligation below was derived from the last completed actuarial valuation as of June 30, 1989. Significant actuarial assumptions used in the valuation include the following: (a) consumer price index increases of 5 percent annually; (b) projected salary increases attributable to inflation, merit, and promotion of 6.5 percent annually; (c) a rate of return on the investment of present and future assets of 8.5 percent; (d) post-retirement benefit increases of 2 percent; (e) an expected growth in the size of the teaching force of 0.5 percent per year over a 40-year period starting July 1, 1987; and (f) an expected growth of 7.03 percent in covered payroll.

At June 30, 1990, the estimated unfunded pension benefit obligation was as follows (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits . . . . .	\$15,429,000
Current members . . . . .	26,091,000
Inactive members . . . . .	<u>1,194,000</u>
Total pension benefit obligation . . . . .	42,714,000
Net assets available for benefits (at amortized cost). . . . .	<u>29,363,000</u>
Unfunded pension benefit obligation . . . . .	<u>\$13,351,000</u>

*Contribution Requirements*

The STRS' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The level percentage of payroll employer contribution rates is determined using the entry-age actuarial cost method. The system also uses the level percentage of payroll method to calculate the amortization of the unfunded liability over 40 years.

In their actuarial valuation as of June 30, 1989, the STRS' independent actuaries determined that the minimum rate of contributions to meet the requirements of the funding policy is 20.78 percent of covered payroll. The total contribution rate currently required by law is 20.08 percent of covered payroll, representing a deficit of 0.7 percent. The annual funding deficit at the previous valuation on July 1, 1987, was 1.04 percent.

*Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1990, 1989, and 1988 (amounts in thousands). Additional trend information is available in the separately issued STRS' financial report for the year ended June 30, 1991:

	<u>June 30</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Net assets available for benefits . . . . .	\$29,363,000	\$26,228,300	\$23,392,400
Pension benefit obligation . . . . .	42,714,000	39,322,200	36,538,100
Percentage funded . . . . .	69%	67%	64%
Unfunded pension benefit obligation . . . . .	\$13,351,000	\$13,093,800	\$13,145,700
Annual covered payroll . . . . .	10,971,000	10,222,400	9,248,700
Unfunded pension benefit obligation as a percentage of covered payroll . . . . .	122%	128%	142%

**C. Judges' Retirement System**

*Plan Description*

The Judges' Retirement System (JRS) is an agent multiple-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Judges' Retirement Law of the California Government Code. The JRS provides pension benefits to judges of the California Supreme Court, courts of appeal, superior courts, and municipal courts. As of June 30, 1991, the JRS had 1,658 active and inactive members and 1,058 retired members and beneficiaries receiving benefits. The covered payroll for fiscal year 1990-91 was estimated at \$145 million.

Generally, members become fully vested in retirement benefits after five years of service credit. The JRS provides defined retirement benefits based on the members' years of service and the present salaries of incumbents in the offices from which they retired. In addition, the JRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with 20 years of service. The JRS is funded on a "pay-as-you-go" basis under which the JRS uses active member contributions and short-term investments to fund current benefit payments to retirees. Members contribute 8 percent of the applicable member compensation. The employers, which are the State and the counties, contribute another 8 percent. The State also has to make other contributions as necessary.

*Investment Matters*

State law authorizes the JRS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian of the investments. The JRS maintains cash equivalents with financial institutions. Investments are reported at cost plus accrued interest, which approximates market value.

*Funding Status and Progress*

The pension benefit obligation is a standardized disclosure measure of the actuarial present value of projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the JRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is independent of the funding method used to determine contributions to the JRS.

Significant economic actuarial assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 6 percent per year and expected salary increases of 5.75 percent, which includes an expected inflation rate of 5 percent.

The following schedule shows the total unfunded pension benefit obligation applicable to the JRS at June 30, 1990 (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits . . . .	\$ 855,543
Current employees:	
Accumulated employee contributions including	
allocated investment income . . . . .	65,922
Employer-financed vested . . . . .	499,757
Employer-financed nonvested . . . . .	<u>144,311</u>
Total pension benefit obligation . . . . .	1,565,533
Net assets available for benefits, at cost, which approximates market . . . . .	<u>1,182</u>
Unfunded pension benefit obligation . . . . .	<u><u>\$ 1,564,351</u></u>

Effective June 30, 1990, the JRS changed its noneconomic actuarial assumptions including mortality and decrement rates. This increased the pension benefit obligation by \$215 million.

*Contribution Requirements*

The contribution requirements of the JRS are not actuarially determined. Contribution requirements are established by law. Based on actuarial information the State and local governments needed to contribute a total of \$160 million to fund costs accruing each year and liquidate the unfunded accrued liability as of June 30, 1990. The State actually contributed a total of approximately \$11 million.

The last actuarial valuation of the JRS' assets and liabilities was performed as of June 30, 1990. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the JRS. The independent actuary determined that a minimum contribution rate of 115 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1990. This rate was determined to fund the JRS fully by January 1, 2002. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 8 percent available under current law.

*Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1990, 1989, and 1988 (amounts in thousands). Additional trend information is available in the separately issued financial report of the JRS for the year ended June 30, 1991.

