STATE OF CALIFORNIA

UNAUDITED BASIC FINANCIAL STATEMENTS

For the Fiscal Year Ended
June 30, 2019

Prepared by
The Office of the State Controller

BETTY T. YEE
California State Controller

Contents

UNAUDITED BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

This page intentionally left blank

Basic Financial Statements

This page intentionally left blank

Government-wide Financial Statements

Statement of Net Position

June 30, 2019
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 60,263,614	$ 7,383,985	$ 67,647,599	$ 2,814,435
Amount on deposit with U.S. Treasury	—	3,717,242	3,717,242	—
Investments	607,430	2,994,955	3,602,385	8,166,937
Restricted assets:				
Cash and pooled investments	581,464	999,183	1,580,647	288,562
Investments	—	—	—	40,342
Due from other governments	—	292,355	292,355	—
Net investment in direct financing leases	12,105	11,868	23,973	—
Receivables (net)	17,797,081	2,157,008	19,954,089	6,309,315
Internal balances	(191,044)	191,044	—	—
Due from primary government	—	—	—	222,053
Due from other governments	32,385,394	444,522	32,829,916	155,027
Prepaid items	216,791	69,471	286,262	4,529
Inventories	69,969	15,263	85,232	266,839
Recoverable power costs (net)	—	88,000	88,000	—
Other current assets	38,203	3,697	41,900	448,632
Total current assets	111,781,007	18,368,593	130,149,600	18,716,671
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	143,195	745,756	888,951	55,798
Investments	—	352,860	352,860	70,584
Loans receivable	—	1,954,696	1,954,696	—
Investments	—	2,070,884	2,070,884	35,891,433
Net investment in direct financing leases	253,833	208,216	462,049	—
Receivables (net)	6,709,367	472,679	7,182,046	2,901,483
Loans receivable	3,373,943	5,304,523	8,678,466	3,126,293
Recoverable power costs (net)	—	837,000	837,000	—
Long-term prepaid charges	1,158	1,467,006	1,468,164	134
Capital assets:				
Land	20,473,440	306,207	20,779,647	1,442,899
State highway infrastructure	78,418,144	—	78,418,144	—
Collections – nondepreciable	22,682	27,473	50,155	554,898
Buildings and other depreciable property	32,753,402	15,807,714	48,561,116	56,078,435
Intangible assets – amortizable	2,630,788	433,466	3,064,254	1,784,908
Less: accumulated depreciation/amortization	(16,009,057)	(6,573,874)	(22,582,931)	(28,699,015)
Construction/development in progress	16,149,346	3,257,564	19,406,910	4,360,384
Intangible assets – nonamortizable	592,549	118,807	711,356	10,344
Other noncurrent assets	—	29,820	29,820	455,058
Total noncurrent assets	145,512,790	26,820,797	172,333,587	78,033,636
Total assets	**257,293,797**	**45,189,390**	**302,483,187**	**96,750,307**
DEFERRED OUTFLOWS OF RESOURCES	24,864,723	3,000,868	27,865,591	10,834,877
Total assets and deferred outflows of resources	**$ 282,158,520**	**$ 48,190,258**	**$ 330,348,778**	**$ 107,585,184**

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

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 35,908,393	$ 571,116	$ 36,479,509	$ 4,220,427
Due to component units	222,053	—	222,053	—
Due to other governments	12,134,440	326,574	12,461,014	—
Revenues received in advance	2,050,018	372,260	2,422,278	1,613,694
Tax overpayments	5,930,342	—	5,930,342	—
Deposits	460,966	—	460,966	1,146,004
Contracts and notes payable	4,581	—	4,581	11,281
Unclaimed property liability	1,047,738	—	1,047,738	—
Interest payable	1,119,817	62,135	1,181,952	24,424
Securities lending obligations	—	—	—	991,052
Benefits payable	—	527,078	527,078	—
Current portion of long-term obligations	6,240,109	2,581,483	8,821,592	4,277,889
Other current liabilities	651,056	575,381	1,226,437	2,169,340
Total current liabilities	65,769,513	5,016,027	70,785,540	14,454,111
Noncurrent liabilities:				
Loans payable	199,063	—	199,063	17,370
Lottery prizes and annuities	—	682,929	682,929	—
Compensated absences payable	3,666,981	206,770	3,873,751	364,726
Workers' compensation benefits payable	3,958,475	5,131	3,963,606	488,169
Commercial paper and other borrowings	1,032,760	778,497	1,811,257	1,854
Capital lease obligations	363,129	295,214	658,343	372,104
General obligation bonds payable	74,762,282	807,597	75,569,879	—
Revenue bonds payable	14,912,983	13,275,970	28,188,953	22,973,611
Mandated cost claims payable	1,815,450	—	1,815,450	—
Net other postemployment benefits liability	69,441,716	14,765,563	84,207,279	20,355,755
Net pension liability	81,299,874	8,730,246	90,030,120	18,439,837
Revenues received in advance	—	8,048	8,048	12,215
Other noncurrent liabilities	2,128,019	268,122	2,396,141	2,976,451
Total noncurrent liabilities	253,580,732	39,824,087	293,404,819	66,002,092
Total liabilities	**319,350,245**	**44,840,114**	**364,190,359**	**80,456,203**
DEFERRED INFLOWS OF RESOURCES	17,468,047	4,587,487	22,055,534	7,179,642
Total liabilities and deferred inflows of resources	**$ 336,818,292**	**$ 49,427,601**	**$ 386,245,893**	**$ 87,635,845**

(continued)

Statement of Net Position (continued)

June 30, 2019
(amounts in thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
NET POSITION				
Net investment in capital assets	$ 112,413,760	$ 2,534,257	$ 114,948,017	$ 14,902,116
Restricted:				
Nonexpendable – endowments	—	1,693	1,693	7,471,853
Expendable:				
Endowments and gifts	—	—	—	12,974,311
General government	4,176,720	192,993	4,369,713	—
Education	848,496	144,161	992,657	1,441,553
Health and human services	3,424,992	2,047,041	5,472,033	—
Natural resources and environmental protection	5,234,161	2,729,142	7,963,303	—
Business, consumer services, and housing	4,218,802	22,414	4,241,216	—
Transportation	9,033,482	6,293	9,039,775	—
Corrections and rehabilitation	76,730	4,941	81,671	—
Unemployment programs	—	7,798,582	7,798,582	—
Indenture	—	—	—	629,421
Statute	—	—	—	2,067,910
Budget stabilization	14,358,422	—	14,358,422	—
Other purposes	—	—	—	17,875
Total expendable	41,371,805	12,945,567	54,317,372	17,131,070
Unrestricted	(208,445,337)	(16,718,860)	(225,164,197)	(19,555,700)
Total net position (deficit)	**(54,659,772)**	**(1,237,343)**	**(55,897,115)**	**19,949,339**
Total liabilities, deferred inflows of resources, and net position	**$ 282,158,520**	**$ 48,190,258**	**$ 330,348,778**	**$ 107,585,184**

(concluded)

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

This page intentionally left blank

Statement of Activities

Year Ended June 30, 2019

(amounts in thousands)

		Program Revenues		
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 17,900,629	$ 5,724,346	$ 1,438,133	$ —
Education	75,643,779	78,445	7,597,743	—
Health and human services	144,936,676	13,874,296	82,667,677	—
Natural resources and environmental protection	9,774,290	6,644,917	290,509	—
Business, consumer services, and housing	2,133,480	1,206,126	157,518	—
Transportation	17,022,071	7,093,122	2,274,694	1,561,483
Corrections and rehabilitation	15,153,502	10,993	75,588	—
Interest on long-term debt	3,995,597	—	—	—
Total governmental activities	286,560,024	34,632,245	94,501,862	1,561,483
Business-type activities:				
Electric Power	913,000	913,000	—	—
Water Resources	1,199,823	1,172,134	—	—
State Lottery	7,435,755	7,473,452	—	—
Unemployment Programs	13,229,332	14,039,030	—	—
California State University	9,779,084	3,529,083	2,044,729	—
State Water Pollution Control Revolving	49,860	95,703	12,504	—
Safe Drinking Water State Revolving	19,371	25,762	68,129	—
Housing Loan	54,402	60,002	—	—
Other enterprise programs	109,113	106,687	—	—
Total business-type activities	32,789,740	27,414,853	2,125,362	—
Total primary government	**$ 319,349,764**	**$ 62,047,098**	**$ 96,627,224**	**$ 1,561,483**
Component Units				
University of California	40,906,746	25,681,303	10,437,522	59,966
California Housing Finance Agency	180,958	48,052	100,000	—
Nonmajor component units	2,222,698	1,062,891	723,827	32,279
Total component units	**$ 43,310,402**	**$ 26,792,246**	**$ 11,261,349**	**$ 92,245**

General revenues:
- Personal income taxes
- Sales and use taxes
- Corporation taxes
- Motor vehicle excise tax
- Insurance taxes
- Managed care organization enrollment tax
- Other taxes
- Investment and interest income
- Escheat
- Other

Transfers

Total general revenues and transfers

Change in net position

Net position (deficit) – beginning, restated

Net position (deficit) – ending

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

Net (Expenses) Revenues and Changes in Net Position			
Primary Government			
Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
$ (10,738,150)		$ (10,738,150)	
(67,967,591)		(67,967,591)	
(48,394,703)		(48,394,703)	
(2,838,864)		(2,838,864)	
(769,836)		(769,836)	
(6,092,772)		(6,092,772)	
(15,066,921)		(15,066,921)	
(3,995,597)		(3,995,597)	
(155,864,434)		(155,864,434)	
	$ —	—	
	(27,689)	(27,689)	
	37,697	37,697	
	809,698	809,698	
	(4,205,272)	(4,205,272)	
	58,347	58,347	
	74,520	74,520	
	5,600	5,600	
	(2,426)	(2,426)	
	(3,249,525)	(3,249,525)	
$ (155,864,434)	**$ (3,249,525)**	**$ (159,113,959)**	
			$ (4,727,955)
			(32,906)
			(403,701)
			$ (5,164,562)
$ 100,657,551	$ —	$ 100,657,551	$ —
41,006,121	—	41,006,121	—
14,625,724	—	14,625,724	—
7,632,365	—	7,632,365	—
2,734,068	—	2,734,068	—
2,562,919	—	2,562,919	—
3,753,734	—	3,753,734	—
706,637	—	706,637	2,787,634
447,401	—	447,401	—
—	—	—	2,738,007
(3,930,906)	3,930,906	—	—
170,195,614	**3,930,906**	**174,126,520**	**5,525,641**
14,331,180	681,381	15,012,561	361,079
(68,990,952)	**(1,918,724)**	**(70,909,676)**	**19,588,260**
$ (54,659,772)	**$ (1,237,343)**	**$ (55,897,115)**	**$ 19,949,339**

This page intentionally left blank

Fund Financial Statements

Balance Sheet

Governmental Funds

June 30, 2019
(amounts in thousands)

	General	Federal
ASSETS		
Cash and pooled investments	$ 25,686,637	$ 359,294
Investments	—	—
Receivables (net)	17,440,580	5,544
Due from other funds	3,126,488	—
Due from other governments	2,267,323	28,375,205
Interfund receivables	1,173,670	—
Loans receivable	31,811	221,900
Other assets	1,727	—
Total assets	**$ 49,728,236**	**$ 28,961,943**
LIABILITIES		
Accounts payable	$ 2,404,879	$ 898,149
Due to other funds	6,120,501	23,189,228
Due to component units	163,305	—
Due to other governments	3,621,013	4,522,713
Interfund payables	4,814,193	—
Revenues received in advance	533,902	96,907
Tax overpayments	5,930,342	—
Deposits	2,990	—
Unclaimed property liability	1,047,738	—
Other liabilities	435,278	29,808
Total liabilities	**25,074,141**	**28,736,805**
DEFERRED INFLOWS OF RESOURCES	6,086,213	1,950
Total liabilities and deferred inflows of resources	**31,160,354**	**28,738,755**
FUND BALANCES		
Nonspendable	1,180,575	—
Restricted	14,834,597	223,188
Committed	1,787,142	—
Assigned	—	—
Unassigned	765,568	—
Total fund balances	**18,567,882**	**223,188**
Total liabilities, deferred inflows of resources, and fund balances	**$ 49,728,236**	**$ 28,961,943**

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

Transportation	**Environmental and Natural Resources**	**Health Care Related Programs**	**Nonmajor Governmental**	**Total**
$ 8,068,483	$ 11,399,975	$ 1,738,155	$ 11,328,615	$ 58,581,159
—	—	—	607,430	607,430
1,220,852	490,891	3,838,924	1,366,550	24,363,341
1,675,616	400,000	60,706	1,097,733	6,360,543
8,059	11,685	1,604,741	104,374	32,371,387
1,242,708	1,974,641	277,938	1,056,542	5,725,499
—	308,691	39,329	2,768,442	3,370,173
23,758	—	—	12,718	38,203
$ 12,239,476	**$ 14,585,883**	**$ 7,559,793**	**$ 18,342,404**	**$ 131,417,735**
$ 711,564	$ 351,419	$ 68,269	$ 645,335	$ 5,079,615
417,608	71,953	6,151,536	577,654	36,528,480
5,958	2,500	—	50,290	222,053
724,131	73,072	8,154	3,868,192	12,817,275
510,143	178,569	—	70,929	5,573,834
17,072	236,950	3,586	153,411	1,041,828
—	—	—	—	5,930,342
2,865	791	—	453,038	459,684
—	—	—	—	1,047,738
495,300	7,790	—	170,381	1,138,557
2,884,641	**923,044**	**6,231,545**	**5,989,230**	**69,839,406**
55,341	39,176	192,466	279,207	6,654,353
2,939,982	**962,220**	**6,424,011**	**6,268,437**	**76,493,759**
—	—	—	12,760	1,193,335
9,249,016	5,144,478	1,055,843	10,656,584	41,163,706
50,478	8,479,185	79,939	1,385,376	11,782,120
—	—	—	19,247	19,247
—	—	—	—	765,568
9,299,494	**13,623,663**	**1,135,782**	**12,073,967**	**54,923,976**
$ 12,239,476	**$ 14,585,883**	**$ 7,559,793**	**$ 18,342,404**	**$ 131,417,735**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

(amounts in thousands)

Total fund balances – governmental funds		**$ 54,923,976**
Amounts reported for governmental activities in the Statement of Net Position are different from those in the Governmental Funds Balance Sheet because:		
• The following capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Land	20,471,360	
State highway infrastructure	78,418,144	
Collections – nondepreciable	22,682	
Buildings and other depreciable property	32,078,487	
Intangible assets – amortizable	2,555,064	
Less: accumulated depreciation/amortization	(15,476,459)	
Construction/development in progress	14,866,849	
Intangible assets – nonamortizable	592,549	
		133,528,676
• State revenues that are earned and measurable, but not available within 12 months of the end of the reporting period, are reported as deferred inflows of resources in the funds.		6,654,353
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology services, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position, excluding amounts for activity between the internal service funds and governmental funds.		(10,237,045)
• Bond premiums/discounts and prepaid insurance charges are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Position.		(6,488,898)
• Deferred inflows and outflows of resources related to pension and OPEB transactions are not reported in the funds.		6,999,421
• Deferred inflows and outflows of resources resulting from bond refunding gains and losses, respectively, are amortized over the life of the bonds and are not reported in the funds.		371,258
• General obligation bonds and related accrued interest totaling $73,652,449, revenue bonds totaling $6.349,930, and commercial paper totaling $1,032,760 are not due and payable in the current period and are not reported in the funds.		(81,035,139)
• The following liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences	(3,531,917)	
Capital leases	(434,876)	
Net pension liability	(80,093,801)	
Net other postemployment benefits liability	(67,413,651)	
Mandated cost claims	(1,815,450)	
Workers' compensation	(3,912,151)	
Pollution remediation obligations	(1,203,566)	
Other noncurrent liabilities	(970,962)	
		(159,376,374)
Net position of governmental activities		**$ (54,659,772)**

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

This page intentionally left blank

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2019
(amounts in thousands)

	General	Federal
REVENUES		
Personal income taxes	$ 95,026,913	$ —
Sales and use taxes	25,701,417	—
Corporation taxes	14,038,348	—
Motor vehicle excise taxes	95,590	—
Insurance taxes	2,734,068	—
Managed care organization enrollment tax	—	—
Other taxes	588,040	—
Intergovernmental	—	96,078,529
Licenses and permits	8,119	—
Charges for services	380,347	—
Fees	17,205	—
Penalties	270,302	133
Investment and interest	687,833	—
Escheat	447,399	—
Other	508,046	—
Total revenues	**140,503,627**	**96,078,662**
EXPENDITURES		
Current:		
General government	5,895,961	1,446,287
Education	66,686,716	7,614,054
Health and human services	35,158,002	82,189,959
Natural resources and environmental protection	3,155,461	274,514
Business, consumer services, and housing	535,863	146,909
Transportation	13,878	3,824,786
Corrections and rehabilitation	12,293,950	75,626
Capital outlay	50,506	—
Debt service:		
Bond and commercial paper retirement	2,579,311	10,320
Interest and fiscal charges	2,743,505	1,070
Total expenditures	**129,113,153**	**95,583,525**
Excess (deficiency) of revenues over (under) expenditures	11,390,474	495,137
OTHER FINANCING SOURCES (USES)		
General obligation bonds and commercial paper issued	—	—
Refunding debt issued	—	—
Premium on bonds issued	117,747	—
Remarketing bonds issued	—	—
Payment to remarket long-term debt	—	—
Capital leases	50,506	—
Transfers in	697,211	—
Transfers out	(5,871,863)	(500,603)
Total other financing sources (uses)	**(5,006,399)**	**(500,603)**
Net change in fund balances	6,384,075	(5,466)
Fund balances (deficit) – beginning	**12,183,807 ***	**228,654**
Fund balances – ending	**$ 18,567,882**	**$ 223,188**

* Restated

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

Transportation	Environmental and Natural Resources	Health Care Related Programs	Nonmajor Governmental	Total
$ —	$ —	$ —	$ 1,774,163	$ 96,801,076
925,818	—	—	14,458,391	41,085,626
—	—	—	—	14,038,348
7,323,574	87,354	—	125,847	7,632,365
—	—	—	—	2,734,068
—	—	2,562,919	—	2,562,919
—	190,204	—	2,910,287	3,688,531
—	—	2,973,863	815,358	99,867,750
5,180,473	424,396	—	3,573,957	9,186,945
165,125	131,117	4	279,439	956,032
1,580,243	2,650,726	5,337,523	3,555,725	13,141,422
12,957	117,217	5,803	639,864	1,046,276
165,973	244,146	39,762	183,429	1,321,143
—	—	—	1,357	448,756
111,112	3,462,333	398,464	1,114,632	5,594,587
15,465,275	**7,307,493**	**11,318,338**	**29,432,449**	**300,105,844**
449,290	173,136	2,809	11,295,663	19,263,146
8,260	2,010	207,495	552,653	75,071,188
2,318	57,095	11,354,509	15,781,706	144,543,589
194,498	5,193,577	186	251,541	9,069,777
96,344	154,306	—	1,079,987	2,013,409
13,635,140	409,565	—	9,969	17,893,338
—	—	—	1,686,190	14,055,766
—	165,089	—	71,892	287,487
1,421,031	1,904,861	97,490	4,431,812	10,444,825
47,235	21,009	424	1,158,110	3,971,353
15,854,116	**8,080,648**	**11,662,913**	**36,319,523**	**296,613,878**
(388,841)	(773,155)	(344,575)	(6,887,074)	3,491,966
859,810	1,332,100	285,595	1,149,260	3,626,765
1,102,285	1,190,065	—	2,980,175	5,272,525
210,245	259,163	615	415,567	1,003,337
100,000	—	—	311,340	411,340
(100,000)	—	—	(311,340)	(411,340)
—	—	—	—	50,506
1,419	165,245	175,284	3,375,091	4,414,250
(1,636,020)	(64,629)	—	(224,980)	(8,298,095)
537,739	**2,881,944**	**461,494**	**7,695,113**	**6,069,288**
148,898	2,108,789	116,919	808,039	9,561,254
9,150,596 *	**11,514,874**	**1,018,863** *	**11,265,928** *	**45,362,722**
$ 9,299,494	**$ 13,623,663**	**$ 1,135,782**	**$ 12,073,967**	**$ 54,923,976**

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

(amounts in thousands)

Net change in fund balances – total governmental funds		**$ 9,561,254**
Amounts reported for governmental activities in the Statement of Activities are different from those in the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds because:		
• Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current year, these amounts are:		
Purchase of assets	6,899,479	
Disposal of assets	(4,558,778)	
Depreciation expense, net of asset disposal	(885,952)	
		1,454,749
• Some revenues in the Statement of Activities do not provide current financial resources and, therefore, are unavailable in governmental funds.		4,673,404
• Internal service funds are used by management to charge the costs of certain activities, such as building construction and architectural services, procurement, and technology services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.		(121,684)

• The issuance of long-term debt instruments provides current financial resources to governmental funds, while the repayment of the principal of long-term debt is an expenditure of governmental funds. Neither transaction, however, has any effect on the Statement of Activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following shows the effect of these differences in the treatment of long-term debt and related items:

	General Obligation Bonds	Revenue Bonds	Commercial Paper	Total	
Debt issued	(7,429,000)	(710,910)	(1,170,720)	(9,310,630)	
Premium on debt issued	(984,981)	(18,355)	—	(1,003,336)	
Accreted interest	—	(31,749)	—	(31,749)	
Principal repayments	8,526,724	920,445	997,655	10,444,824	
Payments to refund long-term debt	411,340	—	—	411,340	
Related expenses not reported in governmental funds:					
Premium/discount amortization	308,457	22,791	—	331,248	
Deferred gain/loss on refunding	(6,391)	(2,795)	—	(9,186)	
Prepaid insurance	—	(83)	—	(83)	
Accrued interest	54,872	(5,234)	—	49,638	
	881,021	174,110	(173,065)		882,066

(continued)

- The following expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not recognized as expenditures in governmental funds. Once the use of current financial resources is required, expenditures are recognized in governmental funds but are eliminated from the Statement of Activities. In the current period, the net adjustment consists of:

Compensated absences	(72,362)	
Capital leases	46,385	
Net pension liability	(1,922,054)	
Net other postemployment benefits liability	(492,901)	
Mandated cost claims	95,563	
Workers' compensation	(82,203)	
Proposition 98 funding guarantee	340,003	
Pollution remediation obligations	(62,377)	
Other noncurrent liabilities	31,337	
		(2,118,609)
Change in net position of governmental activities		**$ 14,331,180**
		(concluded)

Statement of Net Position

Proprietary Funds

June 30, 2019
(amounts in thousands)

	Electric Power	Water Resources
ASSETS		
Current assets:		
Cash and pooled investments	$ —	$ 708,971
Amount on deposit with U.S. Treasury	—	—
Investments	—	—
Restricted assets:		
Cash and pooled investments	688,000	—
Due from other governments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	2,259	155,303
Due from other funds	7,720	1,582
Due from other governments	—	207,380
Prepaid items	—	—
Inventories	—	4,893
Recoverable power costs (net)	88,000	—
Other current assets	—	—
Total current assets	785,979	1,078,129
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments	582,000	163,653
Investments	302,000	50,860
Loans receivable	—	—
Investments	—	—
Net investment in direct financing leases	—	—
Receivables (net)	—	—
Interfund receivables	—	96,048
Loans receivable	—	10,105
Recoverable power costs (net)	837,000	—
Long-term prepaid charges	—	1,466,584
Capital assets:		
Land	—	188,965
Collections – nondepreciable	—	—
Buildings and other depreciable property	—	5,378,648
Intangible assets – amortizable	—	39,626
Less: accumulated depreciation/amortization	—	(2,276,510)
Construction/development in progress	—	2,078,333
Intangible assets – nonamortizable	—	111,900
Other noncurrent assets	—	—
Total noncurrent assets	1,721,000	7,308,212
Total assets	**2,506,979**	**8,386,341**
DEFERRED OUTFLOWS OF RESOURCES	70,000	296,613
Total assets and deferred outflows of resources	**$ 2,576,979**	**$ 8,682,954**

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 829,472	$ 3,637,655	$ 848,213	$ 1,359,674	$ 7,383,985	$ 1,682,455
—	3,717,242	—	—	3,717,242	—
60,150	—	2,934,805	—	2,994,955	—
—	—	—	311,183	999,183	581,464
—	—	—	292,355	292,355	—
—	—	11,868	—	11,868	486,012
569,546	1,187,994	197,183	44,723	2,157,008	88,093
4,333	22,209	11,177	32,258	79,279	608,191
—	40,477	—	196,665	444,522	14,007
—	—	69,442	29	69,471	216,791
7,130	—	—	3,240	15,263	69,969
—	—	—	—	88,000	—
3,697	—	—	—	3,697	—
1,474,328	8,605,577	4,072,688	2,240,127	18,256,828	3,746,982
—	—	103	—	745,756	143,195
—	—	—	—	352,860	—
—	—	—	1,954,696	1,954,696	—
771,874	—	1,279,428	19,582	2,070,884	—
—	—	208,216	—	208,216	7,829,752
—	80,281	392,398	—	472,679	—
—	839,806	—	12,439	948,293	38,536
—	35,591	59,491	5,199,336	5,304,523	3,770
—	—	—	—	837,000	—
422	—	—	—	1,467,006	590
18,798	—	97,172	1,272	306,207	2,080
—	—	27,473	—	27,473	—
321,168	28,556	10,053,368	25,974	15,807,714	674,915
—	244,118	147,961	1,761	433,466	75,724
(130,994)	(70,834)	(4,075,988)	(19,548)	(6,573,874)	(532,598)
—	—	1,179,125	106	3,257,564	1,282,497
—	—	6,907	—	118,807	—
—	—	26,666	3,154	29,820	—
981,268	1,157,518	9,402,320	7,198,772	27,769,090	9,518,461
2,455,596	**9,763,095**	**13,475,008**	**9,438,899**	**46,025,918**	**13,265,443**
73,060	89,316	2,456,788	15,091	3,000,868	514,390
$ 2,528,656	**$ 9,852,411**	**$ 15,931,796**	**$ 9,453,990**	**$ 49,026,786**	**$ 13,779,833**

(continued)

Statement of Net Position (continued)

Proprietary Funds

June 30, 2019

(amounts in thousands)

