REPORT BY THE

AUDITOR GENERAL

OF CALIFORNIA

STATE OF CALIFORNIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 1989

F-900

FEBRUARY 1990

REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

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FINANCIAL REPORT
YEAR ENDED JUNE 30, 1989

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Telephone:
(916) 445-0255

STATE OF CALIFORNIA

Office of the Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

Kurt R. Sjoberg
Acting Auditor General

February 21, 1990

F-900

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
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, 1989. 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 generated approximately $694 million more in revenues than it spent for the fiscal year ended June 30, 1989. However, the State ended the fiscal year with an undesignated fund deficit of $595 million. 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
Acting Auditor General

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STATE OF CALIFORNIA
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Kurt R. Sjoberg
Acting Auditor General

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, 1989, as listed in the table of contents. These financial statements are the responsibility of the State of California. Our responsibility is to express an opinion on these statements based on our audit. We did not examine the financial statements of the pension trust funds, which reflect total assets constituting 78 percent of the fiduciary funds. We also did not examine the financial statements of certain enterprise funds, which reflect total assets and revenues constituting 91 percent and 96 percent, respectively, of the enterprise funds. In addition, we did not examine 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 examined 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.

Except as discussed in the following paragraph, 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.

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

In our opinion, based upon our audit and the reports of other auditors, and except for the effect of the omission of the General Fixed Assets Account Group, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of California as of June 30, 1989, and the results of its operations and the changes in financial position of its proprietary funds and pension trust funds for the year then ended, in conformity with generally accepted accounting principles.

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

CURT DAVIS, CPA
Deputy Auditor General

December 22, 1989

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF CALIFORNIA
COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUP
As of June 30, 1989
(In Thousands)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Group	
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	University of California
ASSETS								
Cash and pooled investments	$ 808,644	$1,765,090	$473,689	$ 2,634,086	$ 93,726	$ 9,121,070		$ 2,095,926
Investments				6,471,644		71,277,394		12,443,017
Amount on deposit with U.S. Treasury						5,192,324		
Receivables (net)	100,058	70,729	3,024	734,365	3,758	3,112,124		1,008,838
Due from other funds	1,873,594	2,244,902	247,385	551,854	129,102	3,305,793		172,064
Due from other governments	16,620	2,021,314		188,112	2,462	88,887		56,572
Prepaid expenses	138,211	129,948	41	822	4,580	10,775		
Inventory, at cost				20,309	48,715			77,044
Other assets	868	4,084	598	51,735	5,380	148,990		196,127
Advances and loans receivable	155,147	671,844		6,425,504	16,753	136,290		30,574
Deferred charges				1,188,342				26,509
Fixed assets				4,782,420	207,960	8,448		7,123,811
Amounts to be provided for retirement of long-term obligations							$6,588,693	
Total Assets	$3,093,142	$6,907,911	$724,737	$23,049,193	$512,436	$92,402,095	$6,588,693	$23,230,482
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts payable	$ 414,900	$ 587,097	$ 58,988	$ 203,482	$ 51,820	$ 1,938,068		$ 726,644
Obligations under reverse repurchase agreements						885,790		
Due to other funds	1,441,251	3,129,825	605,217	750,046	28,195	2,507,355		62,805
Due to other governments	471,880	903,689	18,247	50,584	71	6,174,888		
Dividends payable				54,000				
Advances from other funds		1,973	20,019	800,372	56,220	12,444		30,574
Tax overpayments	409,747	2,194				47,696		
Benefits payable				2,915,555		322,326		
Deposits	873			2,516	462	1,557,057		198,669
Contracts and notes payable				4,762	41,524			
Lottery prizes and annuities				854,961				
Compensated absences payable	85,355			9,297	19,701		$ 461,646	
Mortgages and other borrowings								669,279
Net assets available for benefits								12,229,365
Capital lease obligations				7,439	15,553		1,342,026	
Advance collections	33,240	64,903		929,678	25,973	8,532		
General obligation bonds payable				4,516,035			4,115,450	
Revenue bonds payable				7,406,337				986,771
Interest payable	87,294			293,921				
Other liabilities	44,195	63,184	284	48,297	1,250	516,231	669,571	
Total Liabilities	2,988,735	4,752,865	702,755	18,847,282	240,769	13,970,387	6,588,693	14,904,107
Fund Equity								
Contributed capital				212,777	90,125			
Investment in general fixed assets								5,960,116
Retained earnings								
Reserved for regulatory requirements				381,703				
Unreserved				3,607,431	181,542			
Fund balances								
Reserved for encumbrances	360,546	940,359	266,692					
Reserved for advances and loans	155,147	671,844				120,172		
Reserved for employees' retirement system						71,609,737		
Reserved for continuing appropriations	116,563	489,266	142,655					
Reserved for other specific purposes	66,877	71,123				6,701,799		1,171,671
Total Reserved	699,133	2,172,592	409,347			78,431,708		1,171,671
Unreserved								
Budgetary basis undesignated-available for appropriation (Deficit)	645,870	(1,118,752)						
Budgetary to GAAP adjustments	(1,240,596)	1,101,206						
Undesignated (Deficit)	(594,726)	(17,546)	(387,365)					1,194,588
Total Fund Equity	104,407	2,155,046	21,982	4,201,911	271,667	78,431,708		8,326,375
Total Liabilities and Fund Equity	$3,093,142	$6,907,911	$724,737	$23,049,193	$512,436	$92,402,095	$6,588,693	$23,230,482

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, 1989
(In Thousands)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues				
Taxes	$35,560,614	$ 1,182,794		$3,726,103
Intergovernmental		11,226,909		
Licenses and permits	147,398	1,292,721		
Natural resources	26,268	5,250	$ 87,938	
Insurance premiums				219,940
Charges for services	128,040	130,944		80,022
Fees	352,981	554,581		955
Penalties	8,050	277,909		
Interest	474,396	190,019	27,937	506,148
Other	146,547	134,875		145,595
Total Revenues	36,844,294	14,996,002	115,875	4,678,763
Expenditures				
Current				
General government	1,158,772	922,807		249,854
Education	19,060,920	599,727		165,518
Health and welfare	11,442,247	8,096,770		3,305,139
Resources	495,116	914,235		4,569
State and consumer services	238,334	1,432,051		11,489
Business and transportation	64,136	3,303,014		14,126
Correctional programs	1,831,995	123,065		
Property tax relief	949,699			
Capital outlay	390		675,950	6
Debt service				
Principal retirement	273,475			
Interest and fiscal charges	486,684	64,404	31,975	
Total Expenditures	36,001,768	15,456,073	707,925	3,750,701
Other Financing Sources (Uses)				
Proceeds from general obligation bonds		698,100	441,900	
Operating transfers in	212,174	674,261	192,836	188,441
Operating transfers out	(360,491)	(848,585)	(20,411)	(27,961)
Total Other Financing Sources (Uses)	(148,317)	523,776	614,325	160,480
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	694,209	63,705	22,275	1,088,542
Fund Balances (Deficit), July 1, 1988	(589,802)	2,091,341	(293)	5,733,429
Fund Balances, June 30, 1989	$ 104,407	$ 2,155,046	$ 21,982	$6,821,971

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)
GENERAL AND SPECIAL REVENUE FUND TYPES
For the Fiscal Year Ended June 30, 1989
(In Thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance—Favorable (Unfavorable)	Budget	Actual	Variance—Favorable (Unfavorable)
Revenues						
Taxes		$35,561,785			$ 377,344	
Intergovernmental					11,448,383	
Licenses and permits		147,398			1,292,721	
Natural resources		26,268			5,250	
Charges for services		74,552			123,901	
Fees		352,981			554,581	
Penalties		6,710			245,255	
Interest		472,370			194,377	
Other		137,064			245,713	
Total Revenues		36,779,128			14,487,525	
Expenditures						
Current						
General government	$ 1,316,701	1,124,813	$191,888	$ 972,109	921,586	$ 50,523
Education	19,136,681	19,036,648	100,033	2,001,803	1,642,361	359,442
Health and welfare	11,523,205	11,284,216	238,989	8,440,195	8,080,398	359,797
Resources	500,295	493,684	6,611	967,861	731,184	236,677
State and consumer services	292,159	252,561	39,598	1,494,291	1,452,803	41,488
Business and transportation	59,966	57,622	2,344	4,185,696	3,641,176	544,520
Correctional programs	1,913,969	1,865,901	48,068	141,239	35,626	105,613
Property tax relief	961,054	950,811	10,243			
Capital outlay	390	390				
Debt service						
Principal retirement	271,705	271,705				
Interest and fiscal charges	477,300	477,300				
Total Expenditures	$36,453,425	35,815,651	$637,774	$18,203,194	16,505,134	$1,698,060
Other Financing Sources (Uses)						
Proceeds from general obligation bonds					698,100	
Operating transfers in		204,391			3,931,646	
Operating transfers out		(360,501)			(3,327,770)	
Other additions		30,386				
Total Other Financing Sources (Uses)		(125,724)			1,301,976	
Expenditures and Other Uses Over Revenues and Other Sources		837,753			(715,633)	
Fund Balances (Deficit), July 1, 1988, as restated		(8,443)			157,270	
Fund Balances (Deficit), June 30, 1989		$ 829,310			$ (558,363)	