	<u>June 30</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Net assets available for benefits . . . . .	\$ 1,200	\$ 1,700	\$ 3,300
Pension benefit obligation . . . . .	1,565,500	1,214,500	1,145,500
Percentage funded . . . . .	.07%	.1%	.3%
Unfunded pension benefit obligation . . . . .	\$ 1,564,400	\$ 1,212,800	\$ 1,142,200
Annual covered payroll . . . . .	139,000	112,000	110,000
Unfunded pension benefit obligation as a percentage of covered payroll . . . . .	1,126%	1,083%	1,038%

**D. Legislators' Retirement System**

*Plan Description*

The Legislators' Retirement System (LRS) is an agent single-employer retirement system. It is administered by the Board of Administration of the PERS, and it operates under the Legislators' Retirement Law of the California Government Code. The LRS provides pension benefits to members of the Legislature, constitutional officers, and legislative statutory officers who elect to participate in the plan. At June 30, 1991, the

LRS had 176 active and inactive members and 242 retired members and beneficiaries. The covered payroll for fiscal year 1990-91 was estimated at \$5.5 million.

Generally, members become fully vested in the pension plan after four years of service credit. The LRS provides defined retirement benefits based on the members' length of service and final compensation. In addition, the LRS provides benefits for disability and for survivors upon the death of eligible members. Members are generally eligible for retirement benefits at age 60 with four or more years of service or at any age with 15 or more years of service. The Legislators' Retirement Law currently provides that the State contribute 18.81 percent of applicable member compensation; the members contribute between 4 and 8 percent of compensation.

On November 6, 1990, the voters approved an amendment to the state constitution. The amendment prohibited legislators from earning retirement benefits for service in the Legislature after that date. However, in October 1991, the California Supreme Court ruled portions of the amendment to be unconstitutional. Under the ruling, the legislative members who participated in the retirement plan before November 1, 1990, can continue to make contributions and accrue benefits. The effect of the ruling on the pension benefit obligation disclosed below has not been determined.

#### *Investment Matters*

Statutes authorize the LRS to invest in stocks, bonds, mortgages, real estate, and other investments. The Boston Safe Deposit and Trust Company is the master custodian for the majority of the investments.

Equity securities are reported at cost subject to adjustment for market declines judged to be other than temporary. Fixed-income securities and real estate mortgage loans are reported at amortized cost. Corporate shares and short-term investments are reported at cost. The market value of investments, when disclosed, is generally based on published market prices and quotations from major investment brokers.

#### *Funding Status and Progress*

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the LRS' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement systems. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the LRS.

Significant economic actuarial assumptions used to calculate the pension benefit obligation were an actuarial interest rate of 8.5 percent per year and expected salary increases of 5.5 percent, which includes an expected inflation rate of 5 percent.

Effective June 30, 1990, the LRS changed its noneconomic actuarial assumptions including mortality and decrement rates. This increased the pension benefit obligation by \$4.5 million. All calculations and assessments were made assuming the amendment prohibiting legislators from earning retirement benefits was still fully in force. The effect of the repeal of a portion of the amendment has not been included in these assessments.

The following schedule shows the total unfunded pension benefit obligation applicable to the LRS at June 30, 1990 (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits . . . . .	\$53,356
Current employees:	
Accumulated employee contributions including allocated investment income . . . . .	4,996
Employer-financed vested . . . . .	16,077
Employer-financed nonvested . . . . .	<u>5,550</u>
Total pension benefit obligation . . . . .	79,979
Net assets available for benefits, at cost (market value is approximately \$75,031) . . . . .	<u>63,523</u>
Unfunded pension benefit obligation . . . . .	<u>\$16,456</u>

*Contribution Requirements*

The State's contribution rate of 18.81 percent is required by state law. However, while the court challenge to the constitutional amendment referred to earlier was in progress, the State reduced its contributions to 9.75 percent for the legislative members to pay for the unfunded benefits accrued before November 6, 1990. The ruling of the California Supreme Court in October 1991 allows legislative members who participated in the LRS before November 1, 1990, to continue participating in the plan and to make retroactive contributions for the period of the court challenge. The State will also have to make retroactive contributions to the extent that legislative members exercise their option.

The last actuarial valuation of the LRS' assets and liabilities was performed as of June 30, 1990. An independent actuary used the valuation to determine the adequacy of the financing structure currently available to the LRS. The independent actuary determined that a minimum contribution rate of 27.52 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1990. This rate was determined to fund the LRS fully by the year 2010. The effect of the changes in noneconomic actuarial assumptions mentioned before was to increase the recommended rate by 16 percent.

### *Trend Information*

The following schedule shows the net assets available for benefits as a percentage of the pension benefit obligation and shows the unfunded pension benefit obligation as a percentage of the annual covered payroll as of June 30, 1990, 1989, and 1988 (amounts in thousands). Additional trend information is available in the separately issued financial report of the LRS for the year ended June 30, 1991.