	Electric Power	Water Resources
LIABILITIES		
Current liabilities:		
Accounts payable	$ 1,741	$ 172,753
Due to other funds	238	52,356
Due to other governments	—	289,335
Revenues received in advance	—	—
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	17,000	13,794
Benefits payable	—	—
Current portion of long-term obligations	832,000	191,376
Other current liabilities	—	—
Total current liabilities	850,979	719,614
Noncurrent liabilities:		
Interfund payables	607	57,470
Lottery prizes and annuities	—	—
Compensated absences payable	—	25,703
Workers' compensation benefits payable	—	—
Commercial paper and other borrowings	—	689,984
Capital lease obligations	—	—
General obligation bonds payable	—	10,685
Revenue bonds payable	1,711,000	3,075,542
Net other postemployment benefits liability	5,393	771,286
Net pension liability	4,000	527,333
Revenues received in advance	—	—
Other noncurrent liabilities	—	149,976
Total noncurrent liabilities	1,721,000	5,307,979
Total liabilities	**2,571,979**	**6,027,593**
DEFERRED INFLOWS OF RESOURCES	5,000	1,489,012
Total liabilities and deferred inflows of resources	**2,576,979**	**7,516,605**
NET POSITION		
Net investment in capital assets	—	783,286
Restricted:		
Nonexpendable – endowments	—	—
Expendable:		
Construction	—	—
Debt service	—	383,063
Security for revenue bonds	—	—
Lottery	—	—
Unemployment programs	—	—
Other purposes	—	—
Total expendable	—	383,063
Unrestricted	—	—
Total net position (deficit)	**—**	**1,166,349**
Total liabilities, deferred inflows of resources, and net position	**$ 2,576,979**	**$ 8,682,954**

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

Business-type Activities – Enterprise Funds					**Governmental Activities**
State Lottery	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ 56,297	$ 40,702	$ 291,670	$ 7,917	$ 571,080	$ 409,604
441,283	71,513	21,866	22,834	610,090	328,653
—	36,637	—	602	326,574	58,053
2,383	48,636	321,194	47	372,260	1,008,190
—	—	—	—	—	1,282
—	—	—	—	—	23,441
—	—	—	31,341	62,135	96,538
—	527,078	—	—	527,078	—
1,072,103	—	331,874	154,130	2,581,483	599,348
268	44,963	530,145	5	575,381	17,933
1,572,334	769,529	1,496,749	216,876	5,626,081	2,543,042
12,979	—	133,419	21,999	226,474	1,111,083
682,929	—	—	—	682,929	—
—	59,019	112,521	9,527	206,770	144,835
3,013	—	—	2,118	5,131	46,324
—	—	88,513	—	778,497	—
—	—	295,214	—	295,214	—
—	—	—	796,912	807,597	—
—	—	6,682,306	1,807,122	13,275,970	8,424,622
231,853	599,198	13,128,996	28,837	14,765,563	2,028,065
126,042	300,413	7,733,251	39,207	8,730,246	1,206,073
—	—	8,048	—	8,048	—
—	—	97,466	20,680	268,122	29,629
1,056,816	958,630	28,279,734	2,726,402	40,050,561	12,990,631
2,629,150	**1,728,159**	**29,776,483**	**2,943,278**	**45,676,642**	**15,533,673**
51,222	123,830	2,888,140	30,283	4,587,487	433,379
2,680,372	**1,851,989**	**32,664,623**	**2,973,561**	**50,264,129**	**15,967,052**
208,972	201,840	1,336,605	3,554	2,534,257	534,879
—	—	1,693	—	1,693	—
—	—	43,570	—	43,570	208,099
—	—	38,975	258,323	680,361	—
—	—	—	2,087,404	2,087,404	—
93,646	—	—	—	93,646	—
—	7,798,582	—	—	7,798,582	—
—	—	61,616	2,180,388	2,242,004	—
93,646	7,798,582	144,161	4,526,115	12,945,567	208,099
(454,334)	—	(18,215,286)	1,950,760	(16,718,860)	(2,930,197)
(151,716)	**8,000,422**	**(16,732,827)**	**6,480,429**	**(1,237,343)**	**(2,187,219)**
$ 2,528,656	**$ 9,852,411**	**$ 15,931,796**	**$ 9,453,990**	**$ 49,026,786**	**$ 13,779,833**

(concluded)

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2019

(amounts in thousands)

	Electric Power	Water Resources
OPERATING REVENUES		
Unemployment and disability insurance	$ —	$ —
Lottery ticket sales	—	—
Power sales	(5,000)	96,308
Student tuition and fees	—	—
Services and sales	—	1,053,344
Investment and interest	—	—
Rent	—	—
Grants and contracts	—	—
Other	—	—
Total operating revenues	**(5,000)**	**1,149,652**
OPERATING EXPENSES		
Lottery prizes	—	—
Power purchases (net of recoverable power costs)	(16,000)	290,908
Personal services	—	392,703
Supplies	—	—
Services and charges	11,000	100,562
Depreciation	—	94,191
Scholarships and fellowships	—	—
Distributions to beneficiaries	—	—
Interest expense	—	—
Amortization of long-term prepaid charges	—	—
Other	—	—
Total operating expenses	**(5,000)**	**878,364**
Operating income (loss)	—	271,288
NONOPERATING REVENUES (EXPENSES)		
Donations and grants	—	—
Private gifts	—	—
Investment and interest income	918,000	22,482
Interest expense and fiscal charges	(918,000)	(116,481)
Lottery payments for education	—	—
Other	—	(204,978)
Total nonoperating revenues (expenses)	**—**	**(298,977)**
Income (loss) before capital contributions and transfers	—	(27,689)
Transfers in	—	—
Transfers out	—	—
Change in net position	—	(27,689)
Total net position (deficit) – beginning	**—**	**1,194,038** *
Total net position (deficit) – ending	**$ —**	**$ 1,166,349**

* Restated

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	**Unemployment Programs**	**California State University**	**Nonmajor Enterprise**	**Total**	**Internal Service Funds**
$ —	$ 13,969,174	$ —	$ —	$ 13,969,174	$ —
7,388,050	—	—	—	7,388,050	—
—	—	—	—	91,308	—
—	—	2,198,195	—	2,198,195	—
—	—	607,889	111,648	1,772,881	3,575,293
—	—	—	145,792	145,792	24,348
—	—	—	—	—	417,092
—	—	79,131	—	79,131	—
—	—	254,378	3,129	257,507	—
7,388,050	**13,969,174**	**3,139,593**	**260,569**	**25,902,038**	**4,016,733**
4,715,593	—	—	—	4,715,593	—
—	—	—	—	274,908	—
99,664	372,865	6,634,906	59,128	7,559,266	1,129,432
14,080	—	1,589,485	44,152	1,647,717	30,633
730,177	51,665	—	48,395	941,799	2,391,932
18,815	17,263	379,786	1,087	511,142	65,006
—	—	915,286	—	915,286	—
—	12,786,647	—	—	12,786,647	—
—	—	—	34,135	34,135	364,505
—	—	—	—	—	129
—	—	—	7,239	7,239	—
5,578,329	**13,228,440**	**9,519,463**	**194,136**	**29,393,732**	**3,981,637**
1,809,721	740,734	(6,379,870)	66,433	(3,491,694)	35,096
—	—	2,044,729	80,633	2,125,362	—
—	—	55,003	—	55,003	—
85,380	69,856	204,813	27,326	1,327,857	5,263
(32,202)	(892)	(259,621)	(38,610)	(1,365,806)	(2,331)
(1,825,224)	—	—	—	(1,825,224)	—
22	—	129,674	259	(75,023)	(112,651)
(1,772,024)	**68,964**	**2,174,598**	**69,608**	**242,169**	**(109,719)**
37,697	809,698	(4,205,272)	136,041	(3,249,525)	(74,623)
—	—	3,934,300	1,750	3,936,050	2,220
—	—	—	(5,144)	(5,144)	(49,281)
37,697	809,698	(270,972)	132,647	681,381	(121,684)
(189,413)	**7,190,724**	**(16,461,855)**	**6,347,782** *	**(1,918,724)**	**(2,065,535)***
$ (151,716)	**$ 8,000,422**	**$ (16,732,827)**	**$ 6,480,429**	**$ (1,237,343)**	**$ (2,187,219)**

Statement of Cash Flows

Proprietary Funds

Year Ended June 30, 2019

(amounts in thousands)

	Electric Power	Water Resources
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers/employers	$ (5,000)	$ 1,092,325
Receipts from interfund services provided	—	—
Payments to suppliers	(9,000)	(478,709)
Payments to employees	(1,000)	(392,703)
Payments for interfund services used	—	—
Payments for Lottery prizes	—	—
Claims paid to other than employees	—	—
Other receipts (payments)	10,000	129,892
Net cash provided by (used in) operating activities	**(5,000)**	**350,805**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Changes in notes receivable and capital leases receivable	—	—
Changes in interfund receivables	—	—
Changes in interfund payables and loans payable	—	—
Receipt of bond charges	883,000	—
Proceeds from general obligation bonds	—	—
Retirement of general obligation bonds	—	—
Proceeds from revenue bonds	—	—
Retirement of revenue bonds	(753,000)	—
Interest received	—	—
Interest paid	(139,000)	—
Transfers in	—	—
Transfers out	—	—
Grants received	—	—
Lottery payments for education	—	—
Net cash provided by (used in) noncapital financing activities	**(9,000)**	**—**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	—	(649,078)
Proceeds from sale of capital assets	—	—
Proceeds from notes payable and commercial paper	—	585,075
Principal paid on notes payable and commercial paper	—	(475,763)
Proceeds from capital leases	—	—
Payment on capital leases	—	—
Retirement of general obligation bonds	—	(25,975)
Proceeds from revenue bonds	—	405,805
Retirement of revenue bonds	—	(129,400)
Interest paid	—	(89,223)
Grants received	—	—
Net cash provided by (used in) capital and related financing activities	**—**	**(378,559)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	—	(252,772)
Proceeds from maturity and sale of investments	—	252,618
Change in loans receivable	—	819
Earnings on investments	44,000	21,034
Net cash provided by (used in) investing activities	**44,000**	**21,699**
Net increase (decrease) in cash and pooled investments	30,000	(6,055)
Cash and pooled investments – beginning	**1,240,000**	**878,679**
Cash and pooled investments – ending	**$ 1,270,000**	**$ 872,624**

* Restated

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 7,390,296	$ 13,983,271	$ 2,787,552	$ 353,686	$ 25,602,130	$ 14,045
—	—	—	3,678	3,678	4,629,351
(257,962)	(19,091)	(1,607,046)	(92,368)	(2,464,176)	(1,935,490)
(83,759)	(213,600)	(5,397,993)	(32,109)	(6,121,164)	(985,521)
(7,582)	(12,997)	—	(2,846)	(23,425)	(15,704)
(4,893,812)	—	—	—	(4,893,812)	—
(505,915)	(12,768,292)	—	—	(13,274,207)	(540,761)
565,907	(54,215)	(637,510)	(748,344)	(734,270)	(417,008)
2,207,173	**915,076**	**(4,854,997)**	**(518,303)**	**(1,905,246)**	**748,912**
—	—	(18,012)	—	(18,012)	328,554
—	96,232	—	2,409	98,641	—
—	—	(123,050)	6,937	(116,113)	174,928
—	—	—	—	883,000	—
—	—	—	277,960	277,960	—
—	—	—	(14,830)	(14,830)	—
—	—	89,815	100,806	190,621	—
—	—	(29,069)	(65,280)	(847,349)	—
—	—	23,293	—	23,293	—
—	—	(29,814)	(64,229)	(233,043)	(1,421)
—	—	3,607,887	1,750	3,609,637	2,220
—	—	—	(5,144)	(5,144)	(49,281)
—	—	2,171,199	69,403	2,240,602	—
(1,815,267)	—	—	—	(1,815,267)	—
(1,815,267)	**96,232**	**5,692,249**	**309,782**	**4,273,996**	**455,000**
(30,508)	—	(945,843)	(6,864)	(1,632,293)	(760,913)
24	23	13,050	83	13,180	3,322
—	—	—	—	585,075	—
—	—	—	—	(475,763)	—
—	—	9,087	—	9,087	—
—	—	(569,274)	—	(569,274)	—
—	—	—	—	(25,975)	—
—	—	762,076	—	1,167,881	139,506
—	—	(1,654)	—	(131,054)	(518,640)
—	(892)	—	—	(90,115)	(575)
—	—	54,020	—	54,020	—
(30,484)	**(869)**	**(678,538)**	**(6,781)**	**(1,095,231)**	**(1,137,300)**
(39,821)	—	(10,573,282)	(16,265)	(10,882,140)	—
52,207	(746,869)	10,327,619	14,898	9,900,473	—
—	—	—	—	819	—
26,968	69,856	120,927	26,628	309,413	5,299
39,354	**(677,013)**	**(124,736)**	**25,261**	**(671,435)**	**5,299**
400,776	333,426	33,978	(190,041)	602,084	71,911
428,696	**3,304,229**	**814,338**	**1,860,898** *	**8,526,840**	**2,335,203**
$ 829,472	**$ 3,637,655**	**$ 848,316**	**$ 1,670,857**	**$ 9,128,924**	**$ 2,407,114**

(continued)

Statement of Cash Flows (continued)

Proprietary Funds

Year Ended June 30, 2019
(amounts in thousands)

	Electric Power	Water Resources
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	$ —	$ 271,288
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	—	94,191
Provisions and allowances	—	—
Amortization of premiums and discounts	—	—
Amortization of long-term prepaid charges and credits	—	18,369
Other	—	129,892
Change in account balances:		
Receivables	10,000	(45,123)
Due from other funds	—	—
Due from other governments	—	(166,769)
Prepaid items	—	—
Inventories	—	545
Net investment in direct financing leases	—	—
Recoverable power costs (net)	(16,000)	—
Other current assets	—	—
Other noncurrent assets	—	—
Loans receivable	—	—
Deferred outflow of resources	1,000	—
Accounts payable	—	(100,231)
Due to other funds	—	(2,238)
Due to component units	—	—
Due to other governments	—	78,235
Deposits	—	—
Contracts and notes payable	—	—
Interest payable	—	—
Revenues received in advance	—	—
Other current liabilities	—	—
Benefits payable	—	—
Lottery prizes and annuities	—	—
Compensated absences payable	—	—
Other noncurrent liabilities	—	72,646
Deferred inflow of resources	—	—
Total adjustments	(5,000)	79,517
Net cash provided by (used in) operating activities	**$ (5,000)**	**$ 350,805**
Noncash investing, capital, and financing activities:		
State's contribution for pension benefits and OPEB	$ —	$ —
Long-term debt retirement from bond issuance	—	109,080
Amortization/defeasance of bond premium and discount	53,000	27,287
Amortization of deferred loss on refundings	27,000	10,302
Unclaimed lottery prizes directly allocated to another entity	—	—
Interest accreted on annuitized prizes	—	—
Unrealized gain on investments	—	—
Interest accreted on zero coupon bonds	—	—
Contributed capital assets	—	—
Change in accrued capital asset purchases	—	—
Other assets paid through long-term debt	—	—
Other miscellaneous noncash transactions	—	—

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

Business-type Activities – Enterprise Funds					Governmental Activities
State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
$ 1,809,721	$ 740,734	$ (6,379,870)	$ 66,433	$ (3,491,694)	$ 35,096
18,815	17,263	379,786	1,087	511,142	65,006
4,027	—	—	(111)	3,916	—
—	—	—	(458)	(458)	(91,239)
—	—	—	—	18,369	129
26	—	(22,618)	(14,495)	92,805	13,817
(24,002)	2,566	(26,927)	656	(82,830)	10,299
(63)	(8,098)	(17,947)	(4,725)	(30,833)	(72,426)
—	(3,654)	—	(1,088)	(171,511)	3,070
923	—	(9,564)	62	(8,579)	16,976
162	—	—	69	776	2,520
—	—	—	—	—	512,666
—	—	—	—	(16,000)	—
3,552	—	—	—	3,552	—
—	—	—	977	977	—
—	—	—	(582,675)	(582,675)	—
—	44,021	1,615,763	30,034	1,690,818	190,708
(10,751)	32,573	14,366	3,127	(60,916)	(110,104)
(9,834)	(45,632)	—	12,211	(45,493)	172,232
—	—	—	—	—	98
—	2,023	—	5	80,263	(22)
—	—	(4)	—	(4)	(673)
—	—	—	—	—	866
—	—	—	1,038	1,038	(4,640)
206	11,531	(7,253)	(14)	4,470	49,270
784	(11,851)	(1,223)	471	(11,819)	830
—	18,356	26,225	6,122	50,703	18
387,513	—	—	—	387,513	—
—	3,842	13,936	551	18,329	4,611
26,094	38,191	(1,822,821)	(16,235)	(1,702,125)	(246,003)
—	73,211	1,383,154	(21,345)	1,435,020	195,807
397,452	174,342	1,524,873	(584,736)	1,586,448	713,816
$ 2,207,173	**$ 915,076**	**$ (4,854,997)**	**$ (518,303)**	**$ (1,905,246)**	**$ 748,912**

(concluded)

$ —	$ —	$ 326,113	$ —	$ 326,113	$ —
—	—	—	—	109,080	—
—	—	32,159	—	112,446	—
—	—	6,147	—	43,449	—
45,423	—	—	—	45,423	—
32,202	—	—	—	32,202	—
39,164	—	—	—	39,164	—
18,277	—	—	—	18,277	—
—	—	7,825	—	7,825	—
—	—	9,835	—	9,835	—
—	—	89,670	—	89,670	—
—	—	24,599	2,255	26,854	109,984

Statement of Fiduciary Net Position

Fiduciary Funds and Similar Component Units

June 30, 2019

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment	Agency
ASSETS				
Cash and pooled investments	$ 113,197	$ 3,264,944	$ 24,735,365	$ 4,284,516
Investments, at fair value:				
Short-term	—	15,857,095	—	—
Equity securities	4,700,510	317,399,932	—	—
Debt securities	2,931,223	161,788,992	—	—
Real estate	289,136	73,473,072	—	—
Securities lending collateral	—	27,129,823	—	—
Other	1,443,868	73,492,132	—	—
Total investments	9,364,737	669,141,046	—	—
Receivables (net)	29,131	9,160,099	—	4,584,617
Due from other funds	38	3,096,812	—	27,322,360
Due from other governments	—	—	—	140,365
Interfund receivable	—	—	—	199,063
Loans receivable	—	2,783,321	—	15,145
Other assets	245,011	739,389	—	805,929
Total assets	**9,752,114**	**688,185,611**	**24,735,365**	**$ 37,351,995**
DEFERRED OUTFLOWS OF RESOURCES	—	179,825	—	
Total assets and deferred outflows of resources	**9,752,114**	**688,365,436**	**24,735,365**	
LIABILITIES				
Accounts payable	47,643	5,426,723	—	$ 21,235,401
Due to other governments	—	11	150,513	13,184,549
Tax overpayments	—	—	—	7,613
Benefits payable	—	3,632,592	—	—
Revenues received in advance	—	—	—	679
Deposits	245,011	—	—	2,109,815
Securities lending obligations	—	27,111,004	—	—
Loans payable	—	2,787,398	—	—
Other liabilities	8,396	8,176,839	—	813,938
Total liabilities	**301,050**	**47,134,567**	**150,513**	**$ 37,351,995**
DEFERRED INFLOWS OF RESOURCES	—	138,056	—	
Total liabilities and deferred inflows of resources	**301,050**	**47,272,623**	**150,513**	
NET POSITION				
Restricted for pension and other postemployment benefits	—	623,237,339	—	
Held in trust for:				
Deferred compensation participants	—	17,840,285	—	
Pool participants	—	—	24,584,852	
Individuals, organizations, or other governments	9,451,064	15,189	—	
Total net position	**$ 9,451,064**	**$ 641,092,813**	**$ 24,584,852**	

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

Statement of Changes in Fiduciary Net Position

Fiduciary Funds and Similar Component Units

Year Ended June 30, 2019

(amounts in thousands)

	Private Purpose Trust	Pension and Other Employee Benefit Trust	Investment Trust Local Agency Investment
ADDITIONS			
Contributions:			
Employer	$ —	$ 25,574,412	$ —
Plan member	—	9,384,427	—
Non-employer	—	5,334,860	—
Total contributions	—	40,293,699	—
Investment income:			
Net appreciation (depreciation) in fair value of investments	102,226	29,921,335	—
Interest, dividends, and other investment income	441,212	11,757,940	526,689
Less: investment expense	(3,900)	(2,072,615)	—
Net investment income	539,538	39,606,660	526,689
Receipts from depositors	5,148,758	—	27,306,652
Other	—	169,317	—
Total additions	**5,688,296**	**80,069,676**	**27,833,341**
DEDUCTIONS			
Distributions paid and payable to participants	—	42,794,148	524,819
Refunds of contributions	—	386,557	—
Administrative expense	373	549,617	1,870
Interest expense	143	105,309	—
Payments to and for depositors	4,913,953	610,086	25,270,760
Total deductions	**4,914,469**	**44,445,717**	**25,797,449**
Change in net position	773,827	35,623,959	2,035,892
Net position – beginning	**8,677,237**	**605,468,854**	**22,548,960**
Net position – ending	**$ 9,451,064**	**$ 641,092,813**	**$ 24,584,852**

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

This page intentionally left blank

Discretely Presented Component Units Financial Statements

Statement of Net Position

Discretely Presented Component Units – Enterprise Activity

June 30, 2019
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
ASSETS				
Current assets:				
Cash and pooled investments	$ 601,721	$ 962,592	$ 1,250,122	$ 2,814,435
Investments	7,586,304	1,350	579,283	8,166,937
Restricted assets:				
Cash and pooled investments	—	—	288,562	288,562
Investments	—	—	40,342	40,342
Receivables (net)	5,512,927	236,031	560,357	6,309,315
Due from primary government	222,053	—	—	222,053
Due from other governments	155,027	—	—	155,027
Prepaid items	—	421	4,108	4,529
Inventories	266,839	—	—	266,839
Other current assets	405,740	295	42,597	448,632
Total current assets	14,750,611	1,200,689	2,765,371	18,716,671
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	—	—	55,798	55,798
Investments	—	—	70,584	70,584
Investments	33,336,738	306,927	2,247,768	35,891,433
Receivables (net)	2,676,077	—	225,406	2,901,483
Loans receivable	—	2,701,477	424,816	3,126,293
Long-term prepaid charges	—	—	134	134
Capital assets:				
Land	1,282,588	—	160,311	1,442,899
Collections – nondepreciable	545,264	—	9,634	554,898
Buildings and other depreciable property	53,937,022	1,218	2,140,195	56,078,435
Intangible assets – amortizable	1,776,349	—	8,559	1,784,908
Less: accumulated depreciation/amortization	(27,506,088)	(758)	(1,192,169)	(28,699,015)
Construction/development in progress	4,194,338	—	166,046	4,360,384
Intangible assets – nonamortizable	—	—	10,344	10,344
Other noncurrent assets	402,700	1,501	50,857	455,058
Total noncurrent assets	70,644,988	3,010,365	4,378,283	78,033,636
Total assets	**85,395,599**	**4,211,054**	**7,143,654**	**96,750,307**
DEFERRED OUTFLOWS OF RESOURCES	10,701,222	17,286	116,369	10,834,877
Total assets and deferred outflows of resources	**$ 96,096,821**	**$ 4,228,340**	**$ 7,260,023**	**$ 107,585,184**

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

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
LIABILITIES				
Current liabilities:				
Accounts payable	$ 3,389,278	$ 47,316	$ 783,833	$ 4,220,427
Revenues received in advance	1,512,177	—	101,517	1,613,694
Deposits	901,639	242,213	2,152	1,146,004
Contracts and notes payable	—	—	11,281	11,281
Interest payable	—	20,434	3,990	24,424
Securities lending obligations	991,052	—	—	991,052
Current portion of long-term obligations	4,042,625	44,763	190,501	4,277,889
Other current liabilities	1,973,562	27,993	167,785	2,169,340
Total current liabilities	12,810,333	382,719	1,261,059	14,454,111
Noncurrent liabilities:				
Compensated absences payable	345,620	1,871	17,235	364,726
Workers' compensation benefits payable	464,664	—	23,505	488,169
Loans payable	—	5,106	12,264	17,370
Commercial paper and other borrowings	—	—	1,854	1,854
Capital lease obligations	145,803	—	226,301	372,104
Revenue bonds payable	21,379,131	1,153,363	441,117	22,973,611
Net other postemployment benefits liability	19,861,686	80,977	413,092	20,355,755
Net pension liability	18,117,941	44,771	277,125	18,439,837
Revenues received in advance	—	—	12,215	12,215
Other noncurrent liabilities	2,143,907	252,885	579,659	2,976,451
Total noncurrent liabilities	62,458,752	1,538,973	2,004,367	66,002,092
Total liabilities	**75,269,085**	**1,921,692**	**3,265,426**	**80,456,203**
DEFERRED INFLOWS OF RESOURCES	7,056,760	25,689	97,193	7,179,642
Total liabilities and deferred inflows of resources	**82,325,845**	**1,947,381**	**3,362,619**	**87,635,845**
NET POSITION				
Net investment in capital assets	14,284,354	460	617,302	14,902,116
Restricted:				
Nonexpendable – endowments	6,110,164	—	1,361,689	7,471,853
Expendable:				
Endowments and gifts	12,947,525	—	26,786	12,974,311
Education	281,662	—	1,159,891	1,441,553
Indenture	—	629,421	—	629,421
Statute	—	1,697,270	370,640	2,067,910
Other purposes	—	—	17,875	17,875
Total expendable	13,229,187	2,326,691	1,575,192	17,131,070
Unrestricted	(19,852,729)	(46,192)	343,221	(19,555,700)
Total net position	**13,770,976**	**2,280,959**	**3,897,404**	**19,949,339**
Total liabilities, deferred inflows of resources, and net position	**$ 96,096,821**	**$ 4,228,340**	**$ 7,260,023**	**$ 107,585,184**

(concluded)

Statement of Activities

Discretely Presented Component Units – Enterprise Activity

Year Ended June 30, 2019
(amounts in thousands)

	University of California	California Housing Finance Agency	Nonmajor Component Units	Total
OPERATING EXPENSES				
Personal services	$ 25,906,166	$ 43,268	$ 560,731	$ 26,510,165
Scholarships and fellowships	850,390	—	95,902	946,292
Supplies	4,057,105	—	13,044	4,070,149
Services and charges	336,232	18,688	1,370,252	1,725,172
Department of Energy laboratories	1,569,702	—	—	1,569,702
Depreciation	2,100,228	207	77,306	2,177,741
Interest expense and fiscal charges	767,385	46,935	36,098	850,418
Other	5,319,538	71,860	69,365	5,460,763
Total operating expenses	**40,906,746**	**180,958**	**2,222,698**	**43,310,402**
PROGRAM REVENUES				
Charges for services	25,681,303	48,052	1,062,891	26,792,246
Operating grants and contributions	10,437,522	100,000	723,827	11,261,349
Capital grants and contributions	59,966	—	32,279	92,245
Total program revenues	**36,178,791**	**148,052**	**1,818,997**	**38,145,840**
Net revenues (expenses)	(4,727,955)	(32,906)	(403,701)	(5,164,562)
GENERAL REVENUES				
Investment and interest income	2,313,966	313,799	159,869	2,787,634
Other	2,226,144	47,431	464,432	2,738,007
Total general revenues	**4,540,110**	**361,230**	**624,301**	**5,525,641**
Change in net position	(187,845)	328,324	220,600	361,079
Net position – beginning	**13,958,821** *	**1,952,635**	**3,676,804** *	**19,588,260**
Net position – ending	**$ 13,770,976**	**$ 2,280,959**	**$ 3,897,404**	**$ 19,949,339**

* Restated

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

Notes to the Financial Statements – Index

This page intentionally left blank

Notes to the Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present information on the financial activities of the State of California over which the Governor, the Legislature, and other elected officials have direct or indirect governing and fiscal control. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The provisions of the following Governmental Accounting Standards Board (GASB) Statements have been implemented for the fiscal year ended June 30, 2019:

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, as amended, is effective for the fiscal year ended June 30, 2020; however, the State has elected to implement this Statement for the fiscal year ended June 30, 2019. Statement No. 88 defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations in governments, including direct borrowings and direct placements. Direct borrowings and direct placements are not offered for public sale and have terms negotiated directly with the investor or lender. Except for minor changes in the notes to the financial statements related to debt obligations, implementation of GASB Statement No. 88 had no impact on the financial statements for the year ended June 30, 2019.