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, 1989
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Pension Trust
Operating Revenues			
Lottery ticket sales	$2,628,874		
Services and sales	898,547	$757,193	
Earned premiums, net	1,793,699		
Investment and interest	924,653		$ 6,937,288
Contributions			4,487,420
Other	3,169	4,399	5,632
Total Operating Revenues	6,248,942	761,592	11,430,340
Operating Expenses			
Lottery prizes	1,314,092		
Personal services	177,699	326,291	37,193
Supplies	26,966	14,308	
Services and charges	646,474	365,792	53,560
Depreciation	83,257	35,445	
Benefit payments	1,546,314		3,459,342
Interest expense	641,380		
Refunds			175,595
Accrual of deferred charges	87,862		
Total Operating Expenses	4,524,044	741,836	3,725,690
Operating Income	1,724,898	19,756	7,704,650
Nonoperating Revenues (Expenses)			
Grants received	1,367		
Grants provided	(14,267)		
Interest revenue	275,408	3,748	
Rent	26,308		
Interest expense and fiscal charges	(170,139)	(6,125)	
Loss on early extinguishment of debt	(10,738)		
Total Nonoperating Revenues (Expenses)	107,939	(2,377)	
Operating transfers in	32,266	5,328	
Operating transfers out	(35,393)	(2,170)	
Operating Transfers	(3,127)	3,158	
Net Income	1,829,710	20,537	7,704,650
Dividends paid	(312,314)		
Lottery payments for education	(1,026,231)		
Retained Earnings/Fund Balances, July 1, 1988	3,497,969	161,005	63,905,087
Retained Earnings/Fund Balances, June 30, 1989	$3,989,134	$181,542	$71,609,737

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
For the Fiscal Year Ended June 30, 1989
(In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
Sources of Financial Resources		
From operations		
Net income	$1,829,710	$ 20,537
Add (deduct) items not affecting cash		
Depreciation	83,257	35,445
Amortization of bond discounts	15,353	
Loss on early extinguishment of debt	10,738	
Amortization of deferred expenses	118,835	
Imputed interest earnings	(16,172)	
Total Sources From Operations	2,041,721	55,982
Proceeds from sale of investments	895,670	
Collection of advances and loans	64,590	70
Proceeds from sale of fixed assets	29,035	4,935
Increase in advances from other funds	54,676	
Increase in benefits payable	631,129	
Increase in lottery prizes and annuities	419,066	
Issuance of general obligation and revenue bonds	1,263,101	
Additions to contributed capital		28,489
Decrease in other asset accounts	3,421	15,996
Increase in accounts payable	216	
Increase in due to other funds	132,080	11,513
Increase in advance collections	25,494	
Increase in interest payable	11,538	
Increase in other liability accounts	5,775	16,936
Total Souces	5,577,512	133,921
Uses of Financial Resources		
Purchase of investments	2,406,752	
Advances and loans provided	453,786	4,329
Acquisition of fixed assets	377,532	77,809
Decrease in advances from other funds	61,332	72
Decrease in contracts and notes payable	5,161	
Decrease in lottery prizes and annuities	44,139	
Decrease in capital lease obligations	4,638	
Retirement of general obligation and revenue bonds	769,069	
Addition to unamortized water project costs	8,025	
Dividends paid	312,314	
Lottery payments to education	1,026,231	
Increase in accounts receivable	184,193	847
Increase in due from other funds	382,003	
Increase in other asset accounts		10,399
Decrease in other liability accounts	4,003	10,685
Total Uses	6,039,178	104,141
Net Increase (Decrease) in Cash and Pooled Investments	$ (461,666)	$ 29,780

See the notes accompanying the financial statements.

STATE OF CALIFORNIA
COMBINED BALANCE SHEET
UNIVERSITY OF CALIFORNIA FUNDS
As of June 30, 1989
(In Thousands)

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds	Retirement System Funds	Total
ASSETS						
Cash and pooled investments ...	$ 797,230	$ 37,897	$131,990	$ 938,719	$ 190,090	$ 2,095,926
Investments			599,389		11,843,628	12,443,017
Receivables (net)	571,027	241,491	4,148		192,172	1,008,838
Due from other funds	109,259				62,805	172,064
Due from other governments	56,572					56,572
Inventory	77,044					77,044
Other assets	167,460			28,667		196,127
Advances and loans receivable			30,574			30,574
Deferred charges	26,509					26,509
Fixed assets				7,123,811		7,123,811
Total Assets	$1,805,101	$279,388	$766,101	$8,091,197	$12,288,695	$23,230,482
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts payable	$ 609,465		$ 2,597	$ 55,356	$ 59,226	$ 726,644
Due to other funds	57,921			4,780	104	62,805
Advances from other funds		$ 2,731		27,843		30,574
Deposits	153,180		45,489			198,669
Mortgages and other borrowings				669,279		669,279
Net assets available for benefits					12,229,365	12,229,365
Revenue bonds payable		57,326		929,445		986,771
Total Liabilities	820,566	60,057	48,086	1,686,703	12,288,695	14,904,107
Fund Equity						
Investment in general fixed assets				5,960,116		5,960,116
Fund balances						
Reserved for other specific purposes	341,585	174,524	469,710	185,852		1,171,671
Undesignated	642,950	44,807	248,305	258,526		1,194,588
Total Fund Equity	984,535	219,331	718,015	6,404,494		8,326,375
Total Liabilities and Fund Equity	$1,805,101	$279,388	$766,101	$8,091,197	$12,288,695	$23,230,482

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, 1989
(In Thousands)

Revenues and Other Additions	
Tuition and fees	$ 422,652
Federal appropriations, grants, and contracts	905,483
State appropriations, grants, and contracts	2,061,824
Private gifts, grants, and contracts	273,789
Sales and services	
Educational activities	405,453
Auxiliary enterprises	378,334
Teaching hospitals	1,102,398
Local government	42,088
Major Department of Energy laboratories	2,244,567
Other	278,253
Total Revenues and Other Additions	8,114,841
Expenditures and Other Deductions	
Instruction	1,407,753
Research	984,912
Public services	132,820
Academic support	530,614
Teaching hospitals	1,090,995
Student services	199,133
Institutional support	344,463
Operation and maintenance of plant	248,426
Student financial aid	190,821
Auxiliary enterprises	320,059
Major Department of Energy laboratories	2,232,378
Other	25,898
Total Expenditures and Other Deductions	7,708,272
Other Financing Uses	
Transfers out	(244,483)
Net Increase in Fund Balance	162,086
Fund Balances, July 1, 1988	822,449
Fund Balances, June 30, 1989	$ 984,535

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, 1989
(In Thousands)

	Current Funds	Loan Funds	Endowment & Similar Funds	Plant Funds
Revenues and Other Additions				
Unrestricted current fund revenues				
General	$2,947,388			
Auxiliary enterprises and hospitals	1,480,732			
Restricted gifts, grants, and contracts	3,408,468	$ 186	$ 19,837	$ 40,929
Investment and interest income	139,416	3,798	3,722	49,362
Net gain (loss) on sale of investments	(1,431)		26,265	
Governmental grants and contracts		3,687		320
Debt service fees				5,945
Governmental appropriations				91,528
Expended for plant facilities (including $292,261 financed from current funds)				494,630
Retirement of indebtedness				53,356
Other	140,268	8,162	83	3,535
Total Revenues and Other Additions	8,114,841	15,833	49,907	739,605
Expenditures and Other Deductions				
Current fund expenditures	7,682,374			
Plant fund expenditures				223,057
Debt service				
Principal retirement				53,356
Interest				83,135
Disposals of plant assets				83,890
Other	25,898	7,315	1,023	786
Total Expenditures and Other Deductions	7,708,272	7,315	1,023	444,224
Transfers in (out)	(244,483)	(1,421)	5,206	240,698
Net Increase in Fund Balances	162,086	7,097	54,090	536,079
Fund Balances, July 1, 1988	822,449	212,234	663,925	5,868,415
Fund Balances, June 30, 1989	$ 984,535	$219,331	$718,015	$6,404,494

See the notes accompanying the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Definition of the Reporting Entity

The general purpose financial statements present information on the financial activities of the State of California 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, 1989. Except for the University of California, as explained below, the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board, by the American Institute of Certified Public Accountants, and by the Financial Accounting Standards Board. The financial statements of the University of California have been prepared in conformity with GAAP as prescribed by the National Association of College and University Business Officers and by the American Institute of Certified Public Accountants.