	<u>June 30</u>		
	<u>1990</u>	<u>1989</u>	<u>1988</u>
Net assets available for benefits . . . . .	\$63,500	\$57,000	\$55,200
Pension benefit obligation . . . . .	80,000	73,200	70,700
Percentage funded . . . . .	79%	78%	78%
Unfunded pension benefit obligation . . . . .	\$16,500	\$16,200	\$15,500
Annual covered payroll . . . . .	5,500	5,500	5,000
Unfunded pension benefit obligation as a percentage of covered payroll . . . . .	300%	295%	310%

#### *E. University of California Retirement System*

##### *Plan Description*

The University of California Retirement System (UCRS) includes a defined benefit pension plan that provides pension benefits to eligible employees of the University of California and its affiliates. The pension plan provides retirement and disability benefits and benefits for survivors upon the death of eligible members. At June 30, 1991, the pension plan had approximately 90,000 members with approximately 18,900 members receiving benefits.

##### *Investment Matters*

The UCRS has investments in common stocks, bonds, mortgage loans, and other miscellaneous investments. The UCRS' investments are reported at market value.

##### *Actuarial Present Value of Accumulated Plan Benefits*

Actuarial methods and assumptions include the expected return on actuarial value of assets at 8.5 percent, as well as valuing actuarial assets based on a five-year moving average of market values.

The actuarial present value of accumulated plan benefits of the UCRS at June 30, 1991, was \$6.21 billion, composed of vested benefits of \$5.98 billion and nonvested benefits of \$230 million. The actuarial present value excludes future salary increases, while actual future benefits will be based upon then-current salary levels. When projections for future salary increases are included in this calculation, the actuarial present value of accumulated plan benefits is \$8.58 billion. Net assets available for benefits, using the actuarial value of such assets, totaled \$12.9 billion at June 30, 1991.

### *Funding Policy*

The UCRS is funded through the University of California and employee contributions. The pension expense related to the UCRS was \$66 million for fiscal year 1990-91. In 1984, the State agreed to pay \$66.5 million in actuarially equivalent installments over 30 years. Also, in fiscal year 1989-90, the State agreed to pay \$57.2 million in actuarially equivalent installments over 30 years. Additionally, in fiscal year 1990-91, the State deferred payment of \$16.4 million in contributions and it deferred payment of \$5.3 million, representing the first installment on the 1989-90 deferral, until fiscal year 1991-92. At June 30, 1991, the amount due from the State was \$139.3 million. This amount is recorded as a receivable from the State and as an interfund receivable and payable between the University of California's current unrestricted funds and retirement plan funds.

#### **18. Postretirement Health Care Benefits**

In addition to providing pension benefits, the State provides health care and dental benefits to annuitants of retirement systems to which the State contributes as an employer. To be eligible for these benefits, first tier plan annuitants must retire from the State on or after attaining age 50 with at least 5 years of service, and second tier plan annuitants must retire from the State on or after attaining age 55 with at least 10 years of service. In addition, annuitants must retire within 120 days of separation from State employment to be eligible to receive these benefits. As of June 30, 1991, approximately 75,000 annuitants were enrolled for health benefits and approximately 60,000 annuitants were enrolled to receive dental benefits. In accordance with the Government Code, the State generally pays 100 percent of the health insurance cost for annuitants plus 90 percent of the additional premium required for the enrollment of family members of annuitants. Although the State generally pays 100 percent of the dental insurance premium for annuitants, the Government Code does not specify the State's contribution toward dental insurance costs. The State recognizes the cost of providing health and dental insurance to annuitants as an expenditure in the year the benefits are paid. The cost of these benefits in fiscal year 1990-91 was approximately \$228 million. The \$36 million increase in expenditures over the previous year was largely caused by increases in health and dental insurance premiums.

The University of California also provides health care and dental plan benefits to annuitants. For the current fiscal year, more than 21,000 annuitants were eligible to receive these benefits. The University of California recognizes the cost of providing health care and dental benefits as a current unrestricted funds expenditure when the benefits are paid. The cost of health care and dental benefits for annuitants of the University of California in fiscal year 1990-91 was \$68 million.



## **19. Deferred Compensation Plan**

The State offers its eligible employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. Eligible employees may defer receiving portions of their salaries, thereby deferring taxation on those portions, until they leave state service or face a serious financial emergency. The participants direct the plan administrator, the State, to invest the deferred amounts among various investment options. The cost of administration and all funding are the responsibility of those participating in the plans. The State makes no contribution to the plan. However, the money in the plan is available for payment to the State's general creditors when permitted by the Legislature.

As of June 30, 1991, the total market value of assets in the deferred compensation plan was approximately \$1.549 billion. Of this amount, \$1.537 billion is reported in investments, \$12 million is reported in due from other funds, and the corresponding liability of \$1.549 billion is included in deposits. The assets and the liability are reported in an agency fund.