A. Reporting Entity

These financial statements present the primary government of the State and its component units. The **primary government** consists of all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from the State. **Component units** are organizations that are legally separate from the State, but for which the State is financially accountable, or organizations whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Following is information on the blended, fiduciary, and discretely presented component units of the State.

1. Blended Component Units

Blended component units, although legally separate entities, are in substance part of the primary government's operations. Therefore, data from these blended component units are integrated into the appropriate funds for reporting purposes.

Building authorities are blended component units because they have been created through the use of joint exercise of powers agreements with various cities to finance the construction of state buildings. The building authorities' financial activities are reported in capital projects funds. As a result, capital lease arrangements between the building authorities and the State have been eliminated from the financial statements. Instead, only the underlying capital assets and the debt used to acquire them are reported in the government-wide financial statements. For information regarding obtaining copies of the financial statements of the building authorities, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

The *Golden State Tobacco Securitization Corporation (GSTSC)* is a not-for-profit corporation established through legislation in September 2002 solely for the purpose of purchasing Tobacco Settlement Revenues from the State. The five voting members of the State Public Works Board serve ex officio as the directors of the corporation. The GSTSC is authorized to issue bonds as necessary to provide sufficient funds for carrying out its purpose. The GSTSC's financial activity is reported in the combining statements in the Nonmajor Governmental Funds section as a special revenue fund. For information regarding obtaining copies of the financial statements of GSTSC, contact the Department of Finance, Natural Resources, Energy, Environmental, and Capital Outlay Section, 915 L Street, 9th Floor, Sacramento, California 95814.

2. Fiduciary Component Units

The State has two legally separate fiduciary component units that administer pension and other employee benefit trust funds. The State appoints a voting majority of the board members of both plans which, due to their fiduciary nature, are presented in the fiduciary fund statements as pension and other employee benefit trust funds, along with other primary government fiduciary funds.

The *California Public Employees' Retirement System (CalPERS)* administers pension and health benefit plans for state employees, non-teaching school employees, and employees of California public agencies. Its Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the plan. CalPERS administers the following seven pension and other employee benefit trust funds: the Public Employees' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement Fund II, the Legislators' Retirement Fund, the Public Employees' Deferred Compensation Fund, the public employee Supplemental Contributions Program Fund, and the California Employers' Retiree Benefit Trust Fund. CalPERS' separately issued financial statements may be found on its website at www.CalPERS.ca.gov.

The *California State Teachers' Retirement System (CalSTRS)* administers pension benefit plans for California public school teachers and certain other employees of the public school system. The State is financially accountable for CalSTRS. CalSTRS administers a hybrid retirement system consisting of the State Teachers' Retirement Plan, a defined benefit plan, composed of the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefits Program; two defined contribution plans; a postemployment benefit plan; and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS' separately issued financial statements may be found on its website at www.CalSTRS.com.

3. Discretely Presented Component Units

Enterprise activity of discretely presented component units is reported in a separate column in the government-wide financial statements. Discretely presented component units are legally separate from the primary government and usually provide services to entities and individuals outside the primary government. Discretely presented component units that report enterprise activity include the University of California, the California Housing Finance Agency, and nonmajor component units. Most component units separately issue their own financial statements. In general, the notes to the financial statements in this publication do not include information found in the component units' separately issued financial statements. Instead, references to the individual component unit financial statements are provided where applicable.

The *University of California* was founded in 1868 as a public, state-supported, land-grant institution. It was written into the State Constitution of 1879 as a public trust to be administered by a governing board, the Regents of the University of California (Regents). The University is a component unit of the State because the State appoints a voting majority of the Regents and provides financial assistance to the University. The University offers defined benefit pension plans and defined contribution pension plans to its employees through the University of California Retirement System (UCRS), a fiduciary responsibility of the Regents. The financial information of the UCRS is not included in the financial statements of this report due to its fiduciary nature. The University's financial statements may be found on its website at www.ucop.edu.

The *California Housing Finance Agency (CalHFA)* was created by the Zenovich-Moscone-Chacon Housing and Home Finance Act, as amended. CalHFA's purpose is to finance the housing needs of persons and families of low and moderate income. It is a component unit of the State because the State appoints a voting majority of CalHFA's governing board and the executive director, who administers the day-to-day operations. CalHFA's financial statements may be found on its website at www.CalHFA.ca.gov.

State legislation created various nonmajor component units to provide certain services outside the primary government and to provide certain private and public entities with a low-cost source of financing for programs deemed to be in the public interest. California State University Auxiliary Organizations are considered component units because they exist entirely or almost entirely for the direct benefit of the universities. The remaining nonmajor component units are considered component units because the majority of members of their governing boards are appointed by or are members of the primary government, and the primary government can impose its will on the entity; or the entity provides a specific financial benefit to or imposes a financial burden on the primary government. For information regarding obtaining copies of the financial statements of these component units, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

The nonmajor consolidated component unit segments are:

California State University Auxiliary Organizations, which provide services primarily to university students through foundations, associated student organizations, student unions, food service entities, book stores, and similar organizations.

Financing authorities, which provide financing for specific purposes. These agencies include:

- The *California Alternative Energy and Advanced Transportation Financing Authority*, which provides financing for alternative energy and advanced transportation technologies;
  The *California Infrastructure and Economic Development Bank*, which provides financing for business development and public improvements; and

- The *California Urban Waterfront Area Restoration Financing Authority*, which provides financing for coastal and inland urban waterfront restoration projects.

District agricultural associations, which exhibit all of the industries, industrial enterprises, resources, and products of the State (the district agricultural associations' financial report is as of and for the year ended December 31, 2018).

Other component units, which include the following entities:

- The *University of California Hastings College of the Law*, which was established as the law department of the University of California to provide legal education programs and operates independently under its own board of directors. The college has a discretely presented component unit, the Foundation, which provides private sources of funds for academic programs, scholarships, and faculty research;

- The *State Assistance Fund for Enterprise, Business and Industrial Development Corporation*, which provides financial assistance to small business; and

- The *Public Employees' Contingency Reserve*, which provides health benefit plans for state employees and annuitants.

4. Joint Venture

A joint venture is an entity resulting from a contractual arrangement; it is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. In such an arrangement, the participants retain an ongoing financial interest or an ongoing financial responsibility in the entity. These entities are not part of the primary government or a component unit.

The State participates in a joint venture called the *Capitol Area Development Authority (CADA)*. CADA was created in 1978 by the joint exercise of powers agreement between the primary government and the City of Sacramento for the location of state buildings and other improvements. CADA is a public entity, separate from the primary government and the city; it is administered by a board composed of five members —two appointed by the primary government, two appointed by the city, and one appointed by the affirmative vote of at least three of the other four members of the board. The primary government designates the chairperson of the board. Although the primary government does not have an equity interest in CADA, it does have an ongoing financial interest. The primary government subsidizes CADA's operations by leasing land to CADA without consideration; however, the primary government is not obligated to do so. At June 30, 2019, CADA had total assets and deferred outflows of resources of $39.8 million, total liabilities and deferred inflows of resources of $23.6 million, and total net position of $16.2 million. Total revenues for the fiscal year were $14.3 million and expenses were $10.1 million, resulting in an increase in net position of $4.2 million. As the primary government does not have equity interest in CADA, CADA's financial information is not included in the financial statements of this report. Separately issued financial statements may be obtained on its website at www.cadanet.org.

5. Related Organizations

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

Chapter 854 of the Statutes of 1996 created an *Independent System Operator (ISO)*, a state-chartered, nonprofit market institution. The ISO provides centralized control of the statewide electrical transmission grid to ensure the efficient use and reliable operation of the transmission system. The ISO is governed by a five-member board, the members of which are appointed by the Governor and confirmed by the Senate. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. As the primary government is not financially accountable for the ISO, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the ISO, go to its website at www.caiso.com.

The *California Earthquake Authority (CEA)*, a legally separate organization, offers earthquake insurance for California homeowners, renters, condominium owners, and mobilehome owners. A three-member board composed of state-elected officials governs the CEA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CEA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CEA, go to its website at www.earthquakeauthority.com.

The *State Compensation Insurance Fund (State Fund)* was established by the State through legislation enacted in 1913 to provide an available market for workers' compensation insurance to employees located in California. State Fund operates in competition with other insurance carriers to serve California businesses. The State appoints all 11 members of the State Fund's governing board. The State's accountability for this institution does not extend beyond making the initial oversight board appointments. As the primary government is not financially accountable for the State Fund, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the State Fund, go to its website at www.statefundca.com.

The *California Health Benefit Exchange (Exchange)*, an independent public entity, offers health insurance to individuals, families, and small businesses. A five-member board of state-appointed officials governs the Exchange. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the Exchange, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the Exchange, contact Covered California, 1601 Exposition Boulevard, Sacramento, California 95815.

The *California Pollution Control Financing Authority (CPCFA)* was created through the California Pollution Control Financing Authority Act of 1972. The CPCFA is a legally separate entity that provides financing for pollution control facilities. A three-member board composed of state-elected officials and an appointee governs the CPCFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CPCFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CPCFA, go to its website at www.treasurer.ca.gov/cpcfa.

The *California Health Facilities Financing Authority (CHFFA)* was established by the State through legislation enacted in 1979. The CHFFA is a legally separate entity that provides financing for the construction, equipping, and acquisition of health facilities. A nine-member board composed of state-elected officials and appointees govern the CHFFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CHFFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CHFFA, go to its website at www.treasurer.ca.gov/chffa.

The *California Educational Facilities Authority (CEFA)* was created by the State through legislation effective in 1973. The CEFA is a legally separate entity established to issue revenue bonds to finance loans for students attending public and private colleges and universities, and to assist private educational institutions of higher learning in financing the expansion and construction of educational facilities. A five-member board composed of state-elected officials and appointees govern the CEFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CEFA, the financial information of this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements for the CEFA, go to its website at www.treasurer.ca.gov/cefa.

The *California School Finance Authority (CSFA)* was created in 1985. The CSFA is a legally separate entity that provides loans to school and community college districts to assist them in obtaining equipment and facilities. A three-member board composed of state-elected officials and an appointee governs the CSFA. The State's accountability for this institution does not extend beyond making the appointments. As the primary government is not financially accountable for the CSFA, the financial information for this institution is not included in the financial statements of this report. For information regarding obtaining copies of the financial statements of the CSFA, go to its website at www.treasurer.ca.gov/csfa.

B. Government-wide and Fund Financial Statements

Government-wide financial statements (the Statement of Net Position and the Statement of Activities) provide information on all of the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from legally separate component units for which the State is financially accountable. Within the primary government, the State's governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from the statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances and transfers. Centralized services provided by the General Fund for other funds are charged as direct costs to the funds that received those services. Also, the General Fund recovers the cost of centralized services provided to federal programs from the federal government.

The Statement of Net Position reports all of the financial and capital resources of the government as a whole in a format in which assets and deferred outflows of resources equal liabilities and deferred inflows of resources, plus net position. The Statement of Activities demonstrates the degree to which the expenses of a given function are offset by program revenues. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items that are not program-related are reported as general revenues.

Fund financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and discretely presented component units. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The State maintains the minimum number of funds consistent with legal and managerial requirements. Fiduciary funds, although excluded from the government-wide statements, are included in the fund financial statements. Major governmental and enterprise funds are reported in separate columns in the fund financial statements. Nonmajor governmental and proprietary funds are grouped into separate columns. Discretely presented component unit statements, which follow the fiduciary fund statements, also separately report the enterprise activity of the major discretely presented component units. In this report, the enterprise activity of nonmajor discretely presented component units is grouped in a separate column.

Governmental fund types are used to account for activities primarily supported by taxes, grants, and similar revenue sources.

The State reports the following major governmental funds:

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

The *Federal Fund* accounts for the receipt and use of grants, entitlements, and shared revenues received from the federal government that are all restricted by federal regulations.

The *Transportation Fund* accounts for fuel taxes, including the State's diesel, motor vehicle, and fuel use taxes; bond proceeds; automobile registration fees; and other revenues that are restricted for transportation purposes, including highway and passenger rail construction and transportation safety programs.

The *Environmental and Natural Resources Fund* accounts for fees, bond proceeds, and other revenues that are restricted for maintaining the State's natural resources and improving the environmental quality of its air, land, and water.

The *Health Care Related Programs Fund* accounts for fees, taxes, intergovernmental revenue, bond proceeds, transfers from other state funds, and other revenue used for the Medi-Cal program, medical research, and other health and human services programs.

Proprietary fund types focus on the determination of operating income, changes in net position, financial position, and cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. For its proprietary funds, the State applies all applicable GASB pronouncements.

The State has two proprietary fund types: enterprise funds and internal service funds.

Enterprise funds record business-type activity for which a fee is charged to external users for goods and services. In addition, the State is required to report activities as enterprise funds in the context of the activity's principal revenue sources when any of the following criteria are met:

- The activity's debt is secured solely by fees and charges of the activity;
- There is a legal requirement to recover costs; or
- The pricing policies of fees and charges are designed to recover costs.

The State reports the following major enterprise funds:

The *Electric Power Fund* accounts for the acquisition and resale of electric power to retail end-use customers.

The *Water Resources Fund* accounts for charges to local water districts and the sale of excess power to public utilities.

The *State Lottery Fund* accounts for the sale of California State Lottery (Lottery) tickets and the Lottery's payments for education.

The *Unemployment Programs Fund* accounts for employer and worker contributions used for payments of unemployment insurance and disability benefits.

The *California State University Fund* accounts for student fees and other receipts from gifts, bequests, donations, federal and state grants, and loans that are used for educational purposes.

Nonmajor enterprise funds account for additional operations that are financed and operated in a manner similar to private business enterprises.

Additionally, the State reports *internal service funds* as a proprietary fund type with governmental activity. Internal service funds account for goods or services provided to other agencies, departments, or governments on a cost-reimbursement basis. The goods and services provided include architectural services, public building construction and improvements, printing and procurement services, goods produced by inmates of state prisons, data processing services, and administrative services related to water delivery. Internal service funds are included in the governmental activities at the government-wide level.

Fiduciary fund types are used to account for assets held by the State. The State acts as a trustee or as an agent for individuals, private organizations, other governments, or other funds. Fiduciary funds, including fiduciary component units, are not included in the government-wide financial statements.

The State has the following four fiduciary fund types:

Private purpose trust funds account for all trust arrangements, other than those properly reported in pension or investment trust funds, whereby principal and income benefit individuals, private organizations, or other governments. The following are the State's largest private purpose trust funds:

The *Scholarshare Program Trust Fund* accounts for money received from participants to fund their beneficiaries' higher education expenses at certain postsecondary educational institutions.

The *Unclaimed Property Fund* accounts for unclaimed money and properties held in trust by the State. Unclaimed money is remitted to the General Fund where it can be used by the State until it is claimed.

Pension and other employee benefit trust funds of the primary government and fiduciary component units account for transactions, assets, liabilities, and net position available for plan benefits of the retirement systems and for other employee benefit programs.

An *investment trust fund* accounts for the deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies.

Agency funds account for assets held by the State, which acts as an agent for individuals, private organizations, or other governments. The following are the State's largest agency funds:

The *Receipting and Disbursing Fund* accounts for the collection and disbursement of revenues and receipts on behalf of local governments. This fund also accounts for receipts from numerous state funds, typically for the purpose of writing a single warrant when the warrant is funded by multiple funding sources.

The *Deposit Fund* accounts for various deposits, such as those from condemnation and litigation proceedings.

Discretely presented component units consist of certain organizations that have enterprise activity. The enterprise activity component units are the University of California, the California Housing Finance Agency, and nonmajor component units. In this report, all of the enterprise activity of the discretely presented component units is reported in a separate column in the government-wide financial statements and on separate pages following the fund financial statements.

C. Measurement Focus and Basis of Accounting

1. Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when they are earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar transactions are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. Fund Financial Statements

The measurement focus and basis of accounting for the fund financial statements vary with the type of fund. **Governmental fund types** are presented using the current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets; the unassigned fund balance is a measure of available, spendable resources.

The accounts of the governmental fund types are reported using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded as they become measurable and available, and expenditures are recorded at the time the liabilities are incurred. The State records revenue sources when they are earned or when they are due, provided they are measurable and available within the ensuing 12 months. When an asset is recorded in a governmental fund statement, but the revenue is not available within the ensuing 12 months, the State reports a deferred inflow of resources until such time as the revenue becomes available. Principal tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and corporation taxes), as sales are made (consumption and use taxes), and as a taxable event occurs (miscellaneous taxes), net of estimated tax overpayments. Principal tax revenues are reported net of immaterial tax abatements from programs that promote economic development and otherwise benefit the State, such as the Film and Television Tax Credit, the California Competes Tax Credit, the Low-Income Housing Tax Credit, and the Sales and Use Tax Exclusion Program.

Proprietary fund types, the **investment trust fund**, **private purpose trust funds**, and **pension and other employee benefit trust funds** are accounted for using the economic resources measurement focus. **Agency funds** are custodial in nature and do not measure the results of operations.

The accounts of the proprietary fund types, the investment trust fund, private purpose trust funds, pension and other employee benefit trust funds, and agency funds are reported using the accrual basis of accounting. Under the accrual basis, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

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

Discretely presented component units are accounted for using the economic resources measurement focus and the accrual basis of accounting.

D. Cash and Investments

The State considers cash and pooled investments, for the purpose of the Statement of Cash Flows, as cash and cash equivalents. Cash and cash equivalents are considered to be cash on hand; deposits in the State's pooled investment program; restricted cash and pooled investments for debt service, construction, and operations; restricted cash on deposit with fiscal agents (for example, revenue bond trustees); and highly liquid investments with an original maturity date of three months or less.

The State reports investments at fair value, as prescribed by GAAP. Additional information on the State's investments and fair value measurement can be found in Note 3, Deposits and Investments.

E. Receivables

Amounts are aggregated into a single receivables account net of allowance for uncollectible amounts. The detail of the primary government's accounts receivable can be found in Note 4, Accounts Receivable.

F. Inventories

Inventories of supplies are reported at cost and inventories held for resale are stated at the lower of average cost or market. In the government-wide financial statements, inventories for both governmental and business-type activities are expensed when they are consumed and unused inventories are reported as an asset on the Statement of Net Position. In the fund financial statements, governmental funds report inventories as expenditures when purchased, and proprietary funds report inventories as expenditures when consumed. The discretely presented component units have inventory policies similar to those of the primary government.

G. Net Investment in Direct Financing Leases

The State Public Works Board accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. The payments from these leases are used to satisfy the principal and interest requirements of revenue bonds issued by the State Public Works Board to finance the cost of projects such as acquisition and construction of facilities and equipment. Upon expiration of these leases, title to the facilities and projects transfers to the primary government agency or the local agency. The State Public Works Board records the net investment in direct financing leases at the net present value of the minimum lease payments in the internal service fund financial statements. As the majority of this lease receivable is from governmental funds, it is eliminated within the governmental activities column of the government-wide Statement of Net Position.

The California State University (CSU) system accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into 30-year capital lease agreements with various auxiliary organizations. These agreements lease existing and newly constructed facilities to the CSU Auxiliary Organizations. A portion of the proceeds from certain revenue bonds issued by CSU were used to finance the construction of these facilities.

H. Long-term Prepaid Charges

The long-term prepaid charges account in the enterprise funds primarily represents operating and maintenance costs that will be recognized in the Water Resources Fund as expenses over the remaining life of long-term state water supply contracts. These costs are billable in future years. In addition, the account includes unbilled interest earnings on unrecovered capital costs that are recorded as long-term prepaid charges. These charges are recognized when billed in the future years under the terms of water supply contracts. Long-term prepaid charges are also included in the State Lottery Fund. These prepaid charges are incurred in connection with certain contracts that extend beyond a one-year period, which are amortized as expenses over the remaining life of the contracts. The long-term prepaid charges for the Public Buildings Construction Fund, an internal service fund, include prepaid insurance costs on revenue bonds issued. In the government-wide financial statements, the prepaid charges for governmental activities include prepaid insurance costs on revenue bonds issued.

I. Capital Assets

Capital assets are categorized into land, state highway infrastructure, collections, buildings and other depreciable property, intangible assets, and construction in progress. The buildings and other depreciable property account includes buildings, improvements other than buildings, equipment, certain infrastructure assets, certain books, and other capitalized and depreciable property. Intangible assets include computer software, land-use rights, patents, copyrights, and trademarks. The value of the capital assets, including the related accumulated depreciation and amortization, is reported in the applicable governmental, business-type, or component unit activities columns in the government-wide Statement of Net Position.

The primary government has a large collection of historical and contemporary treasures that have important documentary and artistic value. These assets are not capitalized or depreciated because they are cultural resources and cannot reasonably be valued and/or the assets have inexhaustible useful lives. These treasures and works of art include furnishings, portraits and other paintings, books, statues, photographs, and miscellaneous artifacts. These collections meet the conditions for exemption from capitalization because the collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain; protected, kept unencumbered, cared for, and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

In general, capital assets of the primary government are defined as assets that have a normal useful life of at least one year and a unit cost of at least $5,000. These assets are recorded at historical cost or estimated historical cost, including all costs related to the acquisition. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value on the date received. Major capital asset outlays are capitalized as projects are constructed.

Buildings and other depreciable or amortizable capital assets are depreciated using the straight-line method with no salvage value for governmental activities. Generally, buildings and other improvements are depreciated over 40 years, equipment is depreciated over 5 years, and intangible assets are amortized over 10 to 20 years. Depreciable or amortizable assets of business-type activities are depreciated or amortized using the straight-line method over their estimated useful or service lives, ranging from 1 to 100 years.

California has elected to use the modified approach for capitalizing the infrastructure assets of the state highway system. The state highway system is maintained by the California Department of Transportation. By using the modified approach, the infrastructure assets of the state highway system are not depreciated and all expenditures made for those assets, except for additions and improvements, are expensed in the period incurred. All additions and improvements made after June 30, 2001, are capitalized. All infrastructure assets that are related to projects completed prior to July 1, 2001, are recorded at the historical costs contained in annual reports of the American Association of State Highway and Transportation Officials and the Federal Highway Administration.

The capital assets of the discretely presented component units are reported at cost at the date of acquisition or at fair market value at the date of donation, in the case of gifts. They are depreciated or amortized over their estimated useful service lives.

J. Long-term Obligations

Long-term obligations consist of unmatured general obligation bonds, unmatured revenue bonds, capital lease obligations, certificates of participation, commercial paper, net pension liability, net other postemployment benefits liability, employees' compensated absences and workers' compensation claims, pollution remediation obligations, amounts owed for lawsuits, reimbursement for costs mandated by the State, outstanding Proposition 98 funding guarantee owed to schools, the liability for lottery prizes and annuities, loans from other governments, and the primary government's share of the University of California's pension liability that is due in more than one year. In the government-wide financial statements, the obligations are reported as liabilities in the applicable governmental activities, business-type activities, and component units columns of the Statement of Net Position. The current portion—amount due within one year—of the long-term obligations is reported under current liabilities.

Pollution remediation obligations are recorded by the State when one or more of the GASB Statement No. 49 obligating events have occurred and when a reasonable estimate of the remediation cost is available. These liabilities are measured using actual contract costs, where no change in cost is expected, or the expected cash flow technique. The remediation obligation estimates that appear in this report are subject to change over time. Costs may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations, and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

Bond premiums and discounts for business-type activities and component units are deferred and amortized over the life of the bonds. In these instances, bonds payable is reported net of the applicable premium and discount. Bond premiums and discounts for governmental funds are reported as other financing sources (uses). However, in the government-wide financial statements, the bonds payable for governmental activities is reported net of the applicable unamortized premium and discount. Bond issuance costs, excluding prepaid insurance, are expensed when incurred.

With advance approval from the Legislature, certain authorities and state agencies may issue revenue bonds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds, building authorities, and agencies. The General Fund has no legal liability for payment of principal and interest on revenue bonds. With the exception of certain special revenue funds (Transportation and the Golden State Tobacco Securitization Corporation) and the building authorities capital projects fund, the liability for revenue bonds is recorded in the respective fund.