The University of California receives an annual appropriation from the State's General Fund. For the year ended June 30, 1989, approximately $1.9 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 $1.9 billion are reported twice in the accompanying financial statements.

Included in the State's general purpose financial statements are the financial statements of the State Compensation Insurance Fund as of and for the year ended December 31, 1988. The State Compensation Insurance Fund represents 17 percent and 33.5 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 State's 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 where the State intends that all or most of the cost involved is to be financed by user charges or where periodic measurement of the results of operations is appropriate for management control, accountability, or other purposes.

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

Fiduciary Fund Types

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

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

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

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

General Long-Term Obligations Account Group

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

University of California

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

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

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

Endowment and Similar Funds—Endowment funds are invested in perpetuity, and the income is used in accordance with restrictions imposed by donors. Funds functioning as endowments are established by the regents, 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 vacation of academic year faculty of the California State University and the special schools of the State Department of Education is accrued at June 30, as explained in Note 10.

The State also uses encumbrance accounting for budgetary control purposes. On the financial statements prepared in accordance with GAAP, encumbrances are shown as a reservation of fund balance.

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 the liabilities are incurred. Lottery revenue and the related prize expense are recognized when tickets are sold. Lottery prize expense is based upon a predetermined prize structure. Grand prizes of $100,000 or more from the Lotto game are payable in deferred installments. Grand prizes of $1 million or more from the instant ticket game are also payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

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

The General Fixed Assets Account Group is not presented on the combined balance sheet.

Proprietary Fund Types

Fixed assets, consisting of property, plant, and equipment, are stated either at cost or at fair market value at the date of acquisition, less accumulated depreciation. (See Note 9 for detail.) 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 67.6 percent of the depreciable 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 17.6 percent and 6.7 percent, respectively, of the depreciable 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 1988-89 were legally made, and they are included in the budget data in the accompanying financial statements.

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

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office maintains overall control of all appropriations and will not disburse funds in excess of an appropriation.

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 the State's 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual (Budgetary Basis) is compiled on the budgetary basis. This statement is reconciled to 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:

Encumbrances

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

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.

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.

Restatement of Fund Balance

The beginning fund balance of the State's 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

Certain other reclassifications and adjustments are necessary to present the financial statements in accordance with GAAP. The reclassifications include the allocation of $182 million of available General Fund cash to other funds that borrowed from the State's pooled investments to pay project costs of various programs that will ultimately be financed through bond issues. This reclassification of General Fund assets establishes a receivable from the other funds in accordance with GAAP.

The adjustments consist primarily of liabilities for compensated absences. As discussed in Note 10, the compensated absences liability of $85 million, for earned vacation of faculty of the California State University and of the special schools of the State Department of Education, is not accrued on the budgetary basis. In addition, other adjustments totaling $8 million are not accrued on the budgetary basis. These adjustments are recorded in the General Fund in accordance with GAAP.

STATE OF CALIFORNIA
GENERAL FUND
RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS
As of and for the Year Ended June 30, 1989
(In Thousands)

	Budgetary Basis	Adjustments to the Budgetary Basis: Encumbrances	Medi-Cal Program Liability	Advances and Loans Receivable	Tax Overpayments	Restatement of Fund Balance	Other	GAAP Basis
ASSETS								
Cash and pooled investments	$ 990,466						$(181,822)	$ 808,644
Receivables (net)	158,055						(57,997)	100,058
Due from other funds	1,594,033		$ (5,456)				285,017	1,873,594
Due from other governments	16,620							16,620
Prepaid expenses	138,211							138,211
Other assets	868							868
Advances and loans receivable	7,205			$155,147			(7,205)	155,147
Total Assets	$ 2,905,458		$ (5,456)	$155,147			$ 37,993	$ 3,093,142
LIABILITIES AND FUND EQUITY								
Liabilities								
Accounts payable	$ 663,783	$(258,001)					$ 9,118	$ 414,900
Due to other funds	761,036	(46,716)	$ 732,451				(5,520)	1,441,251
Due to other governments	485,727	(55,829)					41,982	471,880
Tax overpayments					$ 409,747			409,747
Deposits	873							873
Compensated absences payable							85,355	85,355
Advance collections	33,240							33,240
Interest payable	87,294							87,294
Other liabilities	44,195							44,195
Total Liabilities	2,076,148	(360,546)	732,451		409,747		130,935	2,988,735
Fund Equity								
Fund balances								
Reserved for encumbrances		360,546						360,546
Reserved for advances and loans				$155,147				155,147
Reserved for continuing appropriations	158,768						(42,205)	116,563
Reserved for other specific purposes	24,672						42,205	66,877
Total Reserved	183,440	360,546		155,147				699,133
Undesignated (Deficit)	645,870		(737,907)		(409,747)		(92,942)	(594,726)
Total Fund Equity	829,310	360,546	(737,907)	155,147	(409,747)		(92,942)	104,407
Total Liabilities and Fund Equity	$ 2,905,458	$ 0	$ (5,456)	$155,147	$ 0		$ 37,993	$ 3,093,142
REVENUES								
Taxes	$35,561,785				$ 16,803	$(22,297)	$ 4,323	$35,560,614
Licenses and permits	147,398							147,398
Natural resources	26,268							26,268
Charges for services	74,552						53,488	128,040
Fees	352,981							352,981
Penalties	6,710						1,340	8,050
Interest	472,370			$ 2,026				474,396
Other	137,064						9,483	146,547
Total Revenues	36,779,128			2,026	16,803	(22,297)	68,634	36,844,294
EXPENDITURES								
Current								
General government	1,124,813	$ 4,397				(12,705)	42,267	1,158,772
Education	19,036,648	(96)		55,717		(34,881)	3,532	19,060,920
Health and welfare	11,284,216	24,156	$ 188,231			(22,158)	(32,198)	11,442,247
Resources	493,684	8,926				(5,494)	(2,000)	495,116
State and consumer services	252,561	(2,596)		(8,047)		(3,584)		238,334
Business and transportation	57,622	5,904		984		(374)		64,136
Correctional programs	1,865,901	(17,855)				(16,051)		1,831,995
Property tax relief	950,811	354				(1,466)		949,699
Capital outlay	390							390
Debt service								
Principal retirement	271,705						1,770	273,475
Interest and fiscal charges	477,300			4,343			5,041	486,684
Total Expenditures	35,815,651	23,190	188,231	52,997		(96,713)	18,412	36,001,768
OTHER FINANCING SOURCES (USES)								
Operating transfers in	204,391			(5,731)			13,514	212,174
Operating transfers out	(360,501)			321			(311)	(360,491)
Other additions	30,386						(30,386)	
Total Other Financing Sources (Uses)	(125,724)			(5,410)			(17,183)	(148,317)
Excess of Revenues and Other Sources Over Expenditures and Other Uses	837,753	(23,190)	(188,231)	(56,381)	16,803	74,416	33,039	694,209
Fund Balance (Deficit), July 1, 1988, as restated	(8,443)	383,736	(549,676)	211,528	(426,550)	(74,416)	(125,981)	(589,802)
Fund Balance, June 30, 1989	$ 829,310	$ 360,546	$(737,907)	$155,147	$(409,747)	$ 0	$ (92,942)	$ 104,407

C. *Special Revenue Fund 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 School Districts

Grants to school districts are recorded as expenditures on the budgetary basis when the commitments are made. In accordance with GAAP, these commitments are not recognized as expenditures until the school districts have incurred a liability.

Encumbrances

Encumbrances—goods and services that are ordered but not received by the end of the year—are recorded as expenditures on the budgetary basis. In accordance with GAAP, encumbrances are reported as a reservation of fund balance, reduced to reflect anticipated reimbursements.

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 other items include amounts designated for future highway construction, deposits for condemnation proceedings, a liability for claims arising from lawsuits, and various miscellaneous items.

STATE OF CALIFORNIA
SPECIAL REVENUE FUNDS
RECONCILIATION OF BUDGETARY BASIS WITH GAAP BASIS
As of June 30, 1989
(In Thousands)

Budgetary Basis Fund Balance (Deficit)	$ (558,363)
Grant commitments to school districts	1,029,662
Encumbrances	940,359
Advances and loans receivable	671,844
Other	71,544
GAAP Basis Total Fund Equity	$2,155,046

D. *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. The following schedule reconciles the budgetary basis fund balance to the budgetary basis undesignated-available for appropriation and the GAAP basis undesignated fund balance.