## **20. Guaranty Deposits**

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

## **21. Segment Information—Enterprise Funds**

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

**ENTERPRISE FUND ACTIVITY  
BY MAJOR SEGMENTS**  
For the Fiscal Year Ended June 30, 1991  
(In Thousands)

	<u>Housing Loan</u>	<u>Water</u>	<u>State Compensation Insurance</u>	<u>Student Loans and School Building Aid</u>	<u>Toll Facilities</u>	<u>State University</u>	<u>Leasing of Public Assets</u>	<u>Lottery</u>	<u>Other Enterprises</u>
Operating revenue . . . . .	\$ 776,737	\$ 455,212	\$ 1,765,539	\$ 83,801	\$ 129,306	\$ 213,934	\$ 96,905	\$ 2,131,921	\$ 112,584
Operating income (loss) . . . . .	44,568	169,709	(102,152)	65,435	89,084	94,627	97,029	747,235	(43,688)
Net income (loss) . . . . .	47,295	48,945	317,958	49,524	92,762	74,816	66,142	770,936	(2,258)
Property, plant, and equipment									
Additions . . . . .	2,444	149,537	12,109	14,263	40,848	80,378	59,556	8,521	2,917
Deductions . . . . .	326	55,854	5,838	3,442	0	433	157,423	28,029	276
Total assets . . . . .	9,740,271	4,940,225	5,393,975	506,906	1,239,938	842,253	2,299,908	1,765,607	540,931
Bonds and other long-term liabilities . . . . .	8,623,190	3,070,105	2,125,208	162,595	95,094	229,529	1,562,840	1,278,947	41,553
Total equity . . . . .	724,861	1,008,599	818,327	344,503	1,139,770	469,547	156,675	0	368,785

The primary sources of enterprise fund revenues are as follows:

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

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

*State Compensation Insurance*—Premiums collected from California employers for insurance against workers' compensation claims and interest earned on investments. This information is as of and for the year ended December 31, 1990.

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

*Toll Facilities*—Toll fees and interest earned on investments.

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

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

*Lottery*—Sale of lottery tickets.

*Other Enterprises*—Gasoline taxes and fees related to boating activities, canteen revenues, and processing fees charged by various other departments and authorities.

## 22. Contingencies

### A. *Litigation*

The State is a party to numerous legal proceedings, many of which normally recur in governmental operations. The following were accrued as a liability in the financial statements: legal proceedings that were decided against the State before June 30, 1991; legal proceedings that were in progress at June 30, 1991, and that were settled or decided against the State as of December 6, 1991, and legal proceedings having a high probability of resulting in a decision against the State as of December 6, 1991, and for which amounts could be estimated. For governmental fund types and expendable trust funds, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability of the fund from which payment will be made; the remainder is shown as a liability of the General Long-Term Obligations Account Group. For other fund types, the entire liability is recorded in the fund involved. In addition, the State is involved in certain other legal proceedings that, if decided against the State, may require the State to make significant future expenditures or may impair future revenue sources. Because of the prospective nature of these proceedings, no provision for this potential liability has been made in the accompanying financial statements, nor can an estimate of the potential loss be made.

Following are the more significant lawsuits pending against the State:

The State is a defendant in 30 lawsuits involving the State's application of the unitary method of accounting to foreign controlled corporations. Under the unitary method of accounting, the State taxes multinational corporations on the basis of worldwide earnings allocated as a percentage of activities within the State. In 1988, corporations were given the option of using the "water's edge" method, which allows multinational corporations to limit the base used for assessing California income tax to a firm's United States operations. The lead cases are *Barclays Bank of California v. Franchise Tax Board* and *Barclays Bank International v. Franchise Tax Board*. The trial court and a State appellate court ruled against the State. The case is currently before the California Supreme Court. The State intends to litigate this case to the United States Supreme Court, if necessary. However, if the State does not prevail, it could be required to make refunds that total \$362 million from the General Fund and \$13 million from the Unitary Tax Fund in the special revenue funds. These amounts are recorded as tax overpayments in the respective funds. In addition, in case of an adverse judgment, the State will not be able to collect previous assessments of \$240 million.

The State is a defendant in seven lawsuits involving the exclusion of small business stock gains from taxation. The leading cases are *Mervin Morris v. Franchise Tax Board* and *Gavin Herbert v. Franchise Tax Board*. However, in excess of 1,000 cases have been deferred by the Franchise Tax Board pending the outcome of the Morris and Herbert cases. In the event of an adverse outcome in the two lead cases and the deferred cases, depending upon the rationale for the decision and the subsequent application by the State Board of Equalization and the courts, the potential liability to the State has been estimated as high as \$500 million.

The State is a defendant in eight lawsuits related to the State's interpretation of a regulation concerning taxation of diverse businesses as one unit. A final decision in the cases is several years away. In the event of an adverse outcome in the cases, the potential liability to the State has been estimated at \$100 million to \$500 million.

The State is a defendant in *Woosley v. California*, a class action suit. The suit alleges overcharges of vehicle license fees and use taxes for out-of-state vehicles that were registered in California from 1975 to 1983. The suit also alleges overcharges of use taxes on all used vehicles registered since 1976. The potential loss from refunds of the vehicle license fees is estimated at \$800 million, and the potential loss from refunds of use taxes is estimated at \$556 million. Since the vehicle license fees collected by the State are distributed to the cities and counties, the State expects that the cities and counties will be ultimately liable and funds that would otherwise have been distributed to the cities and counties will have to be withheld to pay refunds, if an unfavorable outcome is reached. The State intends to litigate this case to the United States Supreme Court, if necessary.