K. Compensated Absences

The government-wide financial statements report both the current and the noncurrent liabilities for compensated absences, which are vested unpaid vacation, annual leave, and other paid leave programs. However, unused sick-leave balances are not included in the compensated absences because they do not vest to employees. In the governmental fund financial statements, only the compensated absences liability for employees who have left state service and have unused reimbursable leave at fiscal year-end is included. The amounts of vested unpaid vacation and annual leave accumulated by state employees are accrued in proprietary funds when incurred. In the discretely presented component units, the compensated absences are accounted for in the same manner as in the proprietary funds of the primary government.

L. Deferred Outflows and Deferred Inflows of Resources

The government-wide and fund financial statements report deferred outflows of resources and deferred inflows of resources.

1. Deferred Outflows of Resources

Deferred outflows of resources are the consumption of assets that are applicable to future reporting periods. Deferred outflows of resources are presented separately after “Total Assets” in the Balance Sheet and Statement of Net Position.

Deferred outflows of resources consist of the following transactions:

- *Loss on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding losses for governmental activities, business-type activities, and component units. These deferred losses are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- *Decrease in Fair Value of Hedging Derivatives*: Negative changes in the fair value of hedging derivatives are reported for component units.

- *Net Pension Liability*: Increases in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred outflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and increases in the State’s proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized in pension expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on pension plan investments exceed actual earnings, with the net difference amortized to pension expense over a five-year period beginning in the current reporting period. Employer contributions, and state contributions in the case of CalSTRS' special funding situation, made subsequent to the measurement date are reported as deferred outflows of resources related to pensions and reduce net pension liability in the following year. Deferred outflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Net Other Postemployment Benefits Liability*: Increases in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred outflows of resources related to OPEB. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB liability; and differences between the actual and proportionate share of OPEB contribution amounts, are all recognized as OPEB expense over the average of the expected remaining service lives of participating employees. A deferred outflow of resources is also reported when projected earnings on OPEB plan investments exceed actual earnings, with the net difference amortized to OPEB expense over a five-year period beginning in the current reporting period. Employer contributions made subsequent to the measurement date are reported as deferred outflows of resources related to OPEB and reduce net OPEB liability in the following year. Deferred outflows of resources related to net OPEB liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

2. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of assets that are applicable to future reporting periods. Deferred inflows of resources are presented separately after "Total Liabilities" in the Balance Sheet and Statement of Net Position.

The State's deferred inflows of resources consist of the following transactions:

- *Unavailable Revenues*: Governmental funds report deferred inflows of resources for earned and measurable revenue from long-term receivables that is not available within 12 months of the end of the reporting period. These deferred amounts are recognized as revenue in the periods that they become available.

- *Gain on Refunding of Debt*: The defeasance of previously outstanding general obligation and revenue bonds results in deferred refunding gains for governmental activities and discretely presented component units. These deferred gains are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

- *Service Concession Arrangements*: The State and its component units have entered into service concession arrangements with third parties for park facility services, student housing, and certain other services. The upfront payment received or present value of installment payments expected to be received from the third parties are reported as deferred inflows of resources.

- *Irrevocable Split-Interest Agreements*: The State and its discretely presented component units have entered into irrevocable split-interest agreements with third parties to receive donations of monetary assets and real property. The value of assets received or expected to be received from the third parties are reported as deferred inflows of resources.

- *Net Pension Liability*: Reductions in net pension liability that are not recognized in pension expense for the reporting period are reported as deferred inflows of resources related to pensions. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total pension liability; and decreases in the State's proportionate share of net pension liability for plans that have a special funding situation, such as CalSTRS, are all recognized against pension expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on pension plan investments exceed projected earnings, with the net difference amortized against pension expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net pension liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Net Other Postemployment Benefits Liability*: Reductions in net OPEB liability that are not recognized in OPEB expense for the reporting period are reported as deferred inflows of resources related to OPEB. Differences between expected and actual experience with regard to economic or demographic factors; changes of assumptions about future economic or demographic factors, or of other inputs used by the actuaries to determine total OPEB liability; and differences between the actual and proportionate share of OPEB contribution amounts, are all recognized against OPEB expense over the average of the expected remaining service lives of participating employees. A deferred inflow of resources is also reported when actual earnings on OPEB plan investments exceed projected earnings, with the net difference amortized against OPEB expense over a five-year period beginning in the current reporting period. Deferred inflows of resources related to net OPEB liability are reported for governmental activities, business-type activities, fiduciary funds, and component units.

- *Other Deferred Inflows of Resources*: Revenues generated from current rates charged by regulated business-type activities that are intended to recover costs expected to be incurred in the future are reported in the government-wide Statement of Net Position. A component unit's sale of future royalty payments and nonexchange transactions are reported as a deferred inflow of resources.

M. Nonmajor Enterprise Segment Information

Three nonmajor enterprise fund segments are displayed discretely in the Combining Statement of Net Position; the Combining Statement of Revenues, Expenses, and Changes in Fund Net Position; and the Combining Statement of Cash Flows of the nonmajor enterprise funds. A *segment* is an identifiable activity reported as or within an enterprise fund or another stand-alone entity for which debt is outstanding and a revenue stream has been pledged in support of that debt. In addition, to qualify as a segment, an activity must be subject to an external requirement to separately account for revenues, expenses, gains and losses, assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the activities reported for the fund segments listed below meet these requirements.

State Water Pollution Control Revolving Fund: Interest charged on loans to communities for construction of water pollution control facilities and projects.

Safe Drinking Water State Revolving Fund: Interest charged on loans to communities for construction of water systems for drinking water infrastructure projects.

Housing Loan Fund: Interest payments from low-interest, long-term farm and home mortgage loan contracts to eligible veterans living in California.

N. Net Position and Fund Balance

The difference between fund assets, deferred outflows of resources, liabilities, and deferred inflows of resources is called "net position" on the government-wide financial statements, the proprietary and fiduciary fund statements, and the component unit statements; it is called "fund balance" on the governmental fund statements.

1. Net Position

The government-wide financial statements include the following categories of net position:

Net investment in capital assets represents capital assets, net of accumulated depreciation, reduced by the outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results from transactions with purpose restrictions and is designated as either *nonexpendable* or *expendable*. *Nonexpendable restricted* net position is subject to externally imposed restrictions that must be retained in perpetuity. *Expendable restricted* net position is subject to externally imposed restrictions that can be fulfilled by actions of the State. As of June 30, 2019, the government-wide financial statements show restricted net position for the primary government of $54.3 billion, of which $9.0 billion is due to enabling legislation.

Unrestricted net position is neither restricted nor invested in capital assets.

2. Fund Balance

In the fund financial statements, proprietary funds include categories of net position similar to those in the government-wide financial statements. Fund balance amounts for governmental funds are reported as nonspendable, restricted, committed, assigned, or unassigned.

Nonspendable fund balance includes amounts that cannot be spent because they are not in spendable form (inventories; prepaid amounts; long-term portion of loans or notes receivable; or property held for resale unless the proceeds are restricted, committed, or assigned) or they are legally or contractually required to remain intact.

Restricted fund balance has constraints placed upon the use of the resources either by an external party (creditors, grantors, contributors, or laws and regulations of other governments) or through a constitutional provision or enabling legislation.

Committed fund balance can be used only for specific purposes pursuant to constraints imposed by state law as adopted by the California State Legislature. The state law that commits fund balance to a specific purpose must have been adopted prior to the end of the reporting period, but the amount subject to the constraint may be determined in a subsequent period. Committed fund balance incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance: California does not have a formal policy to delegate authority to assign resources. However, fund balance can be classified as assigned when a purchase order creates an outstanding encumbrance amount, unless the purchase order relates to restricted or committed resources. Furthermore, in governmental funds created by state law for a specific purpose, other than the General Fund, all resources that are not reported as nonspendable, restricted, or committed are classified as assigned for the purpose of the respective funds.

Unassigned fund balance is the residual amount of the General Fund not included in the four classifications described above. In other governmental funds in which expenditures incurred for specific purposes exceeded amounts restricted, committed, or assigned to those purposes, a negative unassigned fund balance is reported.

Fund balance spending order: For the purpose of reporting fund balance in this financial report under GASB Statement No. 54, the State considers resources to be spent in the following order when an expenditure is incurred for which these classifications are available: restricted, committed, assigned, and unassigned.

Fiduciary fund net position represents amounts held in trust for pension and other postemployment benefits, deferred compensation participants, pool participants, individuals, organizations, or other governments.

3. Stabilization Arrangements

In accordance with Article 16, Section 20 of the California State Constitution, the State maintains the Budget Stabilization Account. The Budget Stabilization Account is reported in the General Fund. By October 1 of each fiscal year, a transfer must be made from the General Fund to the Budget Stabilization Account in an amount equal to one-half of (a) 1.5% of the estimated General Fund revenues for that fiscal year and (b) personal capital gains tax revenues in excess of 8.0% of estimated General Fund taxes for that fiscal year less amounts that must be spent on Proposition 98. The remaining half of the calculated amount is used as appropriated by the State Legislature to pay down (1) interfund loans, (2) specified debts to local governments, and (3) debts for pension and retiree health benefits.

The State Legislature may suspend or reduce the transfer of funds to, or withdrawal of funds from, the Budget Stabilization Account if the Governor declares a budget emergency. For this purpose, budget emergency means either (1) a natural disaster or other event that creates a condition of extreme peril to the safety of persons or property, or (2) there is not enough money to keep General Fund spending at the highest level of the past three fiscal years (adjusted for changes in state population and cost of living). The amount of the withdrawal from the Budget Stabilization Account is limited to the actual amount needed for the natural disaster or to keep General Fund spending at the highest level of the past three years. In addition, if there was no budget emergency in the prior fiscal year, no more than one-half of the Budget Stabilization Account balance may be withdrawn; the entire remaining balance could be withdrawn in the second straight year of a budget emergency.

When the balance of the Budget Stabilization Account reaches 10% of the estimated General Fund revenues for that fiscal year, the amount that would have been transferred to the Budget Stabilization Account would instead be used to build and maintain infrastructure. At June 30, 2019, the Budget Stabilization Account had a restricted fund balance of $14.4 billion.

In addition, the State has a discretionary Safety Net Reserve Fund within the General Fund used as a depository of funds that will be used to maintain existing program benefits and services for the Medi-Cal and CalWORKS programs during economic downturns when caseload and costs related to these programs increase. As of June 30, 2019, the Safety Net Reserve Fund had a committed fund balance of $900 million.

O. Restatement of Beginning Fund Balances and Net Position

1. Fund Financial Statements

The beginning fund balance of *governmental funds* increased by $131 million. The increase is comprised of the following items:

- A $3 million decrease in the General Fund for an interfund payable previously reported in the Financial Information Systems Fund, an internal service fund.
- A $194 million decrease in the Transportation Fund for understated transit assistance program expenditures.
- A $289 million net increase in the Health Care Related Programs Fund for understated revenue and the elimination of amounts reported for an entity recently identified as a related organization.
- A $39 million increase in a nonmajor special revenue fund for overstated expenditures.

The beginning net position of *internal service funds* increased by $333 million. The increase is comprised of the following items:

- A $47 million increase for overstated prior-year interest expense reported in the Public Building Construction Fund.
- A $105 million increase for the reallocation of employee related liabilities (net pension liability, net OPEB liability, and compensated absences) from the Financial Information Systems Fund to the unallocated total reported only within governmental activities in the government-wide financial statements. An additional $18 million of net pension liability and related amounts was reallocated from the Financial Information Systems Fund to other internal service programs.
- A $181 million increase for the reallocation of net OPEB liability and related amounts from other internal service programs to the unallocated total reported only within governmental activities in the government-wide financial statements.

The beginning net position of *enterprise funds* decreased by $9 million. The increase is comprised an $11 million decrease for a prior period adjustment resulting from overcharged capital billings to state water contractors in the Water Resources Fund and a $2 million increase for understated loans receivable within other enterprise programs.

The beginning net position of *discretely presented component units* decreased by $211 million. The decrease is comprised of the following items:

- An $11 million decrease for the University of California's implementation of GASB Statement No. 83, *Certain Asset Retirement Obligations*. Further information related to this restatement is included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu.
- A $200 million decrease for the recognition of net OPEB liability and deferred outflows of resources from the first-year implementation of GASB No. 75 for entities whose financial information is presented as of and for the year ended December 31, 2018.

2. Government-wide Financial Statements

The beginning net position of *governmental activities* decreased by $342 million. In addition to the restatements described in the previous sections for governmental and internal service funds, the restatement also includes a $905 million decrease for a previously unreported liability associated with the abandonment of Wilmington Oil Field (see Note 9: Long-Term Obligations), a $320 million decrease for the Trial Courts' previously unreported net OPEB liability and related accounts, and a $702 million increase for understated capital assets. As the General Fund and internal service funds are both included in *governmental activities* in the government-wide financial statements, there is no impact to *governmental activities* for the reallocation of liabilities between the General Fund and an internal service fund, or between internal service funds and other governmental activities, as described in the previous sections for governmental funds and internal service funds, respectively.

The beginning net position of *business-type activities* and *discretely presented component units* were restated as described in the previous sections for enterprise funds and discretely presented component units, respectively.

P. Guaranty Deposits

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

NOTE 2: BUDGETARY AND LEGAL COMPLIANCE

A. Budgeting and Budgetary Control

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

Under the State Constitution, money may be drawn from the treasury only through a legal appropriation. The appropriations contained in the Budget Act, as approved by the Legislature and signed by the Governor, are the primary sources of annual expenditure authorizations and establish the legal level of control for the annual operating budget. The budget can be amended throughout the year by special legislative action, budget revisions by the Department of Finance, or executive orders of the Governor. Amendments to the original budget for the fiscal year ended June 30, 2019, increased spending authority for the budgetary/legal basis-reported General Fund, Transportation Funds, Environmental and Natural Resources Funds, and the Health Care Related Programs Funds.

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

B. Legal Compliance

State agencies are responsible for exercising basic budgetary control and ensuring that appropriations are not overspent. The State Controller's Office is responsible for overall appropriation control and does not allow expenditures in excess of authorized appropriations.

Financial activities are mainly controlled at the appropriation level but can vary, depending on the presentation and wording contained in the Budget Act. The Budget Act appropriations are identified by department, reference item, and fund. The annual appropriated budget may establish detailed allocations to specific programs, projects, or sources of reimbursement within an appropriation. The Department of Finance can authorize adjustments between the detail allocations but cannot increase the amount of the overall appropriation. While the financial activities are controlled at various levels, the legal level of budgetary control—the extent to which management may amend the budget without seeking approval of the governing body—has been established in the Budget Act for the annual operating budget.

The Budgetary Comparison Schedule is not presented in this document at the legal level of budgetary control because such a presentation would be extremely lengthy and cumbersome. The State prepares a separate report, the Comprehensive Annual Financial Report Supplement, which includes statements that demonstrate compliance with the legal level of budgetary control in accordance with GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, section 2400.121. The supplement includes the comparison of the annual appropriated budget with expenditures at the legal level of control. A copy of the Comprehensive Annual Financial Report Supplement is available upon email request to the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash balances not required for immediate use are invested by the State Treasurer. The State Treasurer administers a single pooled investment program comprising both an internal investment pool and an external investment pool (the Local Agency Investment Fund). A single portfolio of investments exists, with all participants having an undivided interest in the portfolio. Both pools are administered in the same manner.

A. Primary Government

1. Control of State Funds

The State's pooled investment program and certain funds of the primary government are allowed by state statutes, bond resolutions, and investment policy resolutions to invest in U. S. government securities, federal agency securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, other debt securities, repurchase agreements, reverse repurchase agreements, and other investments.

Certain discretely presented component units and related organizations participate in the State Treasurer's Office pooled investment program. As of June 30, 2019, these discretely presented component units and related organizations account for approximately 2.5% of the State Treasurer's pooled investment portfolio. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs.

Both deposits and investments are included in the State's investment program. For certain banks, the State Treasurer's Office maintains cash deposits that cover uncleared checks deposited in the State's accounts and earn income that compensates the banks for their services.

Demand and time deposits held by financial institutions as of June 30, 2019, totaling approximately $5.7 billion, were insured by federal depository insurance or by collateral held by the State Treasurer's Office or an agent of the State Treasurer's Office in the State's name. The California Government Code requires that collateral pledged for demand and time deposits be deposited with the State Treasurer.

As of June 30, 2019, the State Treasurer's Office had on deposit with a fiscal agent amounts totaling $22 million related to principal and interest payments to bondholders. These deposits were insured by federal depository insurance or by collateral held by an agent of the State Treasurer's Office in the State's name.

Certain funds have elected to participate in the pooled investment program even though they have the authority to invest on their own. Others may be required by legislation to participate in the program; as a result, the deposits of these funds may be considered involuntary. However, these funds are part of the State's reporting entity. The remaining participant in the pool, the Local Agency Investment Fund, is voluntary.

Certain funds that have deposits in the State Treasurer's pooled investment program do not receive the interest earnings on their deposits. Instead, by law, the earnings are assigned to the State's General Fund. Most of the $658 million in interest revenue received by the General Fund from the pooled investment program in fiscal year 2018-19 was earned on balances in these funds.

Enterprise funds and special revenue funds also make separate investments, which are presented at fair value.

2. Valuation of State Investments

The State Treasurer's Office reports its investments at fair value. The State Treasurer's Office performs a quarterly fair market valuation of the pooled investment program portfolio. The fair value of securities in the State Treasurer's pooled investment program is generally based on quoted market prices. In addition, the State Treasurer's Office performs a monthly fair market valuation of all securities held against carrying cost. These valuations can be obtained from the State Treasurer's Office website at www.treasurer.ca.gov.

Table 1 categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and liabilities. Level 1 inputs are quoted prices for identical assets or liabilities in active markets at the date of measurement. Level 2 inputs are significant other directly or indirectly observable inputs other than quoted prices. Level 3 inputs are significant unobservable inputs. The State has no investments measured at Level 3.

Table 1

Schedule of Investments – Primary Government – Investments by Fair Value Level
June 30, 2019
(amounts in thousands)

		Fair Value Measurements Using	
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Pooled Investments			
U.S. Treasury bills and notes[1]	$ 51,868,470	$ 51,868,470	$ —
U.S. Agency bonds and discount notes	19,644,124	19,644,124	—
Supranational debentures and discount notes	2,636,561	2,636,561	—
Small Business Administration loans	656,509	656,509	—
Mortgage-backed securities	22,511	22,511	—
Certificates of deposit	17,985,383	—	17,985,383
Bank notes	600,273	—	600,273
Commercial paper	6,767,141	—	6,767,141
Total pooled investments at fair value	**100,180,972**	**$ 74,828,175**	**$ 25,352,797**
Other primary government investments			
U.S. Treasuries and agencies	3,140,546	$ 889,560	$ 2,250,986
Commercial paper	31,253	—	31,253
Corporate debt securities	1,008,970	—	1,008,970
Repurchase agreements	10,352	—	10,352
Other	1,277,448	802,216	475,232
Total other primary government investments at fair value	**5,468,569**	**$ 1,691,776**	**$ 3,776,793**
Investments measured at the net asset value (NAV)			
Money market funds/2a-7 money market funds	357,560		
Total investments measured at the NAV	**357,560**		
Other investment instruments			
Guaranteed investment contracts[2]	200,000		
Total other investment instruments	**200,000**		
Funds outside primary government included in pooled investments			
Less: investment trust funds	24,568,698		
Less: other trust and agency funds	4,203,406		
Less: discretely presented component units and related organizations	2,476,321		
Total primary government investments	**$ 74,958,676**		

[1] The fair value of pooled investments does not include $400 million of U.S. Treasury Notes which matured on Sunday, June 30, 2019.

[2] Reported at carrying value.

As of June 30, 2019, the weighted average maturity of the securities in the pooled investment program administered by the State Treasurer's Office was approximately 177 days. Weighted average maturity is the average number of days, given a dollar-weighted value of individual investments, that the securities in the portfolio have remaining from evaluation date to stated maturity.

3. Oversight of Investing Activities

The Pooled Money Investment Board (PMIB) provides oversight of the State Treasurer's pooled investment program. The purpose of the board is to design and administer an effective cash management and investment program, using all monies flowing through the State Treasurer's Office bank accounts and keeping all available funds invested in a manner consistent with the goals of safety, liquidity, and yield. The PMIB is comprised of the State Treasurer as chair, the State Controller, and the Director of Finance. This board designates the amounts of money available for investment. The State Treasurer is charged with making the actual investment transactions for this program. This investment program is not registered with the Securities and Exchange Commission as an investment company.

The value of the deposits in the State Treasurer's pooled investment program, including the Local Agency Investment Fund, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2019, this difference was immaterial to the valuation of the program. The pool is run with "dollar-in, dollar-out" participation. There are no share-value adjustments to reflect changes in fair value.

The State Treasurer's pooled investment program values participants' shares on an amortized cost basis. Specifically, the program distributes income to participants quarterly, based on their relative participation during the quarter. This participation is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This amortized cost method differs from the fair value method used to value investments in these financial statements; the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the pool's investments. Because the total difference between the fair value of the investments in the pool and the value distributed to pool participants using the amortized cost method described above is not material, no adjustment was made to the financial statements. The State Treasurer's Office also reports participant fair value as a ratio of amortized cost on a quarterly basis. The State Treasurer's Office has not provided or obtained a legally binding guarantee to support the principal invested in the investment program.

As of June 30, 2019, structured notes and medium-term asset-backed securities comprised approximately 1.6% of the pooled investments. A portion of the structured notes was callable agency securities, which represented 0.2% of the pooled investments. The asset-backed securities consist of mortgage-backed securities, Small Business Administration (SBA) pools, and asset-backed commercial paper. The mortgage-backed securities, called real estate mortgage investment conduits (REMICs), are securities backed by pools of mortgages. The REMICs in the State's portfolio have a fixed principal payment schedule. A portion of the asset-backed securities consisted of floating-rate SBA notes. For floating-rate SBA notes held in the portfolio during the fiscal year, the interest received by the State Treasurer's pooled investment program rose or fell as the underlying index rate rose or fell. The structure of the floating-rate SBA notes in the State Treasurer's pooled investment program portfolio provided a hedge against the risk of increasing interest rates. A portion of the asset-backed portfolio holdings were short-term, asset-backed commercial paper (ABCP), which represented 0.3% of the pooled investments.

Table 2 identifies the investment types that are authorized by the California Government Code and the State Treasurer's Office Investment Policy for the Pooled Investment Program. Maturities are limited by the State Treasurer's Office Investment Policy for the Pooled Money Investment Program. For commercial paper, the Investment Policy matches the Government Code. For corporate bonds and notes, the Government Code requires that a security falls within the top three ratings of a nationally recognized statistical ratings organization (NRSRO). Items reported as N/A have no limitation in either the Government Code or the State Treasurer's Office Investment Policy.

Table 2

Authorized Investments

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Credit Rating
U.S. Treasury securities	5 years	N/A	N/A	N/A
Federal agency and supranational securities	5 years	N/A	N/A	N/A
Certificates of deposit	5 years	N/A	N/A	N/A
Bankers' acceptances	180 days	N/A	N/A	N/A
Commercial paper	270 days	30%	10% of issuer's outstanding Commercial paper	A-3/P-3/F-3
Corporate bonds/notes	5 years	N/A	N/A	A/A3/A
Repurchase agreements	1 year	N/A	N/A	N/A
Reverse repurchase agreements	1 year	10%	N/A	N/A

4. Risk of Investments

The following types of risks are common in deposits and investments, including those of the State:

Interest Rate Risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

Custodial Credit Risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of deposits, investments, or collateral.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

a. Interest Rate Risk

Table 3 presents the interest rate risk of the primary government's investments. In calculating SBA holdings' weighted average maturity, the State Treasurer's Office assumes that stated maturity is the quarterly reset date. Total pooled investments do not include $4.9 billion of time deposits and $779 million of internal loans to state funds. Repurchase agreements of the California State University system mature in one day. Most mortgage-backed securities are issued by U.S. government agencies, or government-sponsored enterprises such as the Federal National Mortgage Association, and entitle the purchaser to receive a share of the cash flows, such as principal and interest payments, from a pool of mortgages. Mortgage-backed securities are highly sensitive to interest rate changes because principal prepayments either increase (in a low interest rate environment) or decrease (in a high interest rate environment) the security yield. As of June 30, 2019, only $23 million, or 0.02% of the total pooled investments, was invested in mortgage-backed securities.

Table 3

Schedule of Investments – Primary Government – Interest Rate Risk
June 30, 2019
(amounts in thousands)

	Fair Value at Year End	Weighted Average Maturity (in years)
Pooled investments		
U.S. Treasury bills and notes[1]	$ 51,868,470	0.66
U.S. Agency bonds and discount notes	19,644,124	0.34
Supranational debentures and discount notes	2,636,561	0.54
Small Business Administration loans	656,509	0.25
Mortgage-backed securities	22,511	1.64
Certificates of deposit	17,985,383	0.25
Bank notes	600,273	0.20
Commercial paper	6,767,141	0.22
Total pooled investments	**100,180,972**	
Other primary government investments		
U.S. Treasuries and agencies	3,140,546	2.64
Commercial paper	31,253	2.38
Guaranteed investment contracts[2]	200,000	2.83
Corporate debt securities	1,008,970	1.02
Repurchase agreements	10,352	—
Other	1,635,008	2.76
Total other primary government investments	**6,026,129**	
Funds outside primary government included in pooled investments		
Less: investment trust funds	24,568,698	
Less: other trust and agency funds	4,203,406	
Less: discretely presented component units and related organizations	2,476,321	
Total primary government investments	**$ 74,958,676**	

[1] The fair value of pooled investments does not include $400 million of U.S. Treasury Notes which matured on Sunday, June 30, 2019.
[2] Reported at carrying value.

b. Credit Risk

Table 4 presents the credit risk of the primary government's debt securities. If a particular security has multiple ratings, the lowest rating of the three major NRSROs is used. Similar to interest rate risk shown in Table 3, time deposits and internal loans to state funds are not included.