	General Fund	Special Revenue Fund
Bugetary Basis Fund Balance (Deficit)	$ 829,310	$ (558,363)
Reserve for continuing appropriations	(116,563)	(489,266)
Reserve for other specific purposes	(66,877)	(71,123)
Budgetary Basis Undesignated (Deficit) Available for Appropriation	645,870	(1,118,752)
GAAP Basis Adjustments:		
Liability for the Medi-Cal Program	(737,907)	
Tax overpayments	(409,747)	
Grant commitments to school districts		1,029,662
Other	(92,942)	71,544
GAAP Basis Undesignated (Deficit)	$(594,726)	$ (17,546)

4. Temporary Fund Equity Deficits in Certain Special Revenue and Capital Projects Funds (GAAP Basis)

Both the special revenue fund type and the capital projects fund type had positive fund equities. However, 15 of the 24 special revenue funds that receive bond proceeds had deficits at June 30, 1989. Additionally, all eight capital projects funds that receive bond proceeds had deficits at June 30, 1989. These deficits resulted from the change in the way the State has financed certain projects since the passage of the Federal Tax Reform Act of 1986. The Federal Tax Reform Act of 1986 requires the State to pay the federal government any profit that it earns from investing tax-exempt bond proceeds at a higher interest rate than that which it pays on the bond issue. Before the passage of the Federal Tax Reform Act of 1986, the State sold tax-exempt bonds and invested the proceeds until the proceeds were needed to finance a particular project. The bond proceeds were reported as a financing source in the fund receiving the proceeds, which increased its fund balance, while the liability for the bonds issued was reported in the General Long-Term Obligations Account Group. Since the passage of the Federal Tax Reform Act of 1986, before issuing bonds, the State 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, 1989, the deficits in the 15 special revenue funds totaled $2.175 billion. All of these funds had bonds authorized but unissued that exceeded their deficit. In total, these funds had $4.497 billion in authorized but unissued bonds.

At June 30, 1989, the deficits in the eight capital projects funds totaled $275 million. Each of these funds had bonds authorized but unissued that exceeded its deficit. In total, these funds had $2.0 billion in authorized but unissued bonds.

5. Pooled Investment Loans

As discussed in Note 4, the State made loans to various state bond programs from its pooled investments during fiscal year 1988-89. The following schedule shows the loan balances by fund type at June 30, 1989 (in thousands):

Fund Type	Outstanding Loans at June 30, 1989	Amount Disbursed	Available Balance
Special revenue	$1,301,389	$ 841,448	$ 459,941
Capital projects	578,962	186,788	392,173
Enterprise	422,759	223,100	199,660
Total	$2,303,110	$1,251,336	$1,051,774

6. Cash and Pooled Investments, Investments, and Obligations Under 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, 1989, the agreements provided that the State maintain approximately $64 million on deposit to compensate the banks for services and $240 million to compensate the banks for uncleared checks.

As of June 30, 1989, the average remaining life of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 19 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 20 months. These securities are reported at cost.

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, which total $926 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 held by the State Treasurer's Office.

As of June 30, 1989, the State had amounts on deposit with fiscal agents totaling $8.8 million. These deposits, which were for principal and interest payments due to bond and note 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, 1989, 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 $991 million in the enterprise funds and $55 million in the trust and agency funds. These investments included uninsured and unregistered investments held by an agent of the State of which $242 million are in the State's name and $804 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, 1989.

INVESTMENTS
AS OF JUNE 30, 1989
(In Thousands)

	Pooled Investments		Separately Invested Funds			
			Enterprise Funds		Trust and Agency Funds	
	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
U.S. government securities and U.S. government agency securities	$ 2,797,457	$ 2,952,897	$2,763,629	$2,854,519	$10,638,281	$11,271,262
Canadian government securities			78,447	82,235	327,600	355,698
State and municipal securities			76,785	75,172	10,443	10,324
Certificates of deposit	3,131,394	3,130,478	25,022	25,022	1,111,973	1,111,973
Bankers' acceptances	1,554,033	1,571,832	14,711	14,711	454,115	454,115
Commercial paper	3,905,205	3,905,205	246,763	246,763	1,994,630	1,994,611
Corporate bonds	2,263,483	2,269,623	1,666,697	1,614,281	9,459,921	10,174,779
Mortgage loans and notes			3,173	3,118	11,659,908	12,275,073
Other debt securities					4,838,099	4,918,207
Repurchase agreements	318,435	318,435			220,000	220,000
Equity securities			2,303	3,265	25,274,365	33,584,536
Real estate					3,717,698	3,650,974
Investment agreements			582,698	582,698	112,852	112,852
Mutual funds					131,731	131,739
Other investments			1,011,416	1,011,416	1,325,778	1,327,599
Total investments	$13,970,007	$14,148,470	$6,471,644	$6,513,200	$71,277,394	$81,593,742

The market values of the investments in certain certificates of deposit, 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, 1988. The State Compensation Insurance Fund represents 52 percent and 51 percent, respectively, 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. At June 30, 1989, the State had entered into reverse repurchase agreements by temporarily selling investments with a carrying value of approximately $822 million. The market value plus accrued interest of the investments totaled approximately $887 million. Since, at June 30, 1989, the cash received plus accrued interest totaled $885.8 million for the securities sold, the State's credit risk at year end was approximately $1.2 million.

D. *Investments of the University of California*

As discussed in Note 2, 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 American Institute of Certified Public Accountants. The investments of the endowment and similar funds and the investments of the pooled investment program are reported at cost. The investments of the University of California Retirement System Funds are reported at market value. As of June 30, 1989, the pooled and temporary investments had a carrying value of $2 billion, which approximates market value. The following schedule presents the investments other than those of the pooled investment program as of June 30, 1989 (in thousands):

	Endowment and Similar Funds		University of California Retirement System Funds	
	Carrying Value	Market Value	Carrying Value	Market Value
Common stocks	$366,898	$ 778,432	$4,271,955	$ 7,896,268
Bonds	133,310	143,669	1,669,425	1,859,199
Bond substitutes	84,869	151,775	844,065	1,322,514
Mortgage loans and notes	4,155	3,951	2,222	2,047
Miscellaneous investments	3,224	3,224	763,600	763,600
Real estate	6,933			
Total	$599,389	$1,081,051	$7,551,267	$11,843,628

7. 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, 1989 (in thousands):

Purpose	Cash and Pooled Investments	Investments	Due From Other Funds
Debt service	$1,107,149	$913,719	$ 1,280
Construction	383,643	5,174	10,465
Equipment repair and replacement	35,436		1,244
Operations	3,825		
Deposits	2,516		
Total Restricted Assets	$1,532,569	$918,893	$12,989

8. Deferred Charges

The deferred charges account in the enterprise fund type 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

The following schedule presents a summary of the fixed assets of the enterprise funds, internal service funds, pension trust funds, and the University of California as of June 30, 1989 (in thousands):

	Enterprise	Internal Service	Pension Trust	University of California
State water projects	$3,180,747			
Toll facilities	655,777			
Other land, improvements, buildings, and equipment	658,963	$350,063	$8,448	$6,596,463
Construction in progress	1,056,601			527,348
Total Fixed Assets	5,552,088	350,063	8,448	7,123,811
Less accumulated depreciation	(769,668)	(142,103)		
Net Fixed Assets	$4,782,420	$207,960	$8,448	$7,123,811

10. Compensated Absences Payable

As of June 30, 1989, the State's estimated liability for compensated absences related to accumulated vacation leave amounted to approximately $576 million. Of this amount, $462 million is reported in the General Long-Term Obligations Account Group, $29 million is reported in the proprietary fund types, and $85 million for earned vacation compensation of academic-year faculty of the California State University and of the special schools of the State Department of Education is 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 State's 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, 1989 (in thousands):

	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
General Long-Term Obligations	$3,248,925	$1,140,000	$273,475	$4,115,450
Enterprise Funds	4,758,190		242,155	4,516,035
Total General Obligation Bonds	$8,007,115	$1,140,000	$515,630	$8,631,485

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 State's 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, 1989 (in thousands):