The State is a defendant in six tax cases relating to the State's method of determining the tax on gross insurance premiums. The potential loss to the State could amount to \$160 million. In a related case, the California Supreme Court ruled in the State's favor.

The State is a defendant in *Claypool v. Wilson*. In this case, the plaintiffs are contesting the repeal of the Investment Dividend Disbursement Account, Extraordinary Performance Dividend Account, and Purchasing Power Accounts from the Public Employees' Retirement Law and the authorization to use funds in these accounts to affect employer contributions. The plaintiffs claim that use of Public Employees' Retirement System funds from these programs to offset future State and local employer contributions violates the contracts clause of the federal and state constitutions and an article of the state constitution which disallows the use of pension trust funds for anything other than employee benefits. If the State loses, \$1.9 billion will not be available to offset present and future State and local pension contributions to PERS.

The State is involved in a lawsuit seeking reimbursement for alleged state-mandated costs. In *Jesse R. Huff v. Commission on State Mandates*, the state director of finance is appealing a 1984 decision by the State Board of Control. The Board of Control decided in favor of local school districts' claims for reimbursement for special education programs for handicapped students; however, funds have not been appropriated. The amount of potential liability to the State, if all potentially eligible school districts pursue timely claims, has been estimated by the Department of Finance at over \$1 billion.

In another case, the State is a defendant in *Long Beach Unified School District v. State of California*. In this case, the school district seeks reimbursement for voluntary desegregation costs incurred in the implementation of California Department of Education guidelines. The years of reimbursement are from fiscal year 1977-78 and each fiscal year thereafter to the present. The district prevailed in a superior court, and the case has been decided by a State appellate court against the State. The judgment amounted to \$28 million, with interest, for a

total of \$34 million. A petition for review by the California Supreme Court was denied and the superior court judgment has become final. The State anticipates that the unfavorable outcome will affect pending claims by other school districts, and the total loss could be in excess of \$300 million.

The State is involved in two lawsuits related to contamination at the Stringfellow toxic waste site. In one suit, the State is one of approximately 150 defendants in *Penny Newman v. J. B. Stringfellow*, et al. in which 3,800 plaintiffs are claiming damages of \$850 million arising from contamination at the Stringfellow toxic waste site. The State is a defendant because it chose the site and approved the deposit of toxic wastes. A conservative estimate of the State's potential loss ranges from \$250 to \$550 million. In a separate suit, *United States, People of the State of California v. J. B. Stringfellow, Jr.* et al., the State is seeking recovery for past costs of cleanup of the site and an injunction ordering completion of the cleanup. However, the defendants have filed a counterclaim against the State for alleged negligent acts. Because the State is the present owner of the site, the State may be found liable. Present estimates of the cleanup range from \$200 million to \$800 million.

The State is a defendant in a coordinated action involving 3,500 plaintiffs seeking recovery for damages caused by the Yuba River flood of February 1986. The potential liability to the State in the event of an adverse outcome of the litigation cannot be estimated.

#### B. *Federal Audit Exceptions*

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

#### C. *Insurance Program*

The State has elected, with a few exceptions, to be self-insured against loss or liability. The State generally does not maintain reserves; losses are covered by appropriations in the year in which the payment occurs. Except for the University of California, workers' compensation benefits for self-insured agencies are initially paid by the State Compensation Insurance Fund. The State Compensation Insurance Fund estimated the liability for future workers' compensation claims against the State's self-insured agencies to be approximately \$682 million as of June 30, 1991. This liability is included in the accompanying financial statements in the General Long-Term Obligations Account Group. The University of California maintains self-insurance reserves for medical malpractice claims, workers' compensation claims, and certain other risks. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by an independent insurer. University management and general counsel are of the opinion that the outcome of such matters will not have a significant effect on the financial statements.

### **23. Appropriations Limit**

The State is subject to an annual appropriations limit imposed by Article XIII B of the state constitution. The state constitution establishes a limit on the growth of certain appropriations made from state tax revenues, adjusted annually for inflation and population growth. The state constitution imposes no limit on appropriations or funds obtained through nontax sources, such as from user charges or fees and bond proceeds. The state appropriations limit is also exclusive of certain appropriations. Tax revenues that cannot be reappropriated within the following year's limit will be considered excess revenues. One-half of the excess revenues must go to schools and one-half shall be returned to taxpayers within two years.

The appropriations limit is established each year in the budget act and is amended during the fiscal year for transfers of fiscal responsibility between the state and local governments. The budget act provides that any judicial action or proceeding to attack, review, set aside, void, or annul the revenue and appropriations limit must begin within 45 days of the effective date of the act. There were no such actions for fiscal year 1990-91.

The governor has reported that the state appropriations limit for fiscal year 1990-91 was \$32.2 billion. The governor also reported that the revenues subject to the limit for fiscal year 1990-91 were \$25.1 billion, which is \$7.1 billion under the appropriations limit.

### **24. Subsequent Events**

On July 23, 1991, the State Treasurer's Office issued \$1.65 billion in notes that were redeemed on August 15, 1991, when \$4.1 billion in revenue anticipation notes were issued to fund the State's cash flow needs for fiscal year 1991-92. Of the \$4.1 billion, \$1.0 billion will mature on March 3, 1992, \$1.0 billion will mature on March 17, 1992, and \$2.1 billion will mature on June 30, 1992.