Table 4

Schedule of Investments in Debt Securities – Primary Government – Credit Risk
June 30, 2019
(amounts in thousands)

Credit Rating as of Year End			
Short-term	**Long-term**		**Fair Value**
Pooled investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	25,812,952
A-1/P-1/F-1	AA/Aa/AA		21,142,912
A-2/P-2/F-2	A/A/A		700,129
Not rated			—
Not applicable			52,524,979
Total pooled investments		**$**	**100,180,972**
Other primary government investments			
A-1+/P-1/F-1+	AAA/Aaa/AAA	$	1,190,167
A-1/P-1/F-1	AA/Aa/AA		2,735,863
A-2/P-2/F-2	A/A/A		997,187
A-3/P-3/F-3	BBB/Baa/BBB		29,201
B/NP/B	BB/Ba/BB		12,666
B/NP/B	B2/B		57,975
Not rated			1,003,070
Total other primary government investments		**$**	**6,026,129**

c. Custodial Credit Risk

The State has a deposit policy for custodial credit risk that requires deposits held by financial institutions to be insured by federal depository insurance or secured by collateral. As of June 30, 2019, one guaranteed investment contract of the Electric Power Fund in the amount of $100 million was uninsured and uncollateralized.

d. Concentration of Credit Risk

The investment policy of the State Treasurer's Office contains no limitations on the amount that can be invested in any one issuer beyond those limitations stipulated in the California Government Code. As of June 30, 2019, the State had investments in the Federal Home Loan Mortgage Corporation totaling 5.9% and the Federal Home Loan Bank totaling 10.5% of the total pooled investments and other primary government investments.

B. Fiduciary Funds

The fiduciary funds include pension and other employee benefit trust funds of the following fiduciary funds and component units: California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS), the fund for the California Scholarshare program, and various other funds. CalPERS and CalSTRS account for 96.4% of these separately invested funds. CalPERS and CalSTRS exercise their authority under the State Constitution and invest in stocks, bonds, mortgages, real estate, and other investments, including derivative instruments.

Additional disclosures for CalPERS' investments and derivative instruments are included in CalPERS' separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosures for CalSTRS' investments and derivative instruments are included in CalSTRS' separately issued financial statements, which may be found on its website at www.CalSTRS.com.

C. Discretely Presented Component Units

The discretely presented component units consist of the University of California and its foundation, the California Housing Finance Agency (CalHFA), and various nonmajor component units. The University and CalHFA constitute 93.4% of the total investments of discretely presented component units. State law, bond resolutions, and investment policy resolutions allow component units to invest in U.S. government securities, state and municipal securities, commercial paper, corporate bonds, investment agreements, real estate, and other investments. Additionally, a portion of the cash and pooled investments of CalHFA, and other nonmajor component units are invested in the State Treasurer's pooled investment program.

Additional disclosures for the University of California's investments and derivative instruments are included in the University's separately issued financial statements, which may be found on its website at www.ucop.edu. Additional disclosures for CalHFA's investments and derivative instruments are included in CalHFA's separately issued financial statements, which may be found on its website at www.CalHFA.ca.gov.

NOTE 4: ACCOUNTS RECEIVABLE

Table 5 presents the disaggregation of accounts receivable attributable to taxes; licenses, permits, and fees; Lottery retailer collections; unemployment program receipts; and the California State University. Other receivables are for interest, gifts, grants, penalties, and other charges.

Table 5

Schedule of Accounts Receivable
June 30, 2019
(amounts in thousands)

	Taxes	Licenses, Permits, and Fees	Lottery Retailers
Current governmental activities			
General Fund	$ 16,290,843	$ —	$ —
Federal Fund	—	—	—
Transportation Fund	803,627	281,504	—
Environmental and Natural Resources Fund	16,228	402,199	—
Health Care Related Programs Fund	640,547	2,931,260	—
Nonmajor governmental funds	473,402	429,177	—
Internal service funds	—	—	—
Adjustment:			
Unavailable revenue[1]	(5,902,976)	(236,650)	—
Total current governmental activities	**$ 12,321,671**	**$ 3,807,490**	**$ —**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ 5,902,976**	**$ 236,650**	**$ —**
Current business-type activities			
Electric Power Fund	$ —	$ —	$ —
Water Resources Fund	—	—	—
State Lottery Fund	—	—	569,546
Unemployment Programs Fund	—	—	—
California State University	—	—	—
Nonmajor enterprise funds	—	—	—
Total current business-type activities	**$ —**	**$ —**	**$ 569,546**
Amounts not scheduled for collection during the subsequent year (unavailable revenue)	**$ —**	**$ —**	**$ —**

[1] The unavailable revenue reported in the governmental fund financial statements represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

[2] Amount includes noncurrent receivables for service concession arrangements of $55 million that were not included in the governmental fund financial statements.

Unemployment Programs	California State University	Other	Total
$ —	$ —	$ 1,149,737	$ 17,440,580
—	—	5,544	5,544
—	—	135,721	1,220,852
—	—	72,464	490,891
—	—	267,117	3,838,924
—	—	463,971	1,366,550
—	—	88,093	88,093
—	—	(514,727)	(6,654,353)
$ —	**$ —**	**$ 1,667,920**	**$ 17,797,081**
$ —	**$ —**	**$ 569,741** [2]	**$ 6,709,367**
$ —	$ —	$ 2,259	$ 2,259
—	—	155,303	155,303
—	—	—	569,546
1,187,994	—	—	1,187,994
—	197,183	—	197,183
—	—	44,723	44,723
$ 1,187,994	**$ 197,183**	**$ 202,285**	**$ 2,157,008**
$ 80,281	**$ 392,398**	**$ —**	**$ 472,679**

NOTE 5: RESTRICTED ASSETS

Table 6 presents a summary of the legal restrictions placed on assets of the primary government and the discretely presented component units.

Table 6

Schedule of Restricted Assets
June 30, 2019
(amounts in thousands)

	Cash and Pooled Investments	Investments	Due From Other Governments	Loans Receivable	Total
Primary government					
Debt service	$ 1,749,966	$ 352,860	$ 292,355	$ 1,954,696	$ 4,349,877
Construction	674,132	—	—	—	674,132
Operations	44,000	—	—	—	44,000
Other	1,500	—	—	—	1,500
Total primary government	**2,469,598**	**352,860**	**292,355**	**1,954,696**	**5,069,509**
Discretely presented component units					
Debt service	267,684	110,926	—	—	378,610
Other	76,676	—	—	—	76,676
Total discretely presented component units	**344,360**	**110,926**	**—**	**—**	**455,286**
Total restricted assets	**$ 2,813,958**	**$ 463,786**	**$ 292,355**	**$ 1,954,696**	**$ 5,524,795**

NOTE 6: NET INVESTMENT IN DIRECT FINANCING LEASES

The State Public Works Board (SPWB) accounts for its activities in the Public Buildings Construction Fund, an internal service fund, and has entered into lease-purchase agreements with various other primary government agencies and certain local agencies. Payments from these leases will be used to satisfy the principal and interest requirements of revenue bonds issued by the SPWB. The lease-purchase activity between the SPWB and the primary government agencies shown in the schedule below represents only that activity with agencies reported as enterprise funds. The lease receivable of $8.0 billion from governmental funds and the corresponding lease obligation were eliminated within the governmental activities column of the government-wide Statement of Net Position.

The CSU system accounts for its lease activities in the California State University Fund, a major enterprise fund, and has entered into capital lease agreements with various auxiliary organizations. These agreements lease existing and newly constructed facilities to the auxiliary organizations. A portion of the proceeds from certain revenue bonds and bond anticipation notes issued by the CSU were used to finance the construction of these facilities.

Table 7 summarizes the minimum lease payments to be received by the primary government.

Table 7

Schedule of Minimum Lease Payments to be Received by the Primary Government
(amounts in thousands)

Year Ending June 30	State Public Works Board: Primary Government Agencies	Local Agencies	Total	California State University
2020	$ 15,979	$ 13,369	$ 29,348	$ 23,665
2021	15,960	12,754	28,714	19,809
2022	15,966	12,739	28,705	20,053
2023	15,954	12,720	28,674	22,228
2024	15,952	12,701	28,653	22,271
2025-2029	79,310	63,316	142,626	96,957
2030-2034	78,677	26,382	105,059	77,782
2035-2039	15,657	—	15,657	24,894
Total minimum lease payments	**253,455**	**153,981**	**407,436**	**307,659**
Less: unearned income	103,793	37,705	141,498	87,575
Net investment in direct financing leases	**149,662**	**116,276**	**265,938**	**220,084**
Less: current portion	4,060	8,045	12,105	11,868
Noncurrent net investment in direct financing leases	**$ 145,602**	**$ 108,231**	**$ 253,833**	**$ 208,216**

NOTE 7: CAPITAL ASSETS

Table 8 summarizes the capital activity for the primary government.

Table 8

Schedule of Changes in Capital Assets – Primary Government

June 30, 2019

(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities				
Capital assets not being depreciated/amortized				
Land	$ 20,227,700 *	$ 414,570	$ 168,830	$ 20,473,440
State highway infrastructure	77,067,674	2,244,219	893,749	78,418,144
Collections	22,682 *	—	—	22,682
Construction/development in progress	16,252,151 *	3,433,278	3,536,083	16,149,346
Intangible assets	382,494 *	210,055	—	592,549
Total capital assets not being depreciated/amortized	**113,952,701**	**6,302,122**	**4,598,662**	**115,656,161**
Capital assets being depreciated/amortized				
Buildings and improvements	26,235,179 *	506,345	245,491	26,496,033
Infrastructure	744,823 *	4,465	—	749,288
Equipment and other depreciable assets	5,325,489 *	418,666	236,074	5,508,081
Intangible assets	2,249,718 *	386,981	5,911	2,630,788
Total capital assets being depreciated/amortized	**34,555,209**	**1,316,457**	**487,476**	**35,384,190**
Less accumulated depreciation/amortization for:				
Buildings and improvements	9,478,018 *	652,240	164,257	9,966,001
Infrastructure	410,685 *	15,114	—	425,799
Equipment and other depreciable assets	4,254,531 *	414,615	230,773	4,438,373
Intangible assets	955,602 *	227,466	4,184	1,178,884
Total accumulated depreciation/amortization	**15,098,836**	**1,309,435**	**399,214**	**16,009,057**
Total capital assets being depreciated/amortized, net	**19,456,373**	**7,022**	**88,262**	**19,375,133**
Governmental activities, capital assets, net	**$ 133,409,074**	**$ 6,309,144**	**$ 4,686,924**	**$ 135,031,294**
Business-type activities				
Capital assets not being depreciated/amortized				
Land	$ 271,240	$ 34,967	$ —	$ 306,207
Collections	24,604	2,869	—	27,473
Construction/development in progress	2,731,016 *	1,471,931	945,383	3,257,564
Intangible assets	118,412	3,875	3,480	118,807
Total capital assets not being depreciated/amortized	**3,145,272**	**1,513,642**	**948,863**	**3,710,051**
Capital assets being depreciated/amortized				
Buildings and improvements	13,282,716	1,010,994	9,075	14,284,635
Infrastructure	459,991	46,301	1,763	504,529
Equipment and other assets	953,591 *	83,714	18,755	1,018,550
Intangible assets	431,102	4,599	2,235	433,466
Total capital assets being depreciated/amortized	**15,127,400**	**1,145,608**	**31,828**	**16,241,180**
Less accumulated depreciation/amortization for:				
Buildings and improvements	5,159,184	375,488	6,319	5,528,353
Infrastructure	142,905	24,316	836	166,385
Equipment and other assets	597,894 *	88,796	17,231	669,459
Intangible assets	189,338	22,542	2,203	209,677
Total accumulated depreciation/amortization	**6,089,321**	**511,142**	**26,589**	**6,573,874**
Total capital assets being depreciated/amortized, net	**9,038,079**	**634,466**	**5,239**	**9,667,306**
Business-type activities, capital assets, net	**$ 12,183,351**	**$ 2,148,108**	**$ 954,102**	**$ 13,377,357**

* Restated

Table 9 summarizes the depreciation expense charged to the activities of the primary government.

Table 9

Schedule of Depreciation Expense – Primary Government
June 30, 2019
(amounts in thousands)

	Amount
Governmental activities	
General government	$ 304,115
Education	151,355
Health and human services	161,382
Natural resources and environmental protection	80,346
Business, consumer services, and housing	13,212
Transportation	211,049
Corrections and rehabilitation	322,970
Internal service funds (charged to the activities that utilize the fund)	65,006
Total governmental activities	**1,309,435**
Business-type activities	511,142
Total primary government	$ **1,820,577**

Table 10 summarizes the capital activity for discretely presented component units.

Table 10

Schedule of Changes in Capital Assets – Discretely Presented Component Units
June 30, 2019
(amounts in thousands)

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated/amortized				
Land	$ 1,347,708	$ 97,580	$ 2,389	$ 1,442,899
Collections	544,051	16,581	5,734	554,898
Construction/development in progress	3,004,984	1,381,686	26,286	4,360,384
Intangible assets	5,411	4,933	—	10,344
Total capital assets not being depreciated/amortized	**4,902,154**	**1,500,780**	**34,409**	**6,368,525**
Capital assets being depreciated/amortized				
Buildings and improvements	41,369,205	1,694,513	48,010	43,015,708
Infrastructure	825,928	113,170	137	938,961
Equipment and other depreciable assets	11,655,455	753,064	284,753	12,123,766
Intangible assets	1,607,137	197,935	20,164	1,784,908
Total capital assets being depreciated/amortized	**55,457,725**	**2,758,682**	**353,064**	**57,863,343**
Less accumulated depreciation/amortization for:				
Buildings and improvements	17,283,897	1,297,651	25,755	18,555,793
Infrastructure	420,032	32,834	144	452,722
Equipment and other depreciable assets	8,402,833	634,975	250,580	8,787,228
Intangible assets	704,594	212,710	14,032	903,272
Total accumulated depreciation/amortization	**26,811,356**	**2,178,170**	**290,511**	**28,699,015**
Total capital assets being depreciated/amortized, net	**28,646,369**	**580,512**	**62,553**	**29,164,328**
Capital assets, net	**$ 33,548,523**	**$ 2,081,292**	**$ 96,962**	**$ 35,532,853**

NOTE 8: ACCOUNTS PAYABLE

Accounts payable are amounts, related to different programs, that are due taxpayers, vendors, customers, beneficiaries, and employees. Table 11 presents details related to accounts payable.

The adjustment for the fiduciary funds represents amounts due fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Position.

Table 11

Schedule of Accounts Payable
June 30, 2019
(amounts in thousands)

	General Government	Education	Health and Human Services
Governmental activities			
General Fund	$ 292,106	$ 200,344	$ 776,498
Federal Fund	187,959	237,398	176,699
Transportation Fund	6,141	5,963	15
Environmental and Natural Resources Fund	6,157	—	27
Health Care Related Programs Fund	—	281	67,988
Nonmajor governmental funds	455,349	2,337	154,687
Internal service funds	172,850	19	200,772
Adjustment:			
Fiduciary funds	917,290	2,423,266	27,010,362
Total governmental activities	**$ 2,037,852**	**$ 2,869,608**	**$ 28,387,048**
Business-type activities			
Electric Power Fund	$ —	$ —	$ —
Water Resources Fund	—	—	—
State Lottery Fund	56,297	—	—
Unemployment Programs Fund	—	—	40,702
California State University	—	291,670	—
Nonmajor enterprise funds	135	285	177
Adjustment:			
Fiduciary funds	—	—	—
Total business-type activities	**$ 56,432**	**$ 291,955**	**$ 40,879**

Natural Resources and Environmental Protection	Transportation	Other	Total
$ 731,795	$ —	$ 404,136	$ 2,404,879
44,916	200,874	50,303	898,149
350	698,837	258	711,564
327,317	10,735	7,183	351,419
—	—	—	68,269
7,570	2,405	22,987	645,335
22,592	—	13,371	409,604
—	68,256	—	30,419,174
$ 1,134,540	**$ 981,107**	**$ 498,238**	**$ 35,908,393**
$ 1,741	$ —	$ —	1,741
172,753	—	—	172,753
—	—	—	56,297
—	—	—	40,702
—	—	—	291,670
2,446	—	4,874	7,917
—	—	36	36
$ 176,940	**$ —**	**$ 4,910**	**$ 571,116**

NOTE 9: LONG-TERM OBLIGATIONS

As of June 30, 2019, the primary government had long-term obligations totaling $302.2 billion. Of that amount, $8.8 billion is due within one year. The inclusion of 33 additional trial courts' net pension liabilities to the governmental activities' long-term obligations as of June 30, 2019, caused a $439 million restatement of the beginning net pension liability. The inclusion of a liability for the State's share of future abandonment activities associated with the Wilmington Oil Field in the City of Long Beach caused a $905 million restatement of the beginning balance of other long-term obligations. Overall, governmental activities had a net decrease in long-term obligations of $12.8 billion after the above restatements. Significant decreases included $7.2 billion in net pension liability, $4.3 billion in net other postemployment benefits (OPEB) liability, and $890 million in general obligation bonds payable.

Not included in the mandated cost claims payable shown in Table 12 are certain state-mandated programs that are in the adjudication process. Until the Commission on State Mandates rules on a test claim and the claim's parameters and guidelines are established, expected costs cannot be reasonably determined; however, a positive finding for any of the claimants could individually or in aggregate pose a significant cost to the State.

As of June 30, 2019, the pollution remediation obligations increased by $63 million to $1.2 billion. Under federal Superfund law, responsibility for pollution remediation is placed on current and previous owners or operators of polluted sites. Currently, the State's most significant Superfund site is the Stringfellow Class 1 Hazardous Waste Disposal Facility (Stringfellow) located in Riverside County. As of June 30, 2019, the State estimates that remediation costs at Stringfellow will total $492 million. At BKK Landfill, an obligating event has occurred that will likely result in a liability to the State, but a reasonable estimate of the remediation cost cannot be determined at this time. BKK is a closed Class 1 landfill site at which the State is conducting post-closure care. In addition to Superfund sites, the State's other pollution remediation efforts include underground storage tank removal and cleanup, cleanup of polluted groundwater, and contaminated soil removal and cleanup as required by state law.

The State receives a share of net profits generated by the operations of the Wilmington Oil Field owned in trust by the City of Long Beach, in exchange for assuming a majority of the liability associated with the abandonment of oil and gas wells and facilities. As of June 30, 2019, the State estimates that the oil field abandonment liability is $902 million, and the State has reserves of $300 million in the Environmental and Natural Resources Fund (a special revenue fund) to liquidate future oil field abandonment costs.

The other long-term obligations for governmental activities consist of $96 million to settle lawsuits, $5 million owed to the University of California, Technology Services Revolving Fund notes payable of $39 million, and Water Resources Revolving Fund notes payable of $10 million. The net pension liability, net OPEB liability, and compensated absences will be liquidated by the General Fund, special revenue funds, capital projects funds, and internal service funds. Workers' compensation and capital leases will be liquidated by the General Fund, special revenue funds, and internal service funds. The General Fund will liquidate the Proposition 98 funding guarantee, lawsuits, and reimbursement of costs incurred by local agencies and school districts for costs mandated by the State.

Overall, business-type activities experienced a net decrease in long-term obligations of $1.4 billion. Significant decreases included $1.3 billion in net pension liability and $853 million in net OPEB liability. Significant increases included $374 million in lottery prizes and annuities.

This page intentionally left blank

Table 12 summarizes the changes in long-term obligations during the fiscal year ended June 30, 2019.

Table 12

Schedule of Changes in Long-term Obligations
(amounts in thousands)

	Balance July 1, 2018	Additions
Governmental activities		
Loans payable adjustment for fiduciary funds	$ 248,542	$ —
Compensated absences payable	3,604,935	1,583,091
Workers' compensation benefits payable	4,303,390	640,668
Commercial paper and other borrowings	859,695	1,170,720
Capital lease obligations	481,261	19,962
General obligation bonds outstanding	74,160,490	7,017,660
Premiums	5,502,538	984,981
Total general obligation bonds payable	79,663,028	8,002,641
Revenue bonds outstanding	14,844,079	832,735
Accreted interest	570,772	31,749
Premiums	951,888	36,036
Discounts	(2,484)	—
Total revenue bonds payable	16,364,255	900,520
Mandated cost claims payable	2,214,026	115,202
Net other postemployment benefits liability	73,717,443	5,907,279
Net pension liability	88,466,473 *	25,714,394
Other long-term obligations:		
Oil field abandonment liability	904,700 *	—
Proposition 98 funding guarantee	440,003	396,497
Pollution remediation obligations	1,143,339	142,257
Other	180,144	19,020
Total other long-term obligations	2,668,186	557,774
Total governmental activities	**$ 272,591,234**	**$ 44,612,251**
Business-type activities		
Lottery prizes and annuities	$ 1,372,528	$ 5,313,528
Compensated absences payable	340,667	149,602
Workers' compensation benefits payable	4,147	984
Commercial paper and other borrowings	749,877	696,274
Capital lease obligations	309,928	25,709
General obligation bonds outstanding	688,650	193,410
Premiums	6,771	4,553
Discounts	(1,321)	—
Total general obligation bonds payable	694,100	197,963
Revenue bonds outstanding	13,029,808	1,340,650
Premiums	1,290,048	199,820
Discounts	(484)	—
Total revenue bonds payable	14,319,372	1,540,470
Net other postemployment benefits liability	15,618,786	1,385,993
Net pension liability	10,066,991	2,942,674
Other long-term obligations	283,405	63,848
Total business-type activities	**$ 43,759,801**	**$ 12,317,045**

* Restated

Deductions	Balance June 30, 2019	Due Within One Year	Noncurrent Liabilities
$ 49,479	$ 199,063	$ —	$ 199,063
1,506,118	3,681,908	14,927	3,666,981
512,470	4,431,589	473,114	3,958,475
997,655	1,032,760	—	1,032,760
66,347	434,876	71,747	363,129
8,526,725	72,651,425	3,368,125	69,283,300
366,094	6,121,425	642,443	5,478,982
8,892,819	78,772,850	4,010,568	74,762,282
1,439,085	14,237,729	680,891	13,556,838
—	602,521	—	602,521
114,489	873,435	118,013	755,422
(459)	(2,025)	(227)	(1,798)
1,553,115	15,711,660	798,677	14,912,983
459,482	1,869,746	54,296	1,815,450
10,183,006	69,441,716	—	69,441,716
32,880,993	81,299,874	—	81,299,874
2,600	902,100	—	902,100
149,908	686,592	686,592	—
79,227	1,206,369	74,317	1,132,052
49,426	149,738	55,871	93,867
281,161	2,944,799	816,780	2,128,019
$ 57,382,645	**$ 259,820,841**	**$ 6,240,109**	**$ 253,580,732**
$ 4,939,335	$ 1,746,721	$ 1,063,792	$ 682,929
131,118	359,151	152,381	206,770
—	5,131	—	5,131
646,508	799,643	21,146	778,497
20,315	315,322	20,108	295,214
40,805	841,255	43,165	798,090
591	10,733	—	10,733
(95)	(1,226)	—	(1,226)
41,301	850,762	43,165	807,597
1,201,680	13,168,778	1,178,118	11,990,660
136,730	1,353,138	67,372	1,285,766
(28)	(456)	—	(456)
1,338,382	14,521,460	1,245,490	13,275,970
2,239,216	14,765,563	—	14,765,563
4,279,419	8,730,246	—	8,730,246
35,682	311,571	35,401	276,170
$ 13,671,276	**$ 42,405,570**	**$ 2,581,483**	**$ 39,824,087**

NOTE 10: PENSION TRUSTS

The California Public Employees' Retirement System (CalPERS) provides retirement benefits to eligible employees of the State, public agencies, and public schools through single-employer, agent multiple-employer, and cost-sharing plans. The California State Teachers' Retirement System (CalSTRS) provides pension benefits to full-time and part-time employees of the State's public school system. Both are fiduciary component units of the State, and their financial activity is included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements of this report.

CalPERS administers four defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Judges' Retirement Fund (Judges'), the Judges' Retirement Fund II (Judges' II), and the Legislators' Retirement Fund (Legislators'). CalPERS also administers two defined contribution plans: the Public Employees' Deferred Compensation Fund and the Supplemental Contributions Program Fund.

The PERF accounts for the majority of assets and liabilities reported for CalPERS' plans. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. The report may be found on CalPERS' website at www.CalPERS.ca.gov.

Contributions to CalPERS' pension trust funds are recognized in the period in which the contributions are due, pursuant to legal requirements. Benefits and refunds in the defined benefit plans are recognized when due and payable in accordance with the terms of each plan.

CalSTRS administers four defined benefit retirement plans within the State Teachers' Retirement Plan: the Defined Benefit Program, the Defined Benefit Supplement Program, the Cash Balance Benefit Program, and the Replacement Benefits Program. CalSTRS also administers two defined contribution plans: the Pension2 403(b) Plan and the Pension2 457(b) Plan. CalSTRS issues a publicly available financial report that includes financial statements and required supplementary information for these plans. This report may be found on its website at www.CalSTRS.com.

Member contributions to CalSTRS' pension plans are recognized in the period in which the contributions are required by statute. Employer and state contributions are recognized when required by statute and when the employer or the State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable, in accordance with the retirement and benefits programs.

Fifty-eight county superior courts (trial courts) are included in the primary government. Either CalPERS or the counties administer the pension plans in which the trial courts participate.

For the purpose of measuring net pension liability, deferred outflows and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of CalPERS' plans and CalSTRS' plans, and changes to the plans' fiduciary net positions have been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retirement System (UCRS), which consists of two defined benefit plans funded with University and employee contributions, and four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions. The State does not directly contribute to the UCRS. Additional information on the UCRS can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. California Public Employees' Retirement System

1. Public Employees' Retirement Fund (PERF)

***Plan Description*:** The PERF is comprised of and reported as three separate entities for financial reporting purposes, of which the State reports only PERF A. PERF A is comprised of agent multiple-employer plans, which include the State of California and most public agencies' rate plans with more than 100 active members. PERF B is a cost-sharing multiple-employer plan comprised of school employers and consisting of non-teaching and non-certified employee members. PERF C is a cost-sharing multiple-employer plan comprised of public agencies' plans that generally have fewer than 100 active members. Employers participating in the PERF as of June 30, 2018, included the primary government and certain discretely presented component units; 1,313 school employers, including charter schools; and 1,618 public agencies. As the State is not an employer in PERF B or PERF C, the term PERF is used hereafter to refer exclusively to the agent multiple-employer plans that include employees of the primary government and certain discretely presented component units.

CalPERS acts as the common investment and administrative agent for participating employers. State employees served by the PERF include first- and second-tier miscellaneous and industrial employees, California Highway Patrol (CHP) employees, peace officers and firefighters, and other safety members.