	Outstanding	Authorized But Unissued
General Long-Term Obligations		
School Building Lease-Purchase	$ 930,925	$ 645,000
New Prison Construction	876,000	1,069,000
County Jail Capital Expenditure	436,375	40,000
Higher Education Facilities	238,000	762,000
Clean Water	227,900	299,000
Clean Water and Water Conservation	221,950	37,000
State Parklands	152,400	45,000
Park and Recreational Facilities	139,500	215,000
Safe Drinking Water	139,270	245,000
State, Urban, and Coastal Park	132,125	25,000
State Beach, Park, Recreational and Historical Facilities	123,525	
State Construction	86,900	
Health Science Facilities	58,405	
School Facilities	55,000	1,545,000
Community College Construction	47,250	
County Correctional Facility	43,000	452,000
Senior Center	42,500	
Higher Education Construction	36,140	
Fish and Wildlife Habitat Enhancement	34,500	45,000
Wildlife, Coastal, and Park Land	32,000	744,000
Lake Tahoe Acquisitions	25,000	55,000
Recreation and Fish and Wildlife Enhancement	15,000	
Harbor Development	9,485	
Junior College Construction	6,500	
Community Parklands	5,000	95,000
Water Conservation and Quality	800	149,200
County Correctional Youth Facility		500,000
Housing and Homeless		300,000
Earthquake Safety and Housing Rehabilitation		150,000
Library Construction and Renovation		75,000
Clean Water and Water Reclamation		65,000
Water Conservation		60,000
Total General Long-Term Obligations	4,115,450	7,617,200
Enterprise Funds		
California Veterans	2,875,910	1,020,000
Water Resource Development	1,311,470	180,000
State School Building Aid	279,985	40,000
Hazardous Substance Cleanup	42,500	50,000
First-Time Home Buyers	6,170	185,000
Total Enterprise Funds	4,516,035	1,475,000
Total General Obligation Bonds	$8,631,485	$9,092,200

C. *Debt Service Requirements*

The following schedule shows the debt service requirements for general obligation bonds, including interest of $5.9 billion, as of June 30, 1989 (in thousands):

Year Ending June 30	General Long-Term Obligations	Enterprise Funds
1990	$ 612,655	$ 523,780
1991	589,513	506,149
1992	556,204	478,381
1993	513,733	453,513
1994	486,113	441,458
Thereafter	3,854,644	5,570,154
Total	$6,612,862	$7,973,435

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 State's 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 to allow 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, 1989 (in thousands):

	Balance July 1, 1988	Additions	Deductions	Balance June 30, 1989
Enterprise Funds	$6,644,059	$1,263,101	$500,823	$7,406,337
University of California	877,088	116,650	6,967	986,771
Total Revenue Bonds	$7,521,147	$1,379,751	$507,790	$8,393,108

B. *Revenue Bonds Outstanding*

The following schedule shows revenue bonds outstanding as of June 30, 1989 (in thousands):

	Outstanding
Enterprise Funds	
California Housing Finance Agency	$3,126,346
Department of Veterans Affairs	1,493,091
Department of Water Resources	1,324,269
State Public Works Board	1,139,964
California State University	218,413
California Transportation Commission	87,982
California National Guard	16,272
Total Enterprise Funds	7,406,337
University of California	
Regents of the University of California	986,771
Total Revenue Bonds	$8,393,108

C. *Debt Service Requirements*

The following schedule shows the debt service requirements for revenue bonds, including interest of $12.4 billion, as of June 30, 1989 (in thousands):

Year Ending June 30	Enterprise Funds	University of California
1990	$ 749,609	$ 80,016
1991	753,877	81,780
1992	767,773	82,486
1993	774,513	82,295
1994	772,715	82,417
Thereafter	13,477,155	3,099,624
Total	$17,295,642	$3,508,618

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, 1989, $44.3 million of the Series A and B bonds remained outstanding.

Since the escrow arrangements effectively release the California Transportation Commission from its obligations for the $44.3 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 $134.4 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.

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, 1989, $109 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, 1989, $194.3 million of the Series B revenue bonds remained outstanding.

Since the escrow arrangements effectively release the Department of Water Resources from its obligations for $134.4 million of the Series G bonds, the remaining $109 million of the Series C and D bonds, and the remaining $194.3 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, 1989, $80.8 million of the 1983 Series A bonds remain outstanding.

Since the escrow arrangements effectively release the California Student Loan Authority from its obligation for the remaining $80.8 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.

During the year ended June 30, 1988, the University of California sold certificates of participation and put the proceeds in trust to satisfy the debt of old certificates of participation. Therefore, neither the liability for these certificates of participation nor the related trust assets are included on the combined balance sheet. At June 30, 1989, the old certificates of participation had an outstanding balance of $41.5 million.

13. No-Commitment Debt

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

The following schedule shows no-commitment debt outstanding as of June 30, 1989 (in thousands):

	Outstanding
Health Facilities Financing Authority	$4,001,708
Pollution Control Financing Authority	3,302,273
Educational Facilities Authority	766,969
Alternative Energy Source Financing Authority	110,712
School Finance Authority	49,300
Total No-Commitment Debt	$8,230,962

14. Commitments

A. *Leases*

The aggregate amount of lease commitments for facilities and equipment, excluding those of the University of California, in effect as of June 30, 1989, is approximately $3.2 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 State has also entered into 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, nonprofit corporations, 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.

Certain state educational and correctional institutions have entered into lease-purchase agreements with the State Public Works Board amounting to a present value of net minimum lease payments of $1 billion. These lease payments 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 these institutions. Upon expiration of these leases, jurisdiction of the educational and correctional facilities will pass from the State Public Works Board to the state educational and correctional institutions. The State Public Works Board accounts for these leases in its enterprise funds where it records the leases as construction work in progress and as a net investment in direct financing leases. These two accounts are classified as fixed assets and receivables on the combined balance sheet.

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

Year Ending June 30	Operating Leases	Capital Leases	Total
1990	$155,243	$ 103,247	$ 258,490
1991	134,942	131,584	266,526
1992	107,938	145,944	253,882
1993	87,705	145,873	233,578
1994	69,351	146,655	216,006
Thereafter	181,215	1,806,819	1,988,034
Total Minimum Lease Payments	$736,394	2,480,122	$3,216,516
Less amount representing interest		1,115,104	
Present Value of Net Minimum Lease Payments		$1,365,018	

Lease expenditures for the year ended June 30, 1989, amounted to approximately $275 million.

University of California rental expenditures for the years ended June 30, 1989 and 1988, totaled $50 million and $45 million, respectively. Minimum payments required under capital and noncancelable operating leases in fiscal year 1989-90 are $22.9 million and decrease in amount thereafter.

B. *Encumbrances*

At June 30, 1989, encumbrances of the special revenue funds totaled $940 million. This amount does not include commitments of $1.87 billion for construction projects for various highways. The commitments for highway projects in the amount of $1.87 billion are excluded because the future expenditures related to these commitments are expected to be reimbursed primarily from proceeds of approved federal grants. The ultimate liability will not accrue to the State.

C. *Other*

As of June 30, 1989, the State, excluding the University of California, had other commitments totaling $2.843 billion. These commitments included loan and grant programs for housing, school building aid, county jail construction, community parks, harbors and waterways, supply systems for domestic water, energy conservation, and economic development totaling approximately $2.324 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 State had commitments totaling approximately $420 million for the construction of water projects and portable classrooms and the construction and rehabilitation of toll bridge facilities. The State also had commitments of up to $99 million for the purchase of terminals for the lottery facilities. Construction projects of the University of California, totaling $981 million, had been authorized as of June 30, 1989.

15. Fund Balance Reserved for Other Specific Purposes

General Fund

The reserve includes $42.2 million representing the unspent balance of the appropriation for fiscal year 1986-87 restricted for tax rebates in accordance with Article XIIIB of the state constitution. The reserve also includes $24.7 million representing the unencumbered balances of appropriations restricted for future educational purposes in accordance with Article XVI, Section 8, of the state constitution (Proposition 98).

Special Revenue Funds

The reserve represents $56.5 million of proceeds from condemnation deposits and $14.5 million that is reserved for transfer to the State's General Fund in accordance with the Budget Act of 1989.

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 group represents funds for which outside sources or donors specify the use. The reserve in the Endowment and Similar Funds group primarily consists of income-generating gifts where, by definition, the principal is maintained and invested and only the income is used. In the Plant Funds group, the reserve consists of monies designated to finance the acquisition and construction of capital assets. Finally, the reserve in the Loan Funds group consists of monies designated for various loans to students, faculty, and staff.

16. Major Tax Revenues

Tax revenues for the year ended June 30, 1989, are as follows (in thousands):

	General Fund	Special Revenue Funds	Expendable Trust Funds
Sales and use	$12,577,297	$ 732,679	
Personal income	15,884,531		
Bank and corporation	5,143,682		
Unemployment insurance			$1,982,161
Disability insurance			1,724,262
Cigarette and tobacco	162,221	328,667	
Other	1,792,883	121,448	19,680
Total	$35,560,614	$1,182,794	$3,726,103

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 University of California follows the reporting requirements of the National Association of College and University Business Officers and the American Institute of Certified Public Accountants. The other pension funds are included in the fiduciary fund type and are reported in accordance with the requirements of the Governmental Accounting Standards Board. Additional information for each retirement system can be found in each system's separately issued financial reports.