From July 1, 1991, to December 20, 1991, the State issued approximately \$2.8 billion in general obligation bonds and approximately \$1.8 billion in revenue bonds, and various authorities issued approximately \$859 million in no-commitment debt revenue bonds.

**STATISTICAL SECTION**

**STATE OF CALIFORNIA**  
**GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION**  
**AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1991**  
(In Thousands)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
General government . . . . .	\$ 1,236,446	\$ 1,179,961	\$ 1,443,012	\$ 1,718,147	\$ 2,157,385	\$ 1,880,521	\$ 1,842,331	\$ 2,081,579	\$ 2,741,287	\$ 2,812,140
Education . . . . .	11,810,007	11,937,770	13,229,285	14,991,210	16,953,147	18,242,436	18,873,313	19,660,647	22,867,811	22,350,139
Health and welfare . . . . .	12,562,103	12,489,066	13,276,927	14,154,000	14,554,960	16,499,778	17,040,861	19,539,017	22,856,943	24,589,169
Resources . . . . .	578,747	512,442	632,579	599,616	743,931	766,707	765,176	1,409,351	1,356,665	1,503,840
State and consumer services . . . . .	370,669	312,526	421,453	618,035	711,237	793,572	1,123,851	1,670,385	568,910	586,709
Business and transportation . . . . .	1,692,272	1,954,682	2,338,762	2,912,834	2,823,357	2,999,779	3,304,988	3,367,150	4,097,360	4,502,150
Correctional programs . . . . .	714,817	733,099	845,666	1,211,818	1,264,060	1,855,042	1,846,112	1,955,060	2,350,397	2,705,465
Property tax relief . . . . .	1,313,515	1,351,061	1,070,154	944,850	925,750	993,548	1,011,781	949,699	948,896	930,233
Capital outlay . . . . .	457,871	571,868	155,894	294,605	698,967	636,147	686,257	676,340	635,841	942,404
Debt service . . . . .	218,092	284,346	342,899	375,829	444,942	638,535	678,340	856,538	984,791	1,220,593
Total . . . . .	\$30,954,539	\$31,326,821	\$33,756,631	\$37,820,944	\$41,277,736	\$ 45,306,065	\$47,173,010	\$52,165,766	\$59,408,901	\$62,142,842

Source: The general purpose financial statements of the State of California.

Note: Includes general, special revenue, and capital projects funds.



**STATE OF CALIFORNIA  
GENERAL REVENUES BY SOURCE  
AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1991  
(In Thousands)**

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Taxes .....	\$19,703,728	\$20,335,164	\$23,261,462	\$26,274,712	\$27,746,989	\$30,650,517	\$31,784,962	\$36,743,408	\$38,468,384	\$38,041,098
Intergovernmental .....	7,107,839	7,481,043	8,982,156	8,935,870	9,500,748	9,804,735	9,532,594	11,226,909	13,533,050	15,024,782
Licenses and permits .....	933,158	829,918	902,430	1,224,057	1,237,717	1,275,597	1,389,586	1,440,119	1,526,473	1,726,500
Natural resources .....	450,996	370,253	401,727	516,017	427,120	167,422	225,340	119,456	147,251	171,628
Charges for services .....	52,282	120,668	106,251	202,392	212,560	274,388	237,164	258,984	306,318	361,562
Fees .....	235,968	322,918	640,053	422,103	588,422	627,867	784,597	907,562	1,103,325	1,300,698
Penalties .....	113,488	73,887	66,879	79,568	138,866	406,643	237,600	285,959	367,774	288,902
Interest .....	401,789	461,753	386,174	626,937	679,011	653,928	612,968	692,352	747,701	702,199
Other .....	172,804	419,525	98,349	149,565	208,656	429,706	225,105	281,422	532,317	583,214
Total .....	<u>\$29,172,052</u>	<u>\$30,415,129</u>	<u>\$34,845,481</u>	<u>\$38,431,221</u>	<u>\$40,740,089</u>	<u>\$44,290,803</u>	<u>\$45,029,916</u>	<u>\$51,956,171</u>	<u>\$56,732,593</u>	<u>\$58,200,583</u>

Source: The general purpose financial statements of the State of California.

Note: Includes general, special revenue, and capital projects funds.

**STATE OF CALIFORNIA  
 PERCENTAGE OF GENERAL LONG-TERM  
 BONDED DEBT TO PER CAPITA INCOME  
 FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1991**

<u>Year</u>	<u>General Long-Term Bonded Debt (in Thousands)</u>	<u>Per Capita Debt</u>	<u>Per Capita Income</u>	<u>Percentage of Per Capita Debt to Per Capita Income</u>
1982 . . . . .	\$1,791,913	\$ 73.04	\$13,064	.56%
1983 . . . . .	2,074,159	82.79	13,507	.61
1984 . . . . .	2,234,900	87.45	14,548	.60
1985 . . . . .	2,771,642	106.31	15,562	.68
1986 . . . . .	3,388,590	126.94	16,375	.78
1987 . . . . .	3,366,735	123.15	17,283	.71
1988 . . . . .	3,248,925	115.96	18,260	.64
1989 . . . . .	4,115,450	143.59	19,258	.75
1990 . . . . .	5,168,355	175.36	20,354	.86
1991 . . . . .	7,735,955	254.88	20,624	1.24

Sources: State Controller's Annual Reports, California Department of Finance estimates (as revised), and the general purpose financial statements of the State of California.