***Benefits Provided*:** All employees in a covered class of employment who work half-time or more are eligible to participate in the PERF. The PERF provides retirement, death, disability, and survivor benefits. Vesting occurs after five years, or after ten years for second-tier employees. The benefit provisions are established by the Public Employees' Retirement Law (PERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA), and are summarized in Appendix B of the State's June 30, 2017 Actuarial Valuation Report, which may be found at www.CalPERS.ca.gov/docs/forms-publications/2017-state-valuation.pdf. In general, retirement benefits for the PERF plans are based on a formula using a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment). Retirement formulas vary based on:

- Classification (e.g., miscellaneous, safety, industrial, CHP, or peace officers and firefighters);
- Membership category (pre-PEPRA and post-PEPRA); and
- Specific provisions in employees' contracts.

The four basic types of retirement are:

- Service Retirement – The normal retirement is a lifetime benefit. In most cases, employees become eligible for service retirement as early as age 50 with five years of service credit. If the employee became a member on or after January 1, 2013, he or she must be at least 52 years old with at least five years of service to retire. Second-tier employees (miscellaneous and industrial) become eligible at age 55 with at least 10 years of service credit.
- Vested Deferred Retirement – Vested members who leave employment but keep their contribution balances on deposit with CalPERS are eligible for this benefit.
- Disability Retirement – Vested members who can no longer perform the usual duties of their current position due to illness or injury may receive this benefit.

- Industrial Disability Retirement – This benefit is available for eligible safety members, industrial employees, CHP employees, and peace officers and firefighters who are unable to perform the usual duties of their current position due to job-related illness or injury.

***Employees Covered by Benefit Terms*:** The State's June 30, 2018 Actuarial Valuation Report provides information about the number of employees by type covered within the various PERF plans. Table 13 shows the number of employees covered by the benefit terms of each of the PERF plans as of the most recent valuation.

Table 13

Number of Employees by Type Covered by Benefit Terms – PERF Plans

June 30, 2018

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Inactive employees or beneficiaries currently receiving benefits	195,158	14,642	25,749	39,947	9,158	**284,654**
Inactive employees entitled to but not yet receiving benefits	61,005	3,566	7,103	7,078	451	**79,203**
Active employees	211,988	20,720	34,291	47,462	7,576	**322,037**
Total	**468,151**	**38,928**	**67,143**	**94,487**	**17,185**	**685,894**

***Contributions*:** Section 20814(c) of PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by pension plan terms as plan member contribution requirements are classified as plan member contributions.

Table 14 shows the average active employee and the employer contribution rates for each of the PERF plans as a percentage of annual pay for the measurement period ended June 30, 2018.

Table 14

Contribution Rates – PERF Plans
June 30, 2018

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol
Average active employee rate	6.766 %	7.890 %	10.448 %	11.412 %	10.492 %
Employer rate of annual payroll	28.401	20.408	20.574	44.245	54.104
Total	**35.167 %**	**28.298 %**	**31.022 %**	**55.657 %**	**64.596 %**

***Actuarial Methods and Assumptions*:** The total pension liability for PERF plans was measured as of June 30, 2018 (measurement date), by rolling forward the total pension liability determined by the June 30, 2017 actuarial valuation (valuation date), based on the actuarial methods and assumptions shown in Table 15.

Table 15

Actuarial Methods and Assumptions – PERF Plans

Valuation date:	June 30, 2017
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	7.15%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.15% net of pension plan investment expense but without reduction for administrative expenses; includes inflation
Mortality	Mortality rates are based on the 2017 CalPERS Experience Study adopted by the CalPERS Board and include 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016.
Post-retirement benefit adjustments (COLAs)	Contract COLA up to 2.00% until the Purchasing Power Protection Allowance floor on purchasing power applies, 2.50% thereafter

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.15% for the PERF. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at actuarially determined statutorily required rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The stress test results are presented in the GASB Crossover Testing Report, which may be found on CalPERS' website at www.CalPERS.ca.gov/docs/gasb-crossover-testing-2018.pdf.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected ranges of future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

Table 16 shows the long-term expected geometric real rate of return by asset class for all plans in the PERF.

Table 16

Long-term Expected Real Rate of Return by Asset Class – PERF Plans

Asset Class	Policy Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	50.0 %	4.80 %	5.98 %
Fixed income	28.0	1.00	2.62
Inflation assets	—	0.77	1.81
Private equity	8.0	6.30	7.23
Real assets	13.0	3.75	4.93
Liquidity	1.0	—	(0.92)
Total	**100.0 %**		

[1] An expected inflation rate of 2.00% used for this period.

[2] An expected inflation rate of 2.92% used for this period.

This page intentionally left blank

***Changes in Net Pension Liability*:** Table 17 shows changes in net pension liability recognized over the measurement period for the PERF plans.

Table 17

Changes in Net Pension Liability – PERF Plans
(amounts in thousands)

	State Miscellaneous			State Industrial		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability**
Balance at June 30, 2017	$ 108,789,914	$ 72,254,392	$ 36,535,522	$ 4,320,375	$ 3,217,701	$ 1,102,674
Changes recognized for the measurement period:						
Service cost	1,953,761	—	1,953,761	119,521	—	119,521
Interest on total pension liability	7,571,997	—	7,571,997	301,134	—	301,134
Changes of assumptions	(1,377,556)	—	(1,377,556)	(54,062)	—	(54,062)
Difference between expected and actual experience	445,743	—	445,743	(19,063)	—	(19,063)
Plan to plan resource movement	—	(1,340)	1,340	—	268	(268)
Employer contributions	—	7,044,360	(7,044,360)	—	241,062	(241,062)
Employee contributions	—	870,402	(870,402)	—	58,404	(58,404)
Net investment income	—	6,127,761	(6,127,761)	—	272,379	(272,379)
Benefit payments, including refunds of employee contributions	(5,865,849)	(5,865,849)	—	(190,683)	(190,683)	—
Administrative expense	—	(112,592)	112,592	—	(5,014)	5,014
Other Miscellaneous Income/(Expense)	—	(213,815)	213,815	—	(9,522)	9,522
Net changes	**2,728,096**	**7,848,927**	**(5,120,831)**	**156,847**	**366,894**	**(210,047)**
Balance at June 30, 2018 (Measurement Date)	**$ 111,518,010**	**$ 80,103,319**	**$ 31,414,691**	**$ 4,477,222**	**$ 3,584,595**	**$ 892,627**

State Safety			State Peace Officers and Firefighters		
Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
$ 12,378,808	$ 9,346,634	$ 3,032,174	$ 44,752,006	$ 29,487,988	$ 15,264,018
504,383	—	504,383	1,011,482	—	1,011,482
877,944	—	877,944	3,185,628	—	3,185,628
(41,225)	—	(41,225)	(25,104)	—	(25,104)
(21,592)	—	(21,592)	354,089	—	354,089
—	532	(532)	—	(104)	104
—	774,759	(774,759)	—	3,068,270	(3,068,270)
—	245,021	(245,021)	—	421,662	(421,662)
—	797,214	(797,214)	—	2,522,044	(2,522,044)
(578,504)	(578,504)	—	(2,065,007)	(2,065,007)	—
—	(14,565)	14,565	—	(45,950)	45,950
—	(27,658)	27,658	—	(87,261)	87,261
741,006	**1,196,799**	**(455,793)**	**2,461,088**	**3,813,654**	**(1,352,566)**
$ 13,119,814	**$ 10,543,433**	**$ 2,576,381**	**$ 47,213,094**	**$ 33,301,642**	**$ 13,911,452**

(continued)

Table 17 (continued)

Changes in Net Pension Liability – PERF Plans (continued)
(amounts in thousands)

	California Highway Patrol			Total PERF Plans		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2017	$ 12,331,080	$ 7,433,419	$ 4,897,661	**$ 182,572,183**	**$ 121,740,134**	**$ 60,832,049**
Changes recognized for the measurement period:						
Service cost	248,531	—	248,531	**3,837,678**	—	**3,837,678**
Interest on total pension liability	878,113	—	878,113	**12,814,816**	—	**12,814,816**
Changes of assumptions	12,213	—	12,213	**(1,485,734)**	—	**(1,485,734)**
Difference between expected and actual experience	103,284	—	103,284	**862,461**	—	**862,461**
Plan to plan resource movement	—	330	(330)	—	**(314)**	**314**
Employer contributions	—	978,060	(978,060)	—	**12,106,511**	**(12,106,511)**
Employee contributions	—	95,482	(95,482)	—	**1,690,971**	**(1,690,971)**
Net investment income	—	639,591	(639,591)	—	**10,358,989**	**(10,358,989)**
Benefit payments, including refunds of employee contributions	(579,080)	(579,080)	—	**(9,279,123)**	**(9,279,123)**	—
Administrative expense	—	(11,583)	11,583	—	**(189,704)**	**189,704**
Other Miscellaneous Income/(Expense)	—	(21,997)	21,997	—	**(360,253)**	**360,253**
Net changes	**663,061**	**1,100,803**	**(437,742)**	**6,750,098**	**14,327,077**	**(7,576,979)**
Balance at June 30, 2018 (Measurement Date)	**$ 12,994,141**	**$ 8,534,222**	**$ 4,459,919**	**$ 189,322,281**	**$ 136,067,211**	**$ 53,255,070**

Reported in governmental activities	$ 42,593,496
Reported in business-type activities	8,730,246
Reported by discretely presented component units	202,407
Not reported in government-wide Statement of Net Position [1]	1,728,921
Total net pension liability – PERF plans	**$ 53,255,070**

(concluded)

[1] Includes amounts allocated to related organizations and fiduciary funds. Also includes the difference in net pension liability for discretely presented component units with a reporting period ended December 31, 2018; and minor differences related to amounts reported in separately issued financial statements of proprietary funds and discretely presented component units.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*: ** Table 18 shows the net pension liability of the State, with regard to the PERF plans, calculated using the discount rate of 7.15%, as well as what the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate.

Table 18

Net Pension Liability Sensitivity – PERF Plans
June 30, 2019
(amounts in thousands)

	Current Rate -1%	Current Rate 7.15%	Current Rate +1%
State Miscellaneous	$ 45,036,762	$ 31,414,691	$ 19,999,148
State Industrial	1,508,621	892,627	384,916
State Safety	4,314,830	2,576,381	1,137,150
State Peace Officers and Firefighters	20,533,784	13,911,452	8,486,562
California Highway Patrol	6,306,688	4,459,919	2,949,284
Total PERF plans	**$ 77,700,685**	**$ 53,255,070**	**$ 32,957,060**

***Pension Plans Fiduciary Net Position*:** Detailed information about the PERF plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the PERF plans, for the fiscal year ended June 30, 2019, the State recognized pension expense of $8.6 billion. At June 30, 2019, the State reported deferred outflows of resources from contributions made by the State to the PERF plans subsequent to the measurement date of June 30, 2018, but prior to the fiscal year ended June 30, 2019. Differences between expected and actual experience are recognized as deferred outflows and inflows of resources. The changes of assumptions are recognized as deferred outflows and inflows of resources. The aggregate difference (positive and negative) between projected and actual earnings on pension plan investments arising in different measurement periods are reported as net deferred outflows of resources. Deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent year.

Table 19 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each PERF plan.

Table 19

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – PERF Plans
June 30, 2019
(amounts in thousands)

	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
Pension Expense	$ 4,832,684	$ 197,201	$ 600,680	$ 2,263,541	$ 667,704	**$ 8,561,810**
Deferred Outflows of Resources:						
Employer contributions	3,794,379	148,790	531,360	1,667,839	514,683	**6,657,051**
Changes of assumptions	2,833,781	105,193	360,075	1,605,385	448,878	**5,353,312**
Difference between expected and actual experience	337,025	10,223	—	353,252	158,950	**859,450**
Net difference between projected and actual earnings on pension plan investments	324,540	11,545	28,384	107,859	28,059	**500,387**
Deferred Inflows of Resources:						
Difference between expected and actual experience	(218,866)	(13,456)	(76,289)	(176,324)	(96,278)	**(581,213)**
Changes of assumptions	(1,041,567)	(38,162)	(31,410)	(20,083)	—	**(1,131,222)**

Table 20 shows amounts reported as deferred outflows and inflows of resources related to pensions that will be recognized as pension expense in future years for the PERF plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 20

Recognition of Deferred Outflows and Deferred Inflows of Resources – PERF Plans
(amounts in thousands)

Year Ending June 30	State Miscellaneous	State Industrial	State Safety	State Peace Officers and Firefighters	California Highway Patrol	Total PERF Plans
2020	$ 2,040,495	$ 96,332	$ 228,196	$ 948,428	$ 264,130	**$ 3,577,581**
2021	1,338,389	26,634	143,512	614,097	183,931	**2,306,563**
2022	(938,387)	(39,687)	(64,771)	227,005	65,982	**(749,858)**
2023	(205,584)	(7,936)	(26,177)	80,559	13,191	**(145,947)**
2024	—	—	—	—	12,375	**12,375**

***Payable to the Pension Plans*:** At June 30, 2019, the State reported a payable of $845 million for the outstanding amount of contributions to the PERF pension plans required for the fiscal year ended June 30, 2019.

2. Single-employer Plans

***Plan Description*:** CalPERS administers three single-employer defined benefit retirement plans.

Judges' – Judges' membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts who were appointed or elected prior to November 9, 1994. Judges' is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a General Fund augmentation are used to provide funding for benefit payments.

Judges' *II* – Judges' II membership includes judges working in the California Supreme Court, the courts of appeal, and the superior courts, who were appointed or elected on or after November 9, 1994. There are two types of service retirement available for plan members: the Defined Benefit Plan and the Monetary Credit Plan, in which members can choose a single lump sum payment or annuity at retirement.

Legislators' – Legislators' was established in 1947; its members consist of state legislators, constitutional officers, and legislative statutory officers. The PEPRA closed Legislators' to new participants effective January 1, 2013.

***Benefits Provided*:** All employees in a covered class of employment who work on a half-time basis or more are eligible to participate. The benefits for the defined benefit plans are based on a member's years of service, age, final compensation, and a benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Members become fully vested in their retirement benefits earned to date after five years of credited service. Benefits are established in accordance with the provisions of the Judges' Retirement Law, Judges' Retirement System II Law, and Legislators' Retirement Law. Additional information is available in the Actuarial Valuation Report for each plan, which may be found on CalPERS' website at www.CalPERS.ca.gov.

Judges' – The four basic types of retirement are:

- Service Retirement – Members must be at least age 60 with 20 years of service or age 70 with at least 10 years of service.
- Deferred Retirement – Vested members are eligible for deferred retirement at any age with at least five years of service.
- Disability Retirement (non-work related) – There is no age requirement, but there may be a service requirement depending on when the member became a judge. The retirement allowance is 65% of a judge's final salary, or 75% of his or her final salary if the judge has 20 or more years of service.
- Disability Retirement (work-related) – There is no age or service requirement if the disability is a result of work-related injury or disease. The retirement allowance is the same as non-work related disability retirement.
- Death Benefits – Beneficiaries may receive 25% of a current active judge's salary for life if the judge was not eligible for retirement. Beneficiaries receive one-half of what the retirement allowance would have been if the judge was retired on the date of death.

Judges' II – The four basic types of retirement are:

- Service Retirement – Judges must be at least age 65 with 20 years of service or age 70 with a minimum of five years of service to receive the defined benefit plan. Judges must have at least five years of service to receive the monetary credit plan.
- Disability Retirement (non-work related) – Judges who have five years of service and become permanently disabled because of a mental or physical disability may apply to the Commission on Judicial Performance for disability retirement.
- Disability Retirement (work related) – Judges receive 65% of their average monthly salary earned during the 12 months preceding their retirement date, regardless of age or length of service.
- Death Benefits – Beneficiaries receive the judge's monetary credits or three times the annual salary at the time of death, whichever is greater, if the judge was not eligible for retirement. Beneficiaries receive one-half of the retirement pension for life if the judge was retired on the date of death.

Legislators' – The three basic types of retirement are:

- Service Retirement – Members must be age 60, with four or more years of service credit, or any age with 20 or more years. The retirement age for legislative statutory officers is 55, or any age with 20 years or more of service credit.
- Disability Retirement – Disability retirement uses the same formula as service retirement. There is no reduction for members of the Legislature if retirement is before age 60.
- Death Benefits – Beneficiaries have multiple options depending on whether the member was eligible for retirement or was retired at the time of death.

Employees Covered by Benefit Terms**:** The June 30, 2018 actuarial valuation reports for each single-employer plan provide information about the number of employees by type covered within the plans. Table 21 shows the number of employees covered by the benefit terms of each of the single-employer plans as of the most recent valuation.

Table 21

Number of Employees by Type Covered by Benefit Terms – Single-employer Plans
June 30, 2018

	Judges'	Judges' II	Legislators'	Total
Inactive employees or beneficiaries currently receiving benefits	1,796	218	212	**2,226**
Inactive employees entitled to but not yet receiving benefits	4	1	8	**13**
Active employees	170	1,545	7	**1,722**
Total	**1,970**	**1,764**	**227**	**3,961**

Contributions**:** As Judges' is funded on a "pay-as-you-go" basis, the contributions made will be less than the actuarially determined contribution requirement of normal cost plus a 10-year amortization of the unfunded accrued liability. The actual contribution is the estimated amount of benefit payouts during the year. Currently, Judges' member contributions are 8.0% of pay. In certain situations, employers make member contributions.

Judges' II contribution rates are determined through CalPERS' annual actuarial valuation process as required by section 75600.5(c) of the PERL. Classic members contribute 8.0% of their annual compensation to the plan. The base total normal cost rate for PEPRA new members was re-determined in the June 30, 2018 actuarial valuation as 32.104%. The percentage changes in any given year only once the change to the total normal cost is greater than 1.0% from the base total normal cost. The new member rate should be 50% of the new normal cost rounded to the nearest quarter percentage.

For Legislators', contribution rates are determined through CalPERS' annual actuarial valuation process as required by section 9358 of the PERL. The minimum employer contribution rate under PEPRA is the greater of the actuarially determined employer rate or the employer normal cost.

Table 22 shows the average active employee and the employer contribution rates for each of the single-employer plans as a percentage of annual pay for the measurement period ended June 30, 2018.

Table 22

Contribution Rates – Single-employer Plans
June 30, 2018

	Judges'	Judges' II	Legislators'
Average active employee rate	"Pay-	8.000 %	7.425 %
Employer rate of annual payroll	as-you-	24.964	35.272
Total	go"	**32.964 %**	**42.697 %**

***Actuarial Methods and Assumptions*:** The total pension liability for single-employer plans was measured as of June 30, 2018 (measurement date), by rolling forward the total pension liability determined by the June 30, 2017 actuarial valuations (valuation date), based on the actuarial methods and assumptions shown in Table 23.

Table 23

Actuarial Methods and Assumptions – Single-employer Plans

Valuation date:	June 30, 2017
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 68
Actuarial assumptions:	
Discount rate	Judges' 3.62%, Judges' II 6.65%, Legislators' 5.25%
Inflation	All single-employer plans – 2.50%
Salary increases	All single-employer plans – 2.75%
Investment rate of return	Judges' 3.62%, Judges' II 6.65%, Legislators' 5.25%, net of pension plan investment without reduction of administrative expense
Mortality	Mortality rates are based on the 2017 CalPERS Experience Study adopted by the CalPERS Board and include 15 years of mortality improvements using the Society of Actuaries 90% of Scale MP 2016.
Post-retirement benefit adjustments (COLAs)	Judges' – 2.75% Judges' II – 2.50% Legislators' – 2.50%

***Discount Rate*:** To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress-tested plans that would most likely result in a discount rate that would differ from the actuarially assumed discount rate. For the single-employer plans, the following rates were used:

Judges' – 3.62%, reflecting the short-term nature of the assets. As the plan is insufficiently funded, CalPERS uses a discount rate of 3.62%, which falls within a reasonable range of yields on 20-year tax-exempt general obligation municipal bonds with an average rating of AA.

Judges' II – 6.65%

Legislators' – 5.25%

With the exception of Judges', which uses a lower rate of return, the information regarding the discount rate and the long-term expected real rate of return described previously for the PERF plans is also applicable to the single-employer plans. GAAP requires that the long-term discount rate should be determined without reduction for pension plan administrative expense.

Table 24 shows long-term expected real rates of return by asset class for Judges' II and Legislators'.

Table 24

Long-term Expected Real Rate of Return by Asset Class – Judges' II and Legislators' Plans

Asset Class	Judges' II Current Target Allocation	Legislators' Current Target Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global equity	52.0 %	22.0 %	4.80 %	5.98 %
Global fixed income	32.0	49.0	1.10	2.62
Inflation sensitive	5.0	16.0	0.25	1.46
Commodities	3.0	5.0	1.50	2.87
Real estate	8.0	8.0	3.50	5.00
Total	**100.0 %**	**100.0 %**		

[1] An expected inflation rate of 2.00% used for this period.
[2] An expected inflation rate of 2.92% used for this period.

Changes in Net Pension Liability: Table 25 shows the changes in net pension liability recognized over the measurement period for the single-employer plans.

Table 25

Changes in Net Pension Liability – Single-employer Plans
(amounts in thousands)

	Judges'			Judges' II		
	Total Pension Liability	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**	**Total Pension Liability**	**Plan Fiduciary Net Position**	**Net Pension Liability/(Asset)**
Balance at June 30, 2017 (Valuation Date)	$ 3,258,434	$ 48,275	$ 3,210,159	$ 1,411,327	$ 1,356,100	$ 55,227
Changes recognized for the measurement period:						
Service cost	19,131	—	19,131	95,843	—	95,843
Interest on total pension liability	109,395	—	109,395	91,418	—	91,418
Difference between expected and actual experience	(121,259)		(121,259)	(26,876)		(26,876)
Changes of assumptions	(20,879)	—	(20,879)	(41,763)	—	(41,763)
Employer contributions	—	199,241	(199,241)	—	79,699	(79,699)
Employee contributions	—	3,061	(3,061)	—	27,513	(27,513)
Net investment income	—	846	(846)	—	101,820	(101,820)
Benefit payments, including refunds of employee contributions	(207,823)	(207,823)	—	(31,795)	(31,795)	—
Administrative expense	—	(2,106)	2,106	—	(2,370)	2,370
Other miscellaneous income	—	(1,863)	1,863	—	(5,452)	5,452
Net changes	**(221,435)**	**(8,644)**	**(212,791)**	**86,827**	**169,415**	**(82,588)**
Balance at June 30, 2018 (Measurement Date)	**$ 3,036,999**	**$ 39,631**	**$ 2,997,368**	**$ 1,498,154**	**$ 1,525,515**	**$ (27,361)**

Legislators'			Total Single-employer Plans		
Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
$ 102,760	$ 116,884	$ (14,124)	**$ 4,772,521**	**$ 1,521,259**	**$ 3,251,262**
542	—	542	**115,516**	**—**	**115,516**
4,986	—	4,986	**205,799**	**—**	**205,799**
(2,061)		(2,061)	**(150,196)**	**—**	**(150,196)**
(2,529)	—	(2,529)	**(65,171)**	**—**	**(65,171)**
—	467	(467)	**—**	**279,407**	**(279,407)**
—	82	(82)	**—**	**30,656**	**(30,656)**
—	5,486	(5,486)	**—**	**108,152**	**(108,152)**
(6,918)	(6,918)	—	**(246,536)**	**(246,536)**	**—**
—	(671)	671	**—**	**(5,147)**	**5,147**
—	(1,454)	1,454	**—**	**(8,769)**	**8,769**
(5,980)	**(3,008)**	**(2,972)**	**(140,588)**	**157,763**	**(298,351)**
$ 96,780	**$ 113,876**	**$ (17,096)**	**$ 4,631,933**	**$ 1,679,022**	**$ 2,952,911**
				Reported in governmental activities	**$ 2,952,911**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*:** Judges' net pension liability was calculated using a discount rate of 3.62%; Judges' II used 6.65%; and Legislators' used 5.25%. Table 26 shows the net pension liability for each single-employer plan, calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

Table 26

Net Pension Liability/Asset Sensitivity – Single-employer Plans
June 30, 2019
(amounts in thousands)

	Current Rate -1%	Current Rate	Current Rate +1%
Judges' (3.62%)	$ 3,321,115	$ 2,997,368	$ 2,721,968
Judges' II (6.65%)	161,401	(27,361)	(178,025)
Legislators' (5.25%)	(5,669)	(17,096)	(26,437)
Total Single-employer Plans	**$ 3,476,847**	**$ 2,952,911**	**$ 2,517,506**

***Pension Plans Fiduciary Net Position*:** Detailed information about the single-employer plans' fiduciary net position is available in the separately issued CalPERS financial report.

***Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** For the single-employer plans, for the fiscal year ended June 30, 2018, the State recognized pension expense of $45 million. At June 30, 2019, the State reported deferred outflows of resources from contributions made by the State to the single-employer plans subsequent to the measurement date of June 30, 2018, but prior to the fiscal year ended June 30, 2019, which will be recognized as a reduction of the net pension liability in the subsequent year.

Table 27 shows pension expense and sources of deferred outflows and deferred inflows of resources related to each single-employer plan.

Table 27

Pension Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – Single-employer Plans
June 30, 2019
(amounts in thousands)

	Judges'	Judges' II	Legislators'	Total
Pension Expense	$ (14,889)	$ 61,979	$ (2,244)	**$ 44,846**
Deferred Outflows of Resources:				
Employer contributions subsequent to the measurement date	194,189	76,155	261	**270,605**
Changes of assumptions	—	51,925	—	**51,925**
Net difference between projected and actual earnings on pension plan investments	2,007	10,756	3,494	**16,257**
Deferred Inflows of Resources:				
Difference between expected and actual experience	—	(55,511)	—	**(55,511)**
Changes of assumptions	—	(45,496)	—	**(45,496)**

Table 28 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years for the single-employer plans. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 28

Recognition of Deferred Outflows and Deferred Inflows of Resources – Single-employer Plans
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources		
Year Ending June 30	Judges'	Judges' II	Legislators'	Total
2020	$ 923	$ 10,874	$ 2,325	**$ 14,122**
2021	565	(4,624)	795	**(3,264)**
2022	373	(16,450)	288	**(15,789)**
2023	146	(9,490)	86	**(9,258)**
2024	—	(6,033)	—	**(6,033)**
Thereafter	—	(12,603)	—	**(12,603)**

B. California State Teachers' Retirement System

The State reports a net pension liability, deferred outflows and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to the State Teachers' Retirement Fund as a non-employer contributing entity.