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 627,000 active and inactive members at June 30, 1989, excluding current benefit recipients of approximately 240,000. The membership includes employees of the State of California, nonteaching school employees, and employees of California public agencies. These employees are covered under 1,176 contracts with the PERS. The payroll of member agencies covered by the PERS was approximately $14.7 billion in fiscal year 1988-89. At June 30, 1989, the PERS had approximately 218,000 state members. The State's payroll covered by the PERS was approximately $6 billion out of a total payroll of approximately $8.9 billion, which includes the payroll of the University of California of approximately $2.3 billion.

All employees of member agencies who work on a half-time basis 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 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, which include employees in law enforcement and fire prevention and suppression; industrial members, which include employees of the youth and adult correctional facilities who are not safety members; and miscellaneous members, which include all other members and represent 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 the normal retirement age of 60, provides benefits equal to 2 percent of the highest compensation over three consecutive years 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, 1988. 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 a year compounded annually; (b) projected salary increases of 5 percent a year compounded annually, attributable to inflation; (c) additional salary increases of .50 percent a year attributable to across-the-board salary increases and 1.50 percent a 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, 1988 (in thousands):

	Total PERS	State's Portion
Pension benefit obligation to:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$19,638,752	$ 9,451,198
Current employees:		
Accumulated employee contributions, including allocated investment earnings	8,233,031	2,869,841
Employer-financed vested	16,328,689	8,682,008
Employer-financed nonvested	867,399	423,989
Total pension benefit obligation	45,067,871	21,427,036
Net assets available for benefits (market value $45,443,107 and $18,831,968, respectively)	38,220,619	16,650,724
Unfunded pension benefit obligation	$ 6,847,252	$ 4,776,312

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 30 years.

The significant actuarial 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 8.89 percent of covered payroll and an amortization of unfunded liabilities of 2.75 percent of covered payroll. The following schedule shows the actual contributions during fiscal year 1988-89 (amounts in thousands):

	Amount	Percentage of Payroll
Employer	$1,482,557	10.113%
Members	886,857	6.050
Total	$2,369,414	16.163%

The rates at which the State was required to contribute to the PERS during fiscal year 1988-89 were as follows:

	Normal Cost	Unfunded Liability	Total Rate
Miscellaneous members:			
First tier	8.769%	4.695%	13.464%
Second tier	8.718	4.695	13.413
Industrial	16.626	−16.626	0
Highway patrol	18.452	−18.452	0
Peace officers/firefighters	14.077	2.354	16.431
Other safety members	17.282	−16.219	1.063

The actual contributions, also expressed as a percentage of payroll, of the State and the PERS' members for the year ended June 30, 1989, were as follows (amounts in thousands):

	Amount	Percentage of Covered Payroll
Miscellaneous:		
Employer	$ 623,248	13.458%
Members	176,450	3.810
Industrial:		
Employer	27,302	16.626
Members	6,343	3.862
Highway patrol:		
Employer	41,306	18.454
Members	12,621	5.639
Peace officers/firefighters:		
Employer	147,721	16.431
Members	63,846	7.102
Other safety:		
Employer	25,373	17.268
Members	8,285	5.639
Total Contributions	$1,132,495	

Trend Information

The following schedule shows the percentage of 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, 1988, and 1987. Additional trend information will be provided in future years as it becomes available.

	June 30, 1988	June 30, 1987
Net assets available for benefits	$38,220,619	$33,709,518
Pension benefit obligation	45,067,871	41,337,318
Percentage funded	85%	82%
Unfunded pension benefit obligation	$ 6,847,251	$ 7,627,801
Annual covered payroll	13,559,719	12,700,000
Unfunded pension benefit obligation as a percentage of covered payroll	51%	60%

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, 1989, the STRS had approximately 1,100 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, 1989, the STRS had approximately 156,000 nonvested inactive members, retirees, and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them. Also, the STRS had approximately 296,000 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 the highest three consecutive years of credited service. Normal retirement age is 60 years, at which time the benefit formula provides benefits equal to 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	—Annual contributions of $144.3 million indexed to increases or decreases in the consumer price index beginning July 1, 1980. In fiscal year 1988-89, the contribution under this requirement was $253 million.
	—Additional annual contributions of $100 million in 1985-86 that increase by $20 million each year through 1994-95 when the additional annual contribution will be $280 million. Beginning in 1994-95 such additional contributions of $280 million will be indexed to the California Consumer Price Index.
	—Under certain provisions of the California Education Code, the State is required to make contributions of .415 percent of payroll. Actual appropriations for 1988-89 were $34.5 million, or .287 percent of payroll.

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, 1989, is in the custody of or controlled by the State Street Bank and Trust Company, the STRS' master custodian.

Debt securities are reported at amortized cost. Mortgage loans are reported at the remaining principal balance less unamortized discounts. Equity securities are reported at 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 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 was determined as part of an actuarial valuation as of June 30, 1987. 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.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed above.

At June 30, 1988, the estimated unfunded pension benefit obligation was as follows (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits	$12,471,472
Current members	23,095,678
Inactive members	970,923
Total pension benefit obligation	36,538,073
Net assets available for benefits (at amortized cost)	23,392,358
Unfunded pension benefit obligation	$13,145,715

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, 1987, the STRS' independent actuaries determined that the minimum rate of contributions to meet the requirements of the funding policy is 21.26 percent of covered payroll. The total contribution rate currently required by law is 20.22 percent of covered payroll, representing a deficit of 1.04 percent. The annual funding deficit at the previous valuation on July 1, 1985, was 2.49 percent.

Trend Information

The following schedule shows the percentage of 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, 1988, 1987 and 1985. Additional trend information is available in the separately issued STRS' financial report for the year ended June 30, 1989 (amounts in thousands):

	June 30,		
	1988	1987	1985
Net assets available for benefits	$23,392,358	$20,594,478	$15,005,254
Pension benefit obligation	36,538,073	33,909,686	28,271,320
Percentage funded	64%	61%	53%
Unfunded pension benefit obligation	$13,145,715	$13,315,208	$13,266,066
Annual covered payroll	9,248,742	8,705,341	7,223,069
Unfunded pension benefit obligation as a percentage of covered payroll	142%	153%	184%

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 supreme court, courts of appeal, superior courts, and municipal courts. Membership in the pension plan includes all judges of municipal and higher courts of California. As of June 30, 1989, the JRS had 1,458 active and inactive members and 947 retired members and beneficiaries receiving benefits. The covered payroll for fiscal year 1988-89 was approximately $112 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' length of service and salary rates. 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. Investments approximate market value.

Funding Status and Progress

The pension benefit obligation is a standarized 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 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 the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the JRS.

Significant 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, 1988 (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 647,211
Current employees:	
Accumulated employee contributions including allocated investment income	63,432
Employer-financed vested	746,920
Employer-financed nonvested	252,728
Total pension benefit obligation	1,710,291
Net assets available for benefits, at cost, which approximates market	3,334
Unfunded pension benefit obligation	$1,706,957

Contribution Requirements

The contribution requirements of the JRS are not actuarially determined. Contribution requirements are established by law. The actuary determined that the State and local governments needed to contribute a total of $106 million to fund costs accruing each year and liquidate the unfunded accrued liability as of June 30, 1988. The State actually contributed a total of approximately $9 million.

The last actuarial valuation of the JRS' assets and liabilities was performed as of June 30, 1988. 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 approximately 95 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1988. This rate was determined to fully fund the JRS by January 1, 2002. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 20.5 percent available under current law.

Trend Information

The following schedule shows the percentage of 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, 1988, and 1987 (in thousands). Additional trend information will be provided in future years as it becomes available.

	June 30, 1988	June 30, 1987
Net assets available for benefits	$ 3,334	$ 3,615
Pension benefit obligation	1,710,291	1,479,310
Percentage funded	.2%	.2%
Unfunded pension benefit obligation	$1,706,957	$1,475,695
Annual covered payroll	110,000	105,000
Unfunded pension benefit obligation as a percentage of covered payroll	1,551.8%	1,405.4%

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 state Legislature, constitutional officers, and legislative statutory officers who elect to participate in the plan. At June 30, 1989, the LRS had 178 active and inactive members and 230 retired members. The covered payroll for fiscal year 1988-89 was approximately $5.3 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.

Investment Matters

The LRS has investments in stocks and 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, where 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 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.