**STATE OF CALIFORNIA**  
**PERCENTAGE OF ANNUAL DEBT SERVICE EXPENDITURES FOR**  
**GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES**  
**AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1991**  
**(Amounts In Thousands)**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Expenditures*</u>	<u>Percentage of Debt Service to Total General Expenditures</u>
1982 .....	\$ 86,967	\$131,125	\$ 218,092	\$30,954,539	0.7%
1983 .....	152,754	131,592	284,346	31,326,821	0.9
1984 .....	184,259	158,640	342,899	33,756,631	1.0
1985 .....	203,258	172,571	375,829	37,820,944	1.0
1986 .....	233,052	211,890	444,942	41,277,736	1.1
1987 .....	271,855	366,680	638,535	45,306,065	1.4
1988 .....	278,610	399,730	678,340	47,173,010	1.4
1989 .....	273,475	583,063	856,538	52,165,766	1.6
1990 .....	322,095	662,696	984,791	59,408,901	1.7
1991 .....	388,400	832,193	1,220,593	62,142,842	2.0

Source: The general purpose financial statements of the State of California.

\*Includes general, special revenue, and capital projects funds.

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL WITH STATE POPULATION  
CALENDAR YEAR 1940 THROUGH CALENDAR YEAR 1990**

<u>Year</u>	<u>United States Population</u>	<u>Average Annual Percent Increase</u>	<u>California Population</u>	<u>Average Annual Percent Increase</u>	<u>California as a Percentage of United States</u>
1940 .....	132,457,000		6,950,000		5.2%
1950 .....	151,868,000	1.5%	10,643,000	5.3%	7.0
1960 .....	179,979,000	1.9	15,863,000	4.9	8.8
1970 .....	203,984,000	1.3	20,039,000	2.6	9.8
1980 .....	227,217,000	1.1	23,782,000	1.9	10.5
1981 .....	229,444,000	1.0	24,278,000	2.1	10.6
1982 .....	231,648,000	1.0	24,805,000	2.2	10.7
1983 .....	233,781,000	.9	25,337,000	2.1	10.8
1984 .....	235,820,000	.9	25,816,000	1.9	10.9
1985 .....	237,924,000	.9	26,403,000	2.3	11.1
1986 .....	240,140,000	.9	27,052,000	2.5	11.3
1987 .....	242,305,000	.9	27,717,000	2.5	11.4
1988 .....	244,529,000	.9	28,393,000	2.4	11.6
1989 .....	246,828,000	.9	29,142,000	2.6	11.8
1990 .....	249,466,000	1.1	29,976,000	2.9	12.0

Sources: Current Population Reports issued by the Bureau of the Census of the U.S. Department of Commerce, and California Department of Finance estimates (as revised).

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL WITH STATE PERSONAL INCOME  
CALENDAR YEAR 1970 THROUGH CALENDAR YEAR 1990**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percentage of United States</u>
	<u>Personal Income (in millions)</u>	<u>Percent Change</u>	<u>Personal Income (in millions)</u>	<u>Percent Change</u>	
1970.....	\$ 831,800		\$ 95,039		11.4%
1971.....	888,500	6.8%	100,865	6.1%	11.4
1972.....	976,200	9.9	110,341	9.4	11.3
1973.....	1,095,300	12.2	121,784	10.4	11.1
1974.....	1,204,900	10.0	136,194	11.8	11.3
1975.....	1,308,500	8.6	149,700	9.9	11.4
1976.....	1,447,000	10.6	167,708	12.0	11.6
1977.....	1,602,900	10.8	187,133	11.6	11.7
1978.....	1,807,000	12.7	214,938	14.9	11.9
1979.....	2,028,500	12.3	244,775	13.9	12.1
1980.....	2,258,400	11.3	276,107	12.8	12.2
1981.....	2,520,900	11.6	308,731	11.8	12.2
1982.....	2,670,800	5.9	328,033	6.3	12.3
1983.....	2,838,600	6.3	352,438	7.4	12.4
1984.....	3,108,800	9.5	389,183	10.4	12.5
1985.....	3,325,300	7.0	422,608	8.6	12.7
1986.....	3,526,200	6.0	453,110	7.2	12.8
1987.....	3,766,400	6.8	490,104	8.2	13.0
1988.....	4,070,800	8.1	532,164	8.6	13.1
1989.....	4,384,300	7.7	576,489	8.3	13.1
1990.....	4,645,500	6.0	619,381	7.4	13.3

Sources: Bureau of Economic Analysis of the U.S. Department of Commerce (as revised).