***Plan Description*:** CalSTRS administers the State Teachers' Retirement Fund, which is an employee benefit trust fund created to finance the State Teachers' Retirement Plan (STRP). The STRP is a cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and survivor benefits to teachers and certain other employees of the California public school system. Four programs comprise the STRP: the Defined Benefit (DB) Program, the Defined Benefit Supplement (DBS) Program, the Cash Balance Benefit (CBB) Program, and the Replacement Benefits (RB) Program. CalSTRS issues a publicly available financial report, which may be found on CalSTRS' website at www.CalSTRS.com.

***Benefits Provided*:** Membership in the DB Program is mandatory for all employees meeting certain statutory requirements. The DB Program provides retirement benefits based on a member's age, final compensation, and years of service credit. In addition, the retirement program provides benefits to members upon disability and to their survivors or beneficiaries upon the death of eligible members. The Teachers' Retirement Law establishes the benefits for the DB Program. The DB Program had 1,778 contributing employers, 451,343 active and 204,807 inactive program members, and 308,522 benefit recipients as of June 30, 2019. The payroll for employees covered by the DB Program for the fiscal year ended June 30, 2018, was approximately $34.8 billion.

Membership in the DBS Program is automatic for all members of the DB Program. The DBS Program provides benefits based on the amount of funds contributed. Vesting in the DBS Program occurs automatically with vesting in the DB Program. The Teachers' Retirement Law establishes the benefits for the DBS Program. The primary government does not contribute to the DBS Program.

***Contributions*:** The DB Program contribution rates are based on the provisions of AB 1469 and Education Code section 22955.1(b). The Legislature may amend these provisions at any time and submit the amendment to the Governor for approval. The contribution rates for members and employers for the reporting period were 9.21% and 14.43% of creditable compensation, respectively. The General Fund contributed an additional 4.811% of total creditable compensation of the fiscal year ending in the prior calendar year. Contributions will increase to 5.311% in the next year and continue to increase until fiscal year 2045-46. Accordingly, the State contributed a total of $3.1 billion for fiscal year 2018-19. Additionally, the State made a $2.2 billion supplemental contribution on behalf of employers pursuant to Senate Bill 90. This supplemental contribution will not impact the State's proportionate share of the net pension liability. CalSTRS' June 30, 2017 Defined Benefit Actuarial Valuation Report, may be found on CalSTRS' website at www.CalSTRS.com/sites/main/files/file-attachments/2017_db_valuation_report.pdf.

The CBB Program is designed for employees of California public schools who are hired to perform creditable service for less than 50% of the full-time equivalent for the position. Employer participation in the CBB Program is optional. However, if the employer elects to offer the CBB Program, then each eligible employee will automatically be covered by the CBB Program, unless the member elects to participate in the DB Program or an alternative plan provided by the employer within 60 days of hire or the election period determined by the employer. At June 30, 2018, the CBB Program had 29 contributing school districts and 39,894 contributing participants.

The RB Program is a qualified excess benefits arrangement for DB Program members that is administered through a separate pension trust apart from the other three STRP programs; it was established in accordance with Internal Revenue Code section 415(m). Internal Revenue Code section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. The program is funded as needed. Monthly contributions that would otherwise be credited to the DB program are instead credited to the RB Program to fund monthly program costs. Monthly employer contributions are received and paid to members in amounts equal to the benefits not paid as a result of Internal Revenue Code section 415(b), subject to withholding for any applicable income or employment taxes. At June 30, 2018, 353 individuals were receiving benefits from the RB program.

***Actuarial Methods and Assumptions*:** The total pension liability in the June 30, 2017 actuarial valuation (valuation date) was determined using the actuarial methods and assumptions shown in Table 29, applied to the measurement period ended June 30, 2018.

Table 29

Actuarial Methods and Assumptions – CalSTRS

Valuation date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%
Post-retirement benefit increases (COLAs)	2.00% simple

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rate at each age, resulting in increases in future life expectancies. CalSTRS uses base mortality tables customized to best fit the patterns of mortality among its members. The projection scale was set to equal to 110% of the ultimate improvement factor from the Mortality Improvement Scale table, issued by the Society of Actuaries.

***Discount Rate*:** The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases created by AB 1469. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10%) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS' general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS' consulting actuary reviews the return assumption for reasonableness based on the current capital market assumptions.

Table 30 shows the assumed allocation and best estimates of the 20-year geometric real rate of return for each major asset class.

Table 30

Long-term Expected Real Rate of Return by Asset Class – CalSTRS

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47.0 %	6.30 %
Private equity	13.0	9.30
Real estate	13.0	5.20
Risk mitigating strategies	9.0	2.90
Inflation sensitive	4.0	3.80
Fixed income	12.0	0.30
Cash/liquidity	2.0	(1.00)
Total	**100.0 %**	

***Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions*:** CalSTRS' net pension liability was measured as of June 30, 2018 (measurement date), by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of June 30, 2017 (valuation date). The State's proportion of the net pension liability was based on CalSTRS' calculated non-employer contributions to the pension plan relative to the total contributions of the State and all participating school districts. Per CalSTRS' revenue recognition policy, CalSTRS recognizes state contributions for the entire fiscal year at the beginning of each fiscal year. Contributions excluded from the proportionate share per CalSTRS' policy include employer contributions for retirement incentives, additional service credit, and unused sick leave. As of June 30, 2018, the State's proportionate share of the CalSTRS' net pension liability was 36.41%, or $33.5 billion; this amount is reported in the governmental activities column of the government-wide Statement of Net Position as of June 30, 2019.

As a result of its requirement to contribute to CalSTRS, the State recognized expense of $3.8 billion for the fiscal year ended June 30, 2019, and reported deferred outflows and deferred inflows of resources as shown in Table 31.

Table 31

Sources of Deferred Outflows and Deferred Inflows of Resources Related to Pensions – CalSTRS
June 30, 2019
(amounts in thousands)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 5,198,477	$ —
Net difference between projected and actual earnings on pension plan investments	—	1,288,515
Difference between expected and actual experiences	103,766	486,060
Proportionate share change	1,198,591	1,469,971
State contributions subsequent to the measurement date	3,082,316	—
Total	**$ 9,583,150**	**$ 3,244,546**

The $3.1 billion reported as deferred outflows of resources resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

Table 32 shows amounts reported as deferred outflows and deferred inflows of resources related to pensions that will be recognized in pension expense in future years as a result of the State's requirement to contribute to CalSTRS. Increases to pension expense are shown as positive amounts and decreases to pension expense are shown as negative amounts.

Table 32

Recognition of Deferred Outflows and Deferred Inflows of Resources – CalSTRS
(amounts in thousands)

Year Ending June 30	Amount
2020	$ 1,075,747
2021	592,600
2022	(286,677)
2023	898,631
2024	1,067,785
Thereafter	(91,798)

***Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*:** Table 33 shows the State's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate.

Table 33

Net Pension Liability Sensitivity – CalSTRS
June 30, 2019
(amounts in thousands)

	Current Rate –1%	Current Rate 7.10%	Current Rate +1%
State's proportionate share of net pension liability	$ 49,018,529	$ 33,462,420	$ 20,564,895

***Pension Plan Fiduciary Net Position*:** Detailed information about CalSTRS' pension plans' fiduciary net position is available in the separately issued CalSTRS financial report.

C. Trial Court Pension Plans

***Plan Description*:** The 58 trial courts are reported as part of the primary government. Twenty-two of the trial courts provide pension benefits to their respective employees through cost-sharing multiple-employer defined benefit plans administered by their respective county public employee retirement systems. Thirty-six of the trial courts participate in county retirement plans administered by CalPERS. Of those participating in CalPERS plans, 32 trial courts provide pension benefits to their respective employees through agent multiple-employer defined benefit plans, and one trial court provides pension benefits to its respective employees through a cost-sharing multiple-employer defined benefit plan. Information pertaining to the remaining three trial courts that participate in county retirement plans administered by CalPERS will be presented in future reporting years as available.

***Benefits Provided, Contributions, and Employees Covered by Benefit Terms*:** To obtain information on eligibility terms, benefits provided, contributions, and actuarial assumptions from individual trial court pension actuarial valuation reports, email the State Controller's Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

***Net Pension Liability Actuarial Methods and Assumptions*:** The net pension liability of 49 trial courts was measured as of each individual plan's measurement date, by applying update procedures and rolling forward the total pension liability determined by the actuarial valuation as of each individual plan's valuation date, based on the actuarial methods and assumptions used by each plan. For the 32 agent multiple-employer defined benefit plans, the net pension liability was measured as of June 30, 2018, and valued as of June 30, 2017. For 12 of the cost-sharing multiple-employer defined benefit plans, the net pension liability was measured as of June 30, 2018, and valued as of June 30, 2017. Five of the cost-sharing multiple-employer plans had a measurement date of June 30, 2018; three of these plans had an actuarial valuation date of December 31, 2017, and two had a valuation date of January 1, 2018.

For the remaining six cost-sharing multiple-employer defined benefit trial court pension plans, the net pension liability was measured as of the same date the total pension liability was valued for each individual plan. One of the trial court plans had an actuarial valuation and measurement date of December 31, 2018, and five plans had an actuarial valuation and measurement date of June 30, 2018.

Table 34 shows selected actuarial assumptions for the trial court pension plans, by plan type.

Table 34

Actuarial Methods and Assumptions – Trial Court Pension Plans

	Agent Multiple-Employer Defined Benefit Pension Plans	Cost-Sharing Multiple-Employer Defined Benefit Pension Plans
Number of Plans:	32	23
Valuation date(s):	June 30, 2017	Twelve plans as of June 30, 2017. Three plans as of December 31, 2017. Two plans as of January 1, 2018. Five plans as of June 30, 2018. One plan as of December 31, 2018.
Actuarial assumptions:		
Discount rate	7.15%	Rates ranging from 6.92% to 7.50%

***Discount Rates*:** The discount rate used to measure the total pension liability of the trial courts that participate in the agent multiple-employer defined benefit pension plan was 7.15%. The discount rates used to measure the total pension liability of each trial court that participates in a cost-sharing multiple employer defined benefit plan ranged from 6.92% to 7.50% as of the respective measurement date.

***Pension Accounting Elements*:** For the trial court pension plans, the State reported total pension liability of $10.3 billion and fiduciary net position of $8.0 billion, which resulted in a net pension liability of $2.3 billion as of June 30, 2019. For the fiscal year ended June 30, 2019, the State recognized pension expense of $305 million. At June 30, 2019, the State reported deferred outflows of resources of $809 million and deferred inflows of resources of $386 million. The reported deferred outflows of resources included $280 million from pension contributions the trial courts made subsequent to the measurement date. These contributions will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

The State provides medical and prescription drug benefits to annuitants and their dependents under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act, through the State of California Retiree Health Benefits Program (Retiree Health Benefits Program). The Retiree Health Benefits Program consists of a number of defined benefit other postemployment benefit (OPEB) plans, to which the State contributes as an employer. The State also offers life insurance, long-term care, and vision benefits to retirees; however, because these benefits are completely paid for by the retirees, the State has no liability. The design of health and dental benefit plans can be amended by the CalPERS Board of Administration and the California Department of Human Resources, respectively. CalPERS is a fiduciary component unit of the State, and its financial activity is included in the pension and other employee benefit trust funds column of the fiduciary funds and similar component units' financial statements of this report.

Fifty-eight county superior courts (trial courts) are included in the primary government. The trial courts offer OPEB outside of the Retiree Health Benefits Program and have separately issued actuarial valuation reports. Additional information related to the trial courts is provided in section B.

For the purpose of measuring net OPEB liability, deferred outflows and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net positions of the Retiree Health Benefits Program and the trial court OPEB plans, and changes to the plans' fiduciary net positions, have been determined on the same basis as reported by the plans.

The University of California, a discretely presented component unit, administers the University of California Retiree Health Benefit Trust (UCRHBT), which consists of single-employer OPEB plans that provide medical, dental, and vision benefits to eligible retirees and their dependents. The costs of medical and dental benefits are shared between the University and participating retirees. These costs are funded on a pay-as-you-go basis, and the University does not contribute toward the cost of other benefits available to retirees. The State does not directly contribute to the UCRHBT. Additional information on the UCRHBT can be found in the University's separately issued financial statements on its website at www.ucop.edu.

A. Retiree Health Benefits Program

***Plan Description*:** Employer and retiree contributions to the Retiree Health Benefits Program (the Program) are established and amended by state law for different groups of employees. Through the collective bargaining process and through state law, certain bargaining units and judicial employees (valuation groups) have begun prefunding retiree healthcare and dental benefits. Assets are held in separate state subaccounts by valuation group within the California Employers' Retiree Benefit Trust Fund (CERBTF), an agent multiple-employer trust administered by CalPERS for the prefunding of health, dental, and other non-pension benefits. In accordance with California Government Code section 22940, assets accumulated in the CERBTF will be invested and are not available to pay benefits until the earlier of 2046, or the date the funded ratio of the subaccount of a particular valuation group reaches at least 100% of the actuarially determined liability for the valuation group, and then only for the purposes of paying benefits of annuitants and dependents associated with that valuation group.

The Program has 25 different valuation groups that include different categories of employees. Valuation groups that have accumulated prefunding assets in a CERBTF subaccount are reported as separate OPEB plans. As of the June 30, 2019 reporting date, these valuation groups included Bargaining Units 2, 5, 6, 7, 8, 9, 10, 12, 13, 16, 18, 19, and the Judicial Branch. The OPEB plans for Bargaining Units 5, 6, 9, and 12 are each reported discretely. The OPEB plans for Bargaining Units 2, 7, 8, 10, 13, 16, 18, 19, and the Judicial Branch are collectively reported as "Other Funded Plans." The remaining valuation groups for which the State made contributions through the CERBTF on a "pay-as-you-go" basis to fund benefit payments are collectively reported as the "Unfunded Plan." Prefunding contributions to the CERBTF are nonrefundable, and state employees have no claims or rights to the assets. CalPERS reports on the CERBTF as part of its separately issued annual financial statements, which can be obtained from CalPERS on its website at www.CalPERS.ca.gov.

The OPEB plans have common benefit terms and are valued using common actuarial methods and assumptions, with the exception of certain demographic and economic assumptions that are specific to certain valuation groups. The valuation groups also have different prefunding contribution rates determined through collective bargaining and state law.

Benefits Provided: Benefit terms are governed by state law and can be amended by the Legislature. To be eligible for OPEB benefits, annuitants must retire within 120 days of separation from employment. Survivors of eligible annuitants may also enroll within 60 days of the annuitant's death. Dependents of annuitants who are enrolled or eligible to enroll at the time of the annuitant's death qualify for benefits.

Annuitants who qualify for premium-free Medicare Part A, either on their own or through a spouse, must enroll in Medicare Part B coverage as soon as they qualify for Medicare Part A. The annuitant must then enroll in a Medicare supplemental insurance plan sponsored by CalPERS, which lowers the costs of retirees' health care premiums and provides some coverage beyond Medicare.

Employees Covered by Benefit Terms: Detailed information about the number of employees covered within the OPEB plans is provided in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2018* (June 30, 2018 Actuarial Valuation Report), on the State Controller's Office website, at www.SCO.ca.gov.

Table 35 shows the number of employees covered by the benefit terms.

Table 35

Number of Employees by Type Covered by Benefit Terms – Retiree Health Benefits Program

June 30, 2018

OPEB Plan	Inactive employees or beneficiaries currently receiving benefits	Active Employees	Total
Bargaining Unit 5 Plan	6,598	7,461	14,059
Bargaining Unit 6 Plan	23,707	31,154	54,861
Bargaining Unit 9 Plan	6,868	12,462	19,330
Bargaining Unit 12 Plan	9,664	12,717	22,381
Other Funded Plans	25,087	38,751	63,838
Unfunded Plan	115,698	169,533	285,231
Total	**187,622**	**272,078**	**459,700**

Note: Inactive employees that are entitled to, but not receiving benefits are not currently being tracked.

Contributions: The contribution requirements of plan members and the State are established and may be amended by the Legislature, and can be subject to collective bargaining. In accordance with the California Government Code, the State generally pays 100% of the health insurance premium cost for annuitants, plus 90% of the additional premium required for the enrollment of annuitants' family members. The State generally pays all or a portion of the dental insurance premium cost for annuitants, depending on the completed years of credited state service at retirement and the dental coverage selected by the annuitant, as specified in the California Government Code. The State funds the cost of providing health and dental insurance to annuitants primarily on a "pay-as-you-go" basis, with a modest amount of prefunding for members of Bargaining Units 5, 6, 9, 12, and other funded plans. See Table 38 for details on the fiduciary net positions of the OPEB plans. The maximum 2018 monthly State contribution was $725 for one-party coverage, $1,377 for two-party coverage, and $1,766 for family coverage. For the fiscal year ended June 30, 2018, the State contributed $2.4 billion toward annuitants' health and dental benefits.

***Actuarial Methods and Assumptions*:** Projections of benefits for financial reporting purposes for the OPEB plans include the types of benefits provided at the time of each valuation and the established pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are consistent with a long-term perspective.

For the measurement period ended June 30, 2018 (the measurement date), total OPEB liability for each plan was based on the actuarial methods and assumptions shown in Table 36.

Table 36

Actuarial Methods and Assumptions – Retiree Health Benefits Program

Valuation date:	June 30, 2018
Actuarial cost method:	Entry age normal in accordance with the requirements of GASB 75
Actuarial assumptions:	
Discount rate	Blended rate for each valuation group, consisting of 7.00% when assets are available to pay benefits, otherwise 20-year Municipal G.O. Bond AA Index rate of 3.62%
Inflation	2.50%
Salary increases	Varies by entry age and service
Investment rate of return	7.00%, net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses
Healthcare cost trend rates	Pre-Medicare coverage: Actual rates for 2019, increasing to 7.50% in 2020, decreasing 0.50% per year to an ultimate rate of 4.50% for 2026 and later years
	Post-Medicare coverage: Actual rates for 2019, increasing to 8.00% in 2020, decreasing 0.50% per year to an ultimate rate of 4.50% for 2027 and later years
	Dental coverage: 0.26% in 2019 and 4.50% thereafter
Mortality	Derived using CalPERS' membership data for all members

Other demographic assumptions used in the June 30, 2018 valuation were based on the results of the *2017 CalPERS Experience Study and Review of Actuarial Assumptions* report for the period from 1997 to 2015 and included updates to termination, disability, mortality assumptions, and retirement rates. The CalPERS experience study can be obtained from CalPERS' website at www.CalPERS.ca.gov.

Healthcare-related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the 2015 experience study performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2007 to 2014. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. To obtain a copy of the GRS experience study email the State Controller's Office, State Accounting and Reporting Division, at StateGovReports@sco.ca.gov.

Investment Rate of Return: The long-term expected rate of return on OPEB plan investments was determined by Gabriel, Roeder, Smith & Company using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) returns were calculated over a closed period. Based on separate expected nominal returns for the short-term (first 10 years) and the long-term (11+ years), a single expected return rate of 7.00% was calculated for the combined short-term and long-term periods. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows. The rate of return was calculated using the capital market assumptions.

Table 37 shows the long-term expected real rate of return by asset class.

Table 37

Long-term Expected Real Rate of Return by Asset Class

Asset Class	Target Asset Allocation	Real Return Years 1 – 10 [1]	Real Return Years 11+ [2]
Global Equity	59.0 %	4.80 %	5.98 %
Fixed Income	25.0	1.10	2.62
Treasury Inflation-Protected Securities	5.0	0.25	1.46
Real Estate Investment Trusts	8.0	3.50	5.00
Commodities	3.0	1.50	2.87
Total	**100.0 %**		

[1] An expected inflation rate of 2.00% used for this period.
[2] An expected inflation rate of 2.92% used for this period.

Discount Rates**:** The blended rates used to measure the June 30, 2018 total OPEB liability consist of the 20-year Municipal G.O. Bond AA Index rate of 3.62% as of June 30, 2018, as reported by Fidelity, when prefunding assets are not available to pay benefits, and 7.00% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rates were developed assuming that prefunding agreements in which actuarially determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, on the State Controller s Office website, at www.SCO.ca.gov.

Blended rates for the June 30, 2019 valuation will be determined using the Fidelity Index 20-year Municipal G.O. Bond AA Index rate of 3.13% when prefunding assets are not available to pay benefits.

In June 2020, the State Controller's Office and its contracted actuary determined that the full funding discount rate to be used in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2019*, will be lowered from 7.00% to 6.75%. In addition, both the price inflation assumption and the wage inflation assumption will be reduced by 0.25%. Excluding other changes in assumptions impacting the net OPEB liabilities, a reduction to the discount rate would increase the net OPEB liabilities starting in the fiscal year ended June 30, 2020. The net effect of this assumption change will be amortized over the average expected remaining service lives of the plan members in the actuarial valuation.

This page intentionally left blank

***Changes in Net OPEB Liability*:** Table 38 shows the changes in net OPEB liability for the OPEB plans, recognized over the measurement period.

Table 38

Changes in Net OPEB Liability
(amounts in thousands)

	Bargaining Unit 5 Plan		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2017	$ 4,542,103	$ 246,662	$ 4,295,441
Changes recognized for the measurement period:			
Service cost	146,042	—	146,042
Interest on total OPEB liability	195,713	—	195,713
Difference between expected and actual experiences[1]	(108,271)	—	(108,271)
Changes of assumptions	(137,150)	—	(137,150)
Employer contributions	—	137,594	(137,594)
Employee contributions	—	4,089	(4,089)
Net investment income	—	20,988	(20,988)
Benefit payments	(77,897)	(77,897)	—
Administrative expense	—	(144)	144
Net changes	18,437	84,630	(66,193)
Balance at June 30, 2018 (Measurement Date)	**$ 4,560,540**	**$ 331,292**	**$ 4,229,248**

[1] Includes changes in deferrals resulting from differences between projected benefit payments disclosed in the *State of California Retiree Health Benefits Program – GASB No. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, and the subsequent true-up of benefit payments reflected in internal allocations to state agencies.

Bargaining Unit 6 Plan			Bargaining Unit 9 Plan		
Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**	**Total OPEB Liability**	**Plan Fiduciary Net Position**	**Net OPEB Liability**
$ 15,211,352	$ 185,155	$ 15,026,197	$ 4,402,387	$ 38,829	$ 4,363,558
531,916	—	531,916	142,954	—	142,954
634,360	—	634,360	174,062	—	174,062
(1,186,530)	—	(1,186,530)	(334,650)	—	(334,650)
(164,236)	—	(164,236)	(200,549)	—	(200,549)
—	392,849	(392,849)	—	90,966	(90,966)
—	65,245	(65,245)	—	5,688	(5,688)
—	17,235	(17,235)	—	3,246	(3,246)
(327,604)	(327,604)	—	(85,278)	(85,278)	—
—	(128)	128	—	(22)	22
(512,094)	147,597	(659,691)	(303,461)	14,600	(318,061)
$ 14,699,258	**$ 332,752**	**$ 14,366,506**	**$ 4,098,926**	**$ 53,429**	**$ 4,045,497**

(continued)

Table 38 (continued)

Changes in Net OPEB Liability (continued)
(amounts in thousands)

	Bargaining Unit 12 Plan		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	$ 4,317,850	$ 10,206	$ 4,307,644
Changes recognized for the measurement period:			
Service cost	146,732	—	146,732
Interest on total OPEB liability	172,744	—	172,744
Difference between expected and actual experiences[1]	(362,455)	—	(362,455)
Changes of assumptions	(166,573)	—	(166,573)
Employer contributions	—	122,515	(122,515)
Employee contributions	—	8,280	(8,280)
Net investment income	—	1,051	(1,051)
Benefit payments	(114,235)	(114,235)	—
Administrative expense	—	(9)	9
Net changes	(323,787)	17,602	(341,389)
Balance at June 30, 2018 (Measurement Date)	**$ 3,994,063**	**$ 27,808**	**$ 3,966,255**

[1] Includes changes in deferrals resulting from differences between projected benefit payments disclosed in the *State of California Retiree Health Benefits Program – GASB No. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, and the subsequent true-up of benefit payments reflected in internal allocations to state agencies.

[2] The valuation groups that comprise the Unfunded and Other Funded plans shifted from the prior year.

* Restated

Other Funded Plans[2]			Unfunded Plan[2]		
Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
$ 12,699,917	$ 57,956 *	$ 12,641,961	$ 50,334,009	$ —	$ 50,334,009
501,028	—	501,028	2,008,794	—	2,008,794
523,258	—	523,258	1,959,522	—	1,959,522
(1,033,520)	—	(1,033,520)	(4,164,211)	—	(4,164,211)
(304,299)	—	(304,299)	(1,766,620)	—	(1,766,620)
—	321,533	(321,533)	—	1,352,652	(1,352,652)
—	32,759	(32,759)	—	—	—
—	5,578	(5,578)	—	—	—
(288,774)	(288,774)	—	(1,352,652)	(1,352,652)	—
—	(47)	47	—	—	—
(602,307)	71,049	(673,356)	(3,315,167)	—	(3,315,167)
$ 12,097,610	**$ 129,005**	**$ 11,968,605**	**$ 47,018,842**	**$ —**	**$ 47,018,842**

(continued)

Table 38 (continued)

Changes in Net OPEB Liability (continued)

(amounts in thousands)

	Total		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
Balance at June 30, 2017	$ 91,507,618	$ 538,808	$ 90,968,810
Changes recognized for the measurement period:			
Service cost	3,477,466	—	3,477,466
Interest on total OPEB liability	3,659,659	—	3,659,659
Difference between expected and actual experiences[1]	(7,189,637)	—	(7,189,637)
Changes of assumptions	(2,739,427)	—	(2,739,427)
Employer contributions	—	2,418,109	(2,418,109)
Employee contributions	—	116,061	(116,061)
Net investment income	—	48,098	(48,098)
Benefit payments	(2,246,440)	(2,246,440)	—
Administrative expense	—	(350)	350
Net changes	(5,038,379)	335,478	(5,373,857)
Balance at June 30, 2018 (Measurement Date)	**$ 86,469,239**	**$ 874,286**	**$ 85,594,953**

Reported in governmental activities	$ 67,793,987
Reported in business-type activities	14,765,563
Reported by discretely presented component units	334,141
Not reported in government-wide Statement of Net Position[3]	2,701,262
Total net OPEB liability	**$ 85,594,953**

(concluded)

[1] Includes changes in deferrals resulting from differences between projected benefit payments disclosed in the *State of California Retiree Health Benefits Program – GASB No. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, and the subsequent true-up of benefit payments reflected in internal allocations to state agencies.