The following schedule shows the total unfunded pension benefit obligation applicable to the LRS at June 30, 1988 (in thousands):

Pension benefit obligation to:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$53,699
Current employees:	
Accumulated employee contributions including allocated investment income	4,895
Employer-financed vested	11,895
Employer-financed nonvested	182
Total pension benefit obligation	70,671
Net assets available for benefits, at cost (market value is approximately $62,000)	55,180
Unfunded pension benefit obligation	$15,491

Contribution Requirements

The current contribution requirements of the LRS are based on actuarially determined rates required by state law. The actuary determined that the State needed to contribute a total of $1,419,000 to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1988. The State actually contributed $941,595.

The last actuarial valuation of the LRS' assets and liabilities was performed as of June 30, 1988. 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 approximately 28.35 percent of covered payroll would be required to fund costs accruing each year and to liquidate the unfunded accrued liability as of June 30, 1988. This rate was determined to fully fund the LRS by the year 2008. The minimum contribution rate determined by the independent actuary is significantly higher than the contribution rate of 18.81 percent available under current law.

Trend Information

The following schedule shows the percentage of 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, 1988, and 1987. Additional trend information will be provided in future years as it becomes available.

	June 30, 1988	June 30, 1987
Net assets available for benefits	$55,180	$52,310
Pension benefit obligation	70,671	68,184
Percentage funded	78%	77%
Unfunded pension benefit obligation	$15,491	$15,874
Annual covered payroll	5,000	4,800
Unfunded pension benefit obligation as a percentage of covered payroll	310%	331%

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, 1989, the pension plan had approximately 89,400 members with approximately 13,700 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 8.25 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, 1989, was $4.8 billion, composed of vested benefits of $4.4 billion and nonvested benefits of $380 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 $7 billion. Net assets available for benefits, using the actuarial value of such assets, totaled $10 billion at June 30, 1989.

Funding Policy

The UCRS is funded through the University of California and employee contributions. The pension expense related to the UCRS was $222.3 million for fiscal year 1988-89. In 1984, the State agreed to pay $66.5 million in actuarially equivalent installments over 30 years. At June 30, 1989, the amount due from the State was $62.8 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 Funds and Retirement System Funds.

18. Postretirement Health Care Benefits

In addition to providing pension benefits, the State also provides certain health care benefits for eligible retired employees and their survivors. The cost of retiree health care is recognized as an expenditure in the year the benefits are provided. The cost of providing these benefits for retirees in fiscal year 1988-89 was $205 million, including $49.1 million for the University of California.

19. Deferred Compensation Plan

The State offers its eligible employees a deferred compensation plan in accordance with Title 26, Internal Revenue Code, Section 457. 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, 1989, the total market value of assets in the deferred compensation plan was approximately $1.175 billion. Of this amount, $1.163 billion is reported in investments, $12 million is reported in due from other funds, and the corresponding liability of $1.175 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 FISCAL YEAR ENDED JUNE 30, 1989 (In Thousands)

	Housing Loan	Water	State Compensation Insurance	Student Loans and School Building Aid	Toll Facilities	State University	Leasing of Public Assets	Lottery	Other Enterprises
Operating Revenue	$ 557,169	$ 520,095	$2,090,687	$ 83,249	$ 104,820	$164,208	$ 6,595	$2,628,905	$ 93,214
Operating Income (Loss)	(97,118)	181,009	418,572	55,822	72,698	67,548	(9,390)	992,251	43,506
Net Income	22,310	76,848	418,572	61,489	79,770	60,360	12,635	1,026,231	71,495
Property, Plant, and Equipment									
Additions	27	124,404	7,306	19,487	27,662	32,426	129,070	35,855	1,295
Deductions	2,775						26,073		187
Total Assets	8,715,657	4,824,589	3,920,515	611,672	1,066,326	680,577	1,609,170	1,129,591	491,096
Bonds and Other Long-Term Liabilities	7,705,376	3,069,737	1,369,144	368,997	104,698	221,228	1,165,727	705,622	87,008
Total Equity	617,847	922,508	763,228	238,867	951,923	349,377	29,808		328,353

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, 1988.

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

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, 1989; legal proceedings that were in progress at June 30, 1989, and that were settled or decided against the State as of December 8, 1989; and legal proceedings having a high probability of resulting in a decision against the State as of December 8, 1989, 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 Obligation 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 24 lawsuits involving the State's use of the unitary method of taxation. Under the unitary method of taxation, 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 case is *Barclays Bank of California v. Franchise Tax Board, Barclays Bank International v. Franchise Tax Board.* This case is currently on appeal to a district court of appeal, after an adverse judgment to the State. In the event of other adverse decisions, the potential liability to the State could total $500 million for the 24 lawsuits. The State recorded $275 million of this amount, representing previous tax collections, as tax overpayments on the balance sheet. Further, approximatley $225 million, representing accrued interest on these tax overpayments, is not reported on the balance sheet.

The State is a defendant in three lawsuits involving a similar issue. The lead case is *Colgate Palmolive v. Franchise Tax Board.* The primary issue in these cases is whether the Franchise Tax Board can allocate income to California based on the worldwide income of domestic parent multinational corporations and all their worldwide unitary subsidiaries. The State lost in the trial court on one of the issues. A final decision is several years away. In the event of an adverse outcome, the potential liability to the State has been estimated at $2.8 billion.

The State is the defendant in two lawsuits 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 has been estimated by the Department of Finance at over $1 billion. In a separate case, the State is the defendant in *Los Angeles Unified School District v. State of California.* In this case, the school district seeks reimbursement for expenditures that it has incurred to comply with state occupational safety and health administration law. Previously, the Board of Control decided that the State was not required to reimburse school districts for these costs. After an unfavorable judgment, the State is currently appealing the case to a court of appeal. The potential loss to the State has been estimated at $1 billion.

The State is a defendant 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*, in which 4,000 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. In a separate suit, the State is one of several defendants in *United States, People of the State of California v. J. B. Stringfellow, Jr.* The plaintiffs are seeking recovery for past costs of cleanup of the site and an injunction ordering completion of the cleanup. Present estimates range from $200 million to $800 million. The State is a defendant because it is the current owner of the site. In both of the above cases, the potential liability to the State in the event of an adverse outcome is unknown.

The State is the 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. On June 30, 1989, the potential loss from refunds of the vehicle license fees was estimated at $700 million, and the potential loss from refunds of use taxes was estimated at $1 billion. The State intends to litigate this case to the United States Supreme Court, if necessary.

The State is the defendant in *Atlantic Richfield Company, et al. v. State Lands Commission, et al.*, a suit arising from the Commission's refusal to approve a development project on five state oil and gas leases held by Atlantic Richfield. Atlantic Richfield claims damages of $54,795 per day since May 27, 1987, resulting from this denial, and damages of $793 million in the event of a permanent stoppage of development of the leases. The State is currently contesting the complaint.

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 has been estimated to be in excess of $100 million.

The State is the defendant in the Long Beach petroleum antitrust litigation. This is a counterclaim suit in which several major oil companies are alleging that the City of Long Beach and the State Lands Commission failed to provide sufficient funding to adequately produce oil resources. In the event of an adverse outcome, the potential liability to the State could exceed $110 million.

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 $530 million as of June 30, 1989. 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, 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. California State Lottery

For the fiscal year ended June 30, 1989, lottery ticket sales totaled approximately $2.6 billion. The State Lottery Fund also earned interest revenue of $34 million. Of the total lottery ticket sales, $1.3 billion (50 percent) was for lottery prizes and $1 billion (39 percent) was distributed for educational purposes. Lottery operating expenses, net of interest revenue, amounted to $289 million (11 percent). The lottery prizes and annuities account consists of $153 million in current and $702 million in long-term liabilities.

24. Appropriations Limit

The State is subject to an annual appropriations limit imposed by Article XIIIB 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. All tax revenue received must be appropriated under the provisions of Article XIIIB or allocated to school districts within limits. The tax revenue in excess of the appropriations limit to be distributed to public schools and community colleges is limited to 4 percent of the minimum school funding level. Any excess tax revenues from that still remaining after these distributions to public schools and community colleges must be returned to the taxpayers. Any funds not appropriated for specific purposes are appropriated annually to a special account for economic uncertainties in each fund.

The state constitution imposes no limit on appropriations or funds obtained through nontax sources, such as from reasonable user charges or fees and bond proceeds. The state appropriations limit is also exclusive of certain appropriations such as debt service on voter-approved debt, debt existing when Article XIIIB was adopted, and state subventions to local governments that are not restricted in their use. State appropriations to local governments without restrictions are considered tax proceeds for local entities, subject to each local entity's revenue and appropriations limit.

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 1988-89.