**STATE OF CALIFORNIA  
COMPARISON OF NATIONAL WITH STATE  
PER CAPITA PERSONAL INCOME  
CALENDAR YEAR 1970 THROUGH CALENDAR YEAR 1990**

<u>Year</u>	<u>United States</u>		<u>California</u>		<u>California as a Percentage of United States</u>
	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	<u>Per Capita Personal Income</u>	<u>Percent Change</u>	
1970 . . . . .	\$ 4,051		\$ 4,746		117.2%
1971 . . . . .	4,296	6.0%	4,958	4.5%	115.4
1972 . . . . .	4,665	8.6	5,360	8.1	114.9
1973 . . . . .	5,182	11.1	5,836	8.9	112.6
1974 . . . . .	5,648	9.0	6,433	10.2	113.9
1975 . . . . .	6,073	7.5	6,951	8.1	114.5
1976 . . . . .	6,651	9.5	7,646	10.0	115.0
1977 . . . . .	7,294	9.7	8,373	9.5	114.8
1978 . . . . .	8,136	11.5	9,411	12.4	115.7
1979 . . . . .	9,033	11.0	10,526	11.8	116.5
1980 . . . . .	9,919	9.8	11,603	10.2	117.0
1981 . . . . .	10,957	10.5	12,713	9.6	116.0
1982 . . . . .	11,497	4.9	13,216	4.0	115.0
1983 . . . . .	12,123	5.4	13,897	5.2	114.6
1984 . . . . .	13,149	8.5	15,057	8.3	114.5
1985 . . . . .	13,942	6.0	15,981	6.1	114.6
1986 . . . . .	14,654	5.1	16,716	4.6	114.1
1987 . . . . .	15,494	5.7	17,642	5.5	113.9
1988 . . . . .	16,598	7.1	18,693	6.0	112.6
1989 . . . . .	17,731	6.8	19,730	5.5	111.3
1990 . . . . .	18,691	5.4	20,677	4.8	110.6

Sources: Bureau of Economic Analysis of the U.S. Department of Commerce (as revised).

**STATE OF CALIFORNIA  
CIVILIAN LABOR FORCE FOR  
RESIDENT POPULATION AGE 16 AND OVER  
CALENDAR YEAR 1973 THROUGH CALENDAR YEAR 1990**

<u>Year</u>	<u>Labor Force Trends</u> (In Thousands)			<u>Unemployment Rate</u>	
	<u>Total Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>United States</u>	<u>California</u>
1973 .....	8,910	8,286	624	4.9%	7.0%
1974 .....	9,317	8,638	679	5.6	7.3
1975 .....	9,539	8,598	941	8.5	9.9
1976 .....	9,896	8,990	906	7.7	9.2
1977 .....	10,367	9,513	853	7.1	8.2
1978 .....	10,911	10,137	775	6.1	7.1
1979 .....	11,268	10,566	702	5.8	6.2
1980 .....	11,584	10,794	790	7.1	6.8
1981 .....	11,812	10,938	875	7.6	7.4
1982 .....	12,178	10,967	1,210	9.7	9.9
1983 .....	12,281	11,095	1,187	9.6	9.7
1984 .....	12,610	11,631	980	7.5	7.8
1985 .....	12,981	12,048	934	7.2	7.2
1986 .....	13,332	12,442	890	7.0	6.7
1987 .....	13,737	12,946	791	6.2	5.8
1988 .....	14,133	13,385	748	5.5	5.3
1989 .....	14,518	13,780	737	5.3	5.1
1990 .....	14,670	13,846	823	5.5	5.6

Source: California Employment Development Department (as revised).

**STATE OF CALIFORNIA  
PERSONS EMPLOYED IN  
PRINCIPAL MANUFACTURING INDUSTRIES  
CALENDAR YEAR 1982 AND CALENDAR YEAR 1990  
(In Thousands)**

<u>Industry</u>	<u>1982</u>	<u>1990</u>	<u>Percent Change</u>
Lumber and wood products . . . . .	46.3	67.7	46.2%
Textile mill products . . . . .	12.4	16.7	34.7
Printing and publishing . . . . .	124.5	166.7	33.9
Apparel . . . . .	102.4	136.5	33.3
Rubber and miscellaneous plastic products . . . . .	61.2	79.1	29.2
Furniture and fixtures . . . . .	49.0	56.1	14.5
Transportation equipment . . . . .	266.3	297.5	11.7
Stone, clay, and glass products . . . . .	50.4	56.3	11.7
Paper and allied products . . . . .	37.3	41.6	11.5
Chemicals and allied products . . . . .	65.7	72.8	10.8
Food and kindred products . . . . .	182.5	189.0	3.6
Fabricated metal products . . . . .	138.8	134.1	(3.4)
Primary metal products . . . . .	47.6	41.2	(13.4)
Petroleum and coal products . . . . .	31.7	27.2	(14.2)
Leather and leather products . . . . .	10.5	6.1	(41.2)
Electric and electronic equipment . . . . .	358.0	260.8	*
Industrial machinery . . . . .	227.6	221.6	*
Instruments and related products . . . . .	102.4	225.2	*
Miscellaneous . . . . .	43.2	36.2	(16.2)
<b>Total . . . . .</b>	<b><u>1,957.8</u></b>	<b><u>2,132.3</u></b>	<b>8.9</b>

Sources: California Department of Finance and California Employment Development Department

\*1990 data not comparable with 1982 data because of industry classification changes.



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