The governor has reported that the state appropriations limit for fiscal year 1988-89 was $27.064 billion. The governor also reported that the appropriations subject to the limit for fiscal year 1988-89 were $26.805 billion, which is $259 million under the appropriations limit.

25. Subsequent Events

On October 17, 1989, California experienced a major earthquake that resulted in loss of life and significant damages to roads, buildings, and bridges. In response to the disaster, the governor called a special session of the Legislature to consider emergency relief measures for recovery from the effects of the earthquake. As a result, the governor and the Legislature enacted legislation that the governor estimates will provide approximately $1 billion in state aid to individuals, businesses, and state and local governmental agencies. Among the many relief measures, the new legislation established a temporary sales tax increase of one quarter of one percent that became effective on December 1, 1989, and will remain in effect until December 31, 1990. According to the governor, the additional tax is expected to generate approximately

$800 million in revenues that will fund expenditures for response to and recovery from the earthquake.

In August 1989, the State Treasurer's Office issued $3 billion in revenue anticipation notes to fund the State's cash flow needs for fiscal year 1989-90. These notes will mature on June 29, 1990.

From July 1, 1989, to December 22, 1989, the State issued $835 million in general obligation bonds, approximately $218 million in revenue bonds, and approximately $37 million in certificates of participation. From July 1, 1989, to December 22, 1989, the University of California issued approximately $13 million in revenue bonds. Finally, from July 1, 1989, to December 22, 1989, various authorities issued approximately $878 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 1989
(IN THOUSANDS)

	1982	1983	1984	1985	1986	1987	1988	1989
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
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
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
Resources	578,747	512,442	632,579	599,616	743,931	766,707	765,176	1,409,351
State and consumer services	370,669	312,526	421,453	618,035	711,237	793,572	1,123,851	1,670,385
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
Correctional programs	714,817	733,099	845,666	1,211,818	1,264,060	1,855,042	1,846,112	1,955,060
Property tax relief	1,313,515	1,351,061	1,070,154	944,850	925,750	993,548	1,011,781	949,699
Capital outlay	457,871	571,868	155,894	294,605	698,967	636,147	686,257	676,340
Debt service	218,092	284,346	342,899	375,829	444,942	638,535	678,340	856,538
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

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

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

STATE OF CALIFORNIA
GENERAL REVENUES BY SOURCE*
AS REPORTED FOR FISCAL YEARS ENDED JUNE 30, 1982 THROUGH 1989
(IN THOUSANDS)

	1982	1983	1984	1985	1986	1987	1988	1989
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
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
Licenses and permits	933,158	829,918	902,430	1,224,057	1,237,717	1,275,597	1,389,586	1,440,119
Natural resources	450,996	370,253	401,727	516,017	427,120	167,422	225,340	119,456
Charges for services	52,282	120,668	106,251	202,392	212,560	274,388	237,164	258,984
Fees	235,968	322,918	640,053	422,103	588,422	627,867	784,597	907,562
Penalties	113,488	73,887	66,879	79,568	138,866	406,643	237,600	285,959
Interest	401,789	461,753	386,174	626,937	679,011	653,928	612,968	692,352
Other	172,804	419,525	98,349	149,565	208,656	429,706	225,105	281,422
Total	$29,172,052	$30,415,129	$34,845,481	$38,431,221	$40,740,089	$44,290,803	$45,029,916	$51,956,171

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

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

STATE OF CALIFORNIA
PERCENTAGE OF GENERAL LONG-TERM BONDED DEBT TO PER CAPITA INCOME
FOR FISCAL YEARS ENDED JUNE 30, 1979 THROUGH 1989

Year	General Long-Term Bonded Debt (in Thousands)	Per Capita Debt	Per Capita Income	Percentage of Per Capita Debt to Per Capita Income
1979	$1,727,920	$ 74.97	$ 9,957	.75%
1980	1,755,886	74.68	11,049	.68
1981	1,685,352	70.13	12,173	.58
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

Sources: 1979-89, State Controller's Annual Reports; U.S. Department of Commerce, Bureau of Economic Analysis, and California Department of Finance estimates (as revised).

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 1989
(IN THOUSANDS)

Year	Principal	Interest	Total Debt Service	Total General Expenditures*	Percentage of Debt Service to Total General Expenditures
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

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

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

STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE POPULATION
CALENDAR YEAR 1940 THROUGH CALENDAR YEAR 1988

Year	United States Population	Average Annual Percentage Increase	California Population	Average Annual Percentage Increase	California as a Percent of United States
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	227,255,000	1.1	23,780,000	1.9	10.5
1981	229,637,000	1.0	24,267,000	2.0	10.6
1982	231,996,000	1.0	24,786,000	2.1	10.7
1983	234,284,000	1.0	25,309,000	2.1	10.8
1984	236,477,000	.9	25,780,000	1.9	10.9
1985	238,736,000	1.0	26,358,000	2.2	11.0
1986	241,107,000	1.0	27,001,000	2.4	11.2
1987	243,419,000	1.0	27,653,000	2.4	11.4
1988	245,807,000	1.0	28,314,000	2.4	11.5

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

STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE PERSONAL INCOME
CALENDAR YEAR 1970 THROUGH CALENDAR YEAR 1988

	United States		California		
Year	Personal Income (in Millions)	Percent Change	Personal Income (in Millions)	Percent Change	California as a Percent of United States
1970	$ 825,500		$ 95,039		11.5%
1971	888,500	7.6%	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	2,254,100	11.1	276,107	12.8	12.2
1981	2,514,200	11.5	308,731	11.8	12.3
1982	2,663,400	5.9	328,033	6.3	12.3
1983	2,834,400	6.4	352,438	7.4	12.4
1984	3,101,200	9.4	389,183	10.4	12.5
1985	3,317,200	7.0	422,142	8.5	12.7
1986	3,521,400	6.2	453,404	7.4	12.9
1987	3,768,100	7.0	492,989	8.7	13.1
1988	4,049,300	7.5	534,809	8.5	13.2

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

STATE OF CALIFORNIA
COMPARISON OF NATIONAL WITH STATE
PER CAPITA PERSONAL INCOME
CALENDAR YEAR 1970 THROUGH CALENDAR YEAR 1988

	United States		California		
Year	Per Capita Personal Income	Percent Change	Per Capita Personal Income	Percent Change	California as a Percent of United States
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	10,949	10.4	12,723	9.7	116.2
1982	11,480	4.8	13,235	4.0	115.3
1983	12,098	5.4	13,926	5.2	115.1
1984	13,114	8.4	15,096	8.4	115.1
1985	13,895	6.0	16,016	6.1	115.3
1986	14,606	5.1	16,792	4.8	115.0
1987	15,481	6.0	17,821	6.1	115.1
1988	16,473	6.4	18,888	6.0	114.7

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

STATE OF CALIFORNIA
CIVILIAN LABOR FORCE FOR
RESIDENT POPULATION AGE 16 AND OVER
CALENDAR YEAR 1973 THROUGH CALENDAR YEAR 1988

	Labor Force Trends (in Thousands)			Unemployment Rate	
Year	Total Labor Force	Employed	Unemployed	United States	California
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	13,729	12,938	791	6.2	5.8
1988	14,036	13,292	743	5.5	5.3

Source: California Employment Development Department (as revised).

STATE OF CALIFORNIA
PERSONS EMPLOYED IN
PRINCIPAL MANUFACTURING INDUSTRIES
CALENDAR YEAR 1982 AND CALENDAR YEAR 1988
(IN THOUSANDS)

Industry	1982	1988	Percent Change
Lumber and wood products	46.3	68.1	47.1%
Textile mill products	12.4	16.7	34.7
Printing and publishing	124.5	161.2	29.5
Furniture and fixtures	49.0	62.3	27.1
Apparel	102.4	124.9	22.0
Rubber and miscellaneous plastic products	61.2	73.4	19.9
Transportation equipment	266.3	306.0	14.9
Stone, clay, and glass products	50.4	56.9	12.9
Paper and allied products	37.3	41.3	10.7
Chemicals and allied products	65.7	72.2	9.9
Fabricated metal products	138.8	136.0	(2.0)
Food and kindred products	182.5	177.5	(2.7)
Primary metal products	47.6	44.0	(7.6)
Petroleum and coal products	31.7	28.7	(9.5)
Leather and leather products	10.5	6.4	(39.0)
Electric and electronic equipment	358.0	289.4	n.c.
Instruments and related products	102.4	238.3	n.c.
Machinery, except electrical	227.6	219.9	n.c.
Miscellaneous	43.2	37.3	(13.7)
Total	1,957.8	2,160.5	10.3

n.c.: 1988 data not comparable with 1982 data because of industry classification changes.

Sources: State of California, Department of Finance; California Employment Development Department

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