[3] Includes amounts allocated to related organizations and fiduciary funds. Also includes the difference in net OPEB liability for discretely presented component units with a reporting period ended December 31, 2018; and minor differences related to amounts reported in separately issued financial statements of proprietary funds and discretely presented component units.

***Sensitivity of the Net OPEB Liability to Changes in Blended Discount Rates*:** Table 39 shows the net OPEB liability for each plan as of the measurement date, calculated using their respective blended discount rates ranging from 3.62% to 4.28%, as well as what the net OPEB liability would be if it were calculated using rates that are one percentage-point lower or one percentage-point higher than the blended discount rates.

Table 39

Net OPEB Liability Sensitivity to Changes in Blended Discount Rates
June 30, 2019
(amounts in thousands)

OPEB Plan	Blended Rate	Blended Discount Rates -1%	Blended Discount Rates	Blended Discount Rates +1%
Bargaining Unit 5 Plan	4.28%	$ 5,144,023	$ 4,229,248	$ 3,519,534
Bargaining Unit 6 Plan	4.13%	17,237,517	14,366,506	12,132,067
Bargaining Unit 9 Plan	3.95%	4,768,695	4,045,497	3,466,633
Bargaining Unit 12 Plan	4.01%	4,639,054	3,966,255	3,426,534
Other Funded Plans............................	3.91% to 4.16%	14,163,917	11,968,605	10,229,910
Unfunded Plan	3.62% to 4.22%	55,150,622	47,018,842	40,507,058
Total		**$ 101,103,828**	**$ 85,594,953**	**$ 73,281,736**

***Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates*:** Table 40 shows the net OPEB liability for each plan as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Table 36, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the healthcare cost trend rates presented in Table 36.

Table 40

Net OPEB Liability Sensitivity to Changes in the Healthcare Cost Trend Rates
June 30, 2019
(amounts in thousands)

OPEB Plan	Healthcare Cost Trend Rates -1%	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates +1%
Bargaining Unit 5 Plan..	$ 3,572,416	$ 4,229,248	$ 5,084,616
Bargaining Unit 6 Plan..	12,356,587	14,366,506	16,959,344
Bargaining Unit 9 Plan..	3,529,470	4,045,497	4,700,881
Bargaining Unit 12 Plan..	3,492,470	3,966,255	4,562,862
Other Funded Plans...	10,395,971	11,968,605	13,986,316
Unfunded Plan...	41,230,847	47,018,842	54,393,210
Total..	**$ 74,577,761**	**$ 85,594,953**	**$ 99,687,229**

***OPEB Plan Fiduciary Net Position*:** Detailed information about the OPEB plans' fiduciary net positions is available in the separate report issued by CalPERS, at www.CalPERS.ca.gov.

OPEB Expense and Deferred Outflows and Deferred Inflows of Resources Related to OPEB: The State recognized OPEB expense for the OPEB plans of $3.9 billion for the fiscal year ended June 30, 2019. Deferred inflows of resources are recognized for changes of assumptions and for the difference between expected and actual experience. Net deferred inflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on the OPEB plans' investments occurring in different measurement periods.

As of June 30, 2019, the State reported OPEB expense and deferred outflows and deferred inflows of resources as shown in Table 41.

Table 41

OPEB Expense and Sources of Deferred Outflows and Deferred Inflows of Resources Related to OPEB

June 30, 2019
(amounts in thousands)

Description	Bargaining Unit 5 Plan	Bargaining Unit 6 Plan	Bargaining Unit 9 Plan	Bargaining Unit 12 Plan
OPEB Expense	$ 211,481	$ 623,273	$ 141,453	$ 148,476
Deferred Outflows of Resources:				
Employer contributions subsequent to the measurement date	137,475	445,061	102,971	137,758
Difference between expected and actual experiences[1]	—	—	—	—
Changes of assumptions	—	—	—	—
Net difference between projected and actual earnings on OPEB plan investments	—	725	—	227
Deferred Inflows of Resources:				
Difference between expected and actual experiences[1]	(92,709)	(1,002,767)	(281,477)	(303,373)
Changes of assumptions	(453,727)	(1,278,117)	(482,169)	(423,061)
Net difference between projected and actual earnings on OPEB plan investments	(5,080)	(4,310)	(1,122)	(164)

[1] Includes changes in deferrals resulting from differences between projected benefit payments disclosed in the *State of California Retiree Health Benefits Program – GASB No. 74 and 75 Actuarial Valuation Report as of June 30, 2018*, and the subsequent true-up of benefit payments reflected in internal allocations to state agencies.

The $2.7 billion reported as deferred outflows of resources resulting from state contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020.

Other Funded Plans	Unfunded Plan	Total
$ 597,178	$ 2,212,772	$ 3,934,632
366,050	1,493,023	2,682,338
6,046	65,560	71,606
3,784	—	3,784
785	—	1,737
(892,240)	(3,596,708)	(6,169,274)
(1,183,887)	(5,276,785)	(9,097,746)
(395)	—	(11,071)

Table 42 shows amounts for each plan reported as deferred outflows and deferred inflows of resources related to OPEB that will be recognized as OPEB expense in future years. Increases to OPEB expense are shown as positive amounts and decreases to OPEB expense are shown as negative amounts.

Table 42

Recognition of Deferred Outflows and Deferred Inflows of Resources Related to OPEB
(amounts in thousands)

	Year Ending June 30					
OPEB Plan	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Bargaining Unit 5	$ (106,096)	$ (106,096)	$ (106,096)	$ (104,604)	$ (94,853)	$ (33,771)
Bargaining Unit 6	(459,745)	(459,745)	(459,747)	(458,308)	(351,357)	(95,567)
Bargaining Unit 9	(166,664)	(166,664)	(166,666)	(154,765)	(85,038)	(24,971)
Bargaining Unit 12	(161,394)	(161,394)	(161,396)	(144,329)	(86,234)	(11,624)
Other Funded Plans	(387,835)	(387,835)	(372,518)	(349,820)	(277,663)	(290,236)
Unfunded Plan	(1,718,893)	(1,637,260)	(1,543,773)	(1,511,066)	(1,415,401)	(981,540)
Total	**$ (3,000,627)**	**$ (2,918,994)**	**$ (2,810,196)**	**$ (2,722,892)**	**$ (2,310,546)**	**$ (1,437,709)**

B. Trial Court OPEB Plans

***Plan Description*:** The 58 trial courts are reported as part of the primary government, but each trial court may utilize a separate OPEB plan, where OPEB is offered to employees, and obtain a separate actuarial valuation report for GASB Statement No. 75 reporting purposes. One trial court (Los Angeles) participates in an agent multiple-employer defined benefit OPEB plan, three trial courts (Alameda, Orange, and San Diego) participate in county administered cost-sharing multiple-employer defined benefit OPEB plans, and forty-nine trial courts participate in single-employer defined benefit OPEB plans. Five trial courts (Fresno, Mendocino, Modoc, San Benito, and Stanislaus) do not have an OPEB plan.

***Benefits Provided, Contributions, and Employees Covered by Benefit Terms*:** To obtain information on eligibility terms, benefits provided, contributions, and actuarial assumptions from individual trial court OPEB actuarial valuation reports, email the State Controller’s Office, State Accounting and Reporting Division at StateGovReports@sco.ca.gov.

***Net OPEB Liability Actuarial Methods and Assumptions*:** For two of the trial court valuations, the net OPEB liability was measured as of December 31, 2018 (measurement date), and the remaining 51 valuations had a measurement date of June 30, 2018. One of the courts had an actuarial valuation date of December 31, 2018, another had an actuarial valuation date of June 30, 2018, and 51 courts were valued as of June 30, 2017.

Table 43 shows selected actuarial assumptions for the trial court OPEB plans, by plan type.

Table 43

Actuarial Methods and Assumptions – Trial Court OPEB Plans

	Single-Employer Defined Benefit OPEB Plans	Agent Multiple-Employer Defined Benefit OPEB Plan	Cost-Sharing Multiple-Employer Defined Benefit OPEB Plans
Valuation date:	June 30, 2017	June 30, 2017	One plan as of June 30, 2017. One plan as of June 30, 2018. One plan as of December 31, 2018.
Actuarial assumptions:			
Discount rate	Blended and single rates ranging from 3.62% to 7.28%.	Blended rate of 3.70%.	Single rates ranging from 7.00% to 7.25%.
Healthcare cost trend rates	Initial rate of 6.90% in 2019, gradually decreasing to an ultimate rate of 4.40% over 57 years per the Society of Actuaries Getzen model.	Initial rate of 6.90% in 2019, gradually decreasing to an ultimate rate of 4.40% over 57 years per the Society of Actuaries Getzen model.	Initial rates ranging from 6.25% to 7.50%, decreasing gradually to ultimate rates ranging from 4.00% to 4.50% in 2028 and later years.

Discount Rates**:** The discount rates used to measure the total OPEB liability were based on either a single or a blended rate for each trial court. The blended rates used to measure the June 30, 2018 total OPEB liability consist of the 20-year Municipal G.O. Bond AA Index rate of 3.62% as of June 30, 2018, when prefunding assets are not available to pay benefits, and full funding discount rates ranging from 4.95% to 7.28% when prefunding assets are available to pay benefits. Single rates range from 4.95% to 7.28%. The projections of cash flows used to determine the discount rates assumed that plan contributions will be made according to funding policy, benefits will be paid out of OPEB trusts until assets are depleted, and employer contributions will first be applied to employee service costs in each period.

OPEB Accounting Elements**:** For the trial court OPEB plans, the State reported total OPEB liability of $1.9 billion and fiduciary net position of $213 million, which resulted in a net OPEB liability of $1.6 billion as of June 30, 2019, reported in governmental activities. For the fiscal year ended June 30, 2019, the State recognized OPEB expense of $96 million. At June 30, 2019, the State reported deferred outflows of resources of $70 million and deferred inflows of resources of $188 million. Deferred outflows of resources included $64 million from OPEB contributions made subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020.

NOTE 12: COMMERCIAL PAPER AND OTHER LONG-TERM BORROWINGS

The primary government has two commercial paper borrowing programs: a general obligation commercial paper program and an enterprise fund commercial paper program for the Department of Water Resources. Commercial paper (new issuance or rollover notes that replace maturing new issuances) may be issued at the prevailing market rate, not to exceed 11% for the general obligation and 12% for the Department of Water Resources enterprise fund program, for periods not to exceed 270 days from the date of issuance. The proceeds from the initial issuance of commercial paper are used for voter-approved projects of the general obligation bond program and certain state water projects. For both commercial paper borrowing programs, the commercial paper is retired by the issuance of long-term debt, so commercial paper is considered a noncurrent liability.

To provide liquidity for the programs, the State has entered into revolving credit agreements with credit providers such as commercial banks, which total the maximum authorized issuance of general obligation and enterprise fund commercial paper notes. As of June 30, 2019, there were no borrowings with the banks under the revolving credit agreements. The current "Letter of Credit" agreements for the general obligation commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed \$2.3 billion. As of June 30, 2019, the general obligation commercial paper program had \$1.0 billion in outstanding commercial paper notes for governmental activities. The current agreements for the enterprise fund commercial paper program authorize the issuance of notes in an aggregate principal amount not to exceed \$1.4 billion. As of June 30, 2019, the enterprise fund commercial paper program had \$690 million in outstanding notes.

The primary government has a bond anticipation note program that consists of borrowing for capital improvements on certain California State University campuses. As of June 30, 2019, \$110 million in outstanding bond anticipation notes existed in anticipation of the primary government issuing revenue bonds to the public.

The University of California, a discretely presented component unit, has a commercial paper program and other uncollateralized borrowings. Additional disclosures for the University's commercial paper and other long-term borrowings are included in the University's separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu.

NOTE 13: LEASES

The aggregate amount of lease commitments for facilities and equipment of the primary government in effect as of June 30, 2019, was approximately \$2.1 billion. Primary government leases that are classified as operating leases, in accordance with the applicable standards, contain clauses providing for termination. Operating lease expenditures are recognized as being incurred over the lease term. Operating lease expenditures for the fiscal year ended June 30, 2019, amounted to approximately \$269 million for governmental activities and \$35 million for business-type activities. It is expected that, in the normal course of business, most of these operating leases will be replaced by similar leases.

The total present value of net minimum capital lease payments for the primary government is \$750 million. Note 9, Long-term Obligations, reports current additions and deductions for these capital lease obligations. The California State University, an enterprise fund, and the State Public Works Board (SPWB), an internal service fund, entered into lease-purchase agreements amounting to a present value of net minimum lease payments of \$149 million, which are included in the capital lease commitments. This amount represents 19.9% of the total present value of minimum capital lease payments of the primary government. Also included in the capital lease commitments are lease-purchase agreements to acquire equipment. Total assets related to capital leases have a net carrying value of \$254 million for governmental activities and \$177 million for business-type activities.

The capital lease commitments do not include \$8.0 billion in lease-purchase agreements with the SPWB and \$73 million in lease purchase agreements with building authorities that are blended component units. The SPWB and the building authorities acquire or develop office buildings and then lease the facilities to state agencies. Upon expiration of the lease, title passes to the primary government. The costs of the buildings and the related outstanding revenue bonds are reported as governmental activities in the government-wide financial statements. Accordingly, the lease receivables and capital lease obligations associated with these buildings are not included in the government-wide financial statements.

The University of California, a discretely presented component unit, leases land, buildings, and equipment under agreements recorded as operating leases. Additional disclosure for the University's lease obligations is included in its separately issued financial statements that may be found on its website at www.ucop.edu.

Table 44 summarizes future minimum lease commitments of the primary government.

Table 44

Schedule of Future Minimum Lease Commitments – Primary Government
(amounts in thousands)

	Governmental Activities		Business-type Activities		
Year Ending June 30	**Operating Leases**	**Capital Leases**	**Operating Leases**	**Capital Leases**	**Total**
2020	$ 248,065	$ 98,880	$ 40,388	$ 37,303	$ 424,636
2021	184,421	82,557	31,053	35,970	334,001
2022	132,436	62,063	26,910	34,606	256,015
2023	93,258	45,202	15,996	33,462	187,918
2024	49,561	22,985	13,598	32,500	118,644
2025-2029	109,808	88,813	47,589	141,958	388,168
2030-2034	52,957	80,406	14,234	126,095	273,692
2035-2039	1,124	52,641	3,579	39,648	96,992
2040-2044	556	6,897	1,885	4,775	14,113
2045-2049	107	—	1,465	—	1,572
2050-2054	107	—	—	—	107
2055-2059	76	—	—	—	76
2060-2064	5	—	—	—	5
Total minimum lease payments	**$ 872,481**	**540,444**	**$ 196,697**	**486,317**	**$ 2,095,939**
Less: amount representing interest		105,568		170,995	
Present value of net minimum lease payments		**434,876**		**315,322**	
Less: current portion		71,747		20,108	
Capital lease obligation, net of current portion		**$ 363,129**		**$ 295,214**	

NOTE 14: COMMITMENTS

As of June 30, 2019, the primary government had commitments of $7.5 billion for certain highway construction projects. These commitments are not included as a liability in the Federal Fund or the Transportation Fund because future expenditures related to these commitments will be reimbursed with $6.5 billion from proceeds of approved federal grants and $1.0 billion from local governments. The primary government also had other commitments for which the future expenditures will be reimbursed by the proceeds of approved federal grants of $773 million for various education programs, $518 million for terrorism prevention and disaster-preparedness response projects, $354 million for services under the workforce development program, $234 million for services provided under various public health programs, $36 million for community service programs, $25 million for services provided under the child support program, $9 million for environmental regulatory oversight activities, and $3 million for services provided under the welfare program.

The primary government had other commitments, totaling $14.2 billion, that are not included as a liability on the Balance Sheet or the Statement of Net Position. The $14.2 billion in commitments includes grant agreements totaling approximately $8.5 billion to reimburse other entities for construction projects for school building aid, parks, transportation-related infrastructure, housing, and other improvements; and to reimburse counties and cities for costs associated with various programs. Any assets that have been constructed will not belong to the primary government, whose payments are contingent upon the other entities entering into construction contracts. The $14.2 billion in commitments includes $2.3 billion for undisbursed loan commitments to qualified agencies for clean water projects and $318 million in undisbursed loan commitments for various programs aimed at providing housing and emergency shelter to persons in need.

The $14.2 billion in commitments also includes contracts of $1.0 billion for the construction of water projects and the purchase and transmission of power that are not included as a liability on the Statement of Net Position of the Water Resources Fund. Included in this amount are certain power purchase, sale, and exchange contracts. The primary government had commitments of $1.0 billion for CSU construction projects. In addition, CSU participates in forward-purchase contracts of electricity. As of June 30, 2019, CSU's obligation under these special purchase arrangements requires it to purchase at fixed prices an estimated total of $15 million in electricity through December 2020. The primary government also had commitments of $31 million to veterans for the purchase of properties under contracts of sale. The California State Lottery Commission had commitments of $1.1 billion for gaming and telecommunication systems and services. These are long-term projects, and all of the contracts' needs may not have been defined. The projects will be funded with existing and future program resources or with the proceeds of revenue and general obligation bonds.

As of June 30, 2019, the primary government encumbered expenditures of $2.9 billion for the General Fund, $4.0 billion for the Transportation Fund, $1.8 billion for the Environmental and Natural Resources Fund, $19 million for the Health Care Related Programs Fund, and $900 million for the nonmajor governmental funds. See Note 2A, Budgeting and Budgetary Control, for an explanation of the primary government's policy concerning encumbrances.

As of June 30, 2019, the discretely presented and fiduciary component units had other commitments that were not included as liabilities on the corresponding Statement of Net Position. Additional disclosure for the University of California's commitments is included in its separately issued financial statements, which may be found on its website at www.ucop.edu. Additional disclosure for the California Housing Finance Agency's (CalHFA) commitments is included in its separately issued financial statements, which may be found on its website at www.CalHFA.ca.gov. Additional disclosure for the California Public Employees' Retirement System's (CalPERS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalPERS.ca.gov. Additional disclosure for the California State Teachers' Retirement System's (CalSTRS) commitments is included in its separately issued financial statements, which may be found on its website at www.CalSTRS.com.

NOTE 15: GENERAL OBLIGATION BONDS

The State Constitution permits the primary government to issue general obligation bonds for specific purposes and in such amounts as approved by a two-thirds vote of both houses of the Legislature and by a majority of voters in a general or direct primary election. The debt service for general obligation bonds is appropriated from the General Fund. Under the State Constitution, the General Fund is used first to support the public school system and public institutions of higher education; the General Fund can then be used to service the debt on outstanding general obligation bonds. Enterprise funds and certain other funds reimburse the General Fund for any debt service that it provides on their behalf. General obligation bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included as a liability of such funds in the financial statements. However, the General Fund may be liable for the payment of any principal and interest on these bonds that is not met from the resources of such enterprise funds.

As of June 30, 2019, the State had $72.7 billion in outstanding general obligation bonds related to governmental activities and $841 million related to business-type activities. In addition, $36.6 billion in long-term general obligation bonds had been authorized but not issued, of which $35.5 billion is related to governmental activities and $1.1 billion is related to business-type activities. The total amount authorized but not issued includes $12.8 billion authorized by the applicable finance committees for issuance in the form of commercial paper notes. Of this amount, $1.0 billion in general obligation indebtedness in the form of commercial paper notes was not yet retired by long-term bonds.

A. Variable-rate General Obligation Bonds

The State issues both fixed and variable-rate general obligation bonds. As of June 30, 2019, the State had $3.0 billion in variable-rate general obligation bonds outstanding, consisting of $902 million in daily-rate bonds with credit enhancement, $1.1 billion in weekly-rate bonds with credit enhancement, and $1.0 billion in weekly- or monthly- index floating rate bonds without credit enhancement. The interest rates associated with the credit-enhanced bonds are determined by the remarketing agents to be the lowest rate that would allow the bonds to sell on the effective date of such rate at a price (without regard to accrued interest) equal to 100% of the principal amount. The interest rates associated with the unenhanced index floating rate bonds are determined either by a rate based on the Securities Industry and Financial Markets Association (SIFMA) Index rate or a predetermined percentage of the London Interbank Offered Rate (LIBOR) then in effect plus a pre-determined spread. The interest on variable-rate bonds is generally paid on the first business day of each calendar month.

The credit-enhanced bonds are secured by letters of credit that secure payment of principal and interest on the bonds. The State has entered into different credit agreements with various banks (credit providers) for one or more series of credit-enhanced bonds. Under these credit agreements, the credit providers agree to pay all principal and interest payments to the bondholders up to a commitment amount identified in the applicable credit agreement; the State is then required to reimburse the credit providers for the amounts paid. In return, the credit providers are compensated with commitment fees that are calculated as a percentage of the applicable commitment amount. The bondholders have the right to tender the bonds daily if the bonds are in a daily-rate mode and weekly if the bonds are in a weekly-rate mode. Upon a tender, the remarketing agent will attempt to remarket the tendered bond to a new investor. If the remarketing of the tendered bond is unsuccessful, the bond will be purchased by the applicable credit provider and become a bank bond and accrue interest at higher rates, which cannot exceed 11% as permitted by law until remarketed, redeemed, or paid at maturity. If a bond cannot be remarketed and remains a bank bond for a period ranging from 45 days to 180 days, the bond will be subject to amortization payments in equal installments under the terms stated in the applicable credit agreement. The amortization period may exceed the expiration date of the applicable credit agreement. A bank bond may be remarketed at any time during the amortization period. There were no bank bonds during fiscal year 2018-19.

The letters of credit for the Series 2003 variable-rate bonds have expiration dates of January 15, 2021; September 7, 2021; March 25, 2022; August 26, 2022; and August 28, 2023. The letters of credit for the

Series 2004 variable-rate bonds have expiration dates of September 7, 2021; October 1, 2021; and January 16, 2024. The letters of credit for the Series 2005 variable-rate bonds have expiration dates of November 4, 2019; November 15, 2019; May 1, 2020; March 26, 2021; and September 22, 2023. The Series 2012A index floating rate bonds have a mandatory redemption date on May 1, 2021. The Series 2012B index floating rate bonds have fixed maturities on May 1, 2020. The Series 2013B, 2013C, 2013D, and 2013E index floating rate bonds have scheduled mandatory purchase dates on December 1, 2020 (Series 2013C and Series 2013D); December 1, 2022 (Series 2013B); and December 1, 2023 (Series 2013E). The Series 2016B and 2017C index floating rate bonds have scheduled mandatory purchase dates on December 1, 2021 (Series 2016B) and April 1, 2022 (Series 2017C).

Sinking fund deposits for the variable-rate general obligation bonds are set aside in a sinking fund at the beginning of each fiscal year; such deposits are required and will continue for each fiscal year with scheduled sinking fund payments. The deposits set aside in any fiscal year may be applied, with approval of the State Treasurer and the appropriate bond finance committees, to the redemption or purchase and retirement of any other general obligation bonds (bonds other than the bonds to which the sinking fund deposits relate) then outstanding. If a sinking fund deposit is not applied by January 31 of that fiscal year to such other bonds, the State Treasurer will select the related variable-rate general obligation bonds that will be redeemed in whole or in part on an interest payment date in that fiscal year. The required sinking fund deposits were set aside for fiscal year 2018-19.

B. Mandatory Tender Bonds

As of June 30, 2019, the State had $1.7 billion in outstanding general obligation bonds with scheduled mandatory tender dates, including $750 million with a fixed interest rate and $925 million with an index floating rate (discussed in Section A). On their respective scheduled mandatory tender dates, these bonds are subject to mandatory tender for purchase at a price equal to 100% of the principal amount, plus accrued interest, without premium, unless the bonds have been called for redemption or remarketed on or prior to that day. These bonds have scheduled mandatory tender dates on December 2, 2019; April 1, 2020; December 1, 2020; December 1, 2021; April 1, 2022; December 1, 2022; and December 1, 2023. In the event bonds are not redeemed or there is an unsuccessful remarketing of all the outstanding bonds for a particular scheduled mandatory tender date, the bonds will enter into a delayed remarketing period and accrue interest at a higher effective interest rate, in most cases gradually increasing on a stepped basis until they are remarketed, redeemed, or paid at maturity. Bonds in this delayed remarketing period can be redeemed or remarketed on any business day, with limited prior notice. Current state laws limit interest rates to 11% per annum.

C. Build America Bonds

As of June 30, 2019, the State had $13.5 billion in taxable various-purpose general obligation bonds outstanding that were issued as "Build America Bonds" under the American Recovery and Reinvestment Act of 2009 (ARRA) signed into law on February 17, 2009. The bonds will mature between 2020 and 2040. Pursuant to ARRA, the State receives a cash subsidy payment from the U. S. Treasury equal to 35% of the interest payable by the State on the Build America Bonds on or near each interest payment date. Subsequent federal legislation reduced the Build America Bonds subsidy by 6.6% for the federal fiscal year ending September 30, 2018, and by 6.2% for the federal fiscal year ending September 30, 2019. The cash payment does not constitute a full faith and credit guarantee of the federal government, but is required to be paid by the U. S. Treasury under ARRA. The subsidy payments are deposited into the State's General Fund.

D. Debt Service Requirements

Table 45 shows the debt service requirements for all general obligation bonds as of June 30, 2019. The estimated debt service requirements for the $3.0 billion variable-rate general obligation bonds are calculated using the actual interest rates in effect on June 30, 2019. For mandatory tender bonds, the debt service requirements shown in Table 45 are based on the assumption that the interest rate will remain in effect until the applicable reset dates and that the bonds will be fully redeemed on their scheduled maturity dates. The amounts include scheduled mandatory sinking fund redemptions but do not reflect any interest subsidy under the Build America Bonds program or any other offsets to general fund costs of debt service.

Table 45

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

	Governmental Activities			Business-type Activities		
Year Ending June 30	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
2020	$ 3,368,325	$ 3,652,126	$ 7,020,451	$ 43,165	$ 28,330	$ 71,495
2021	3,389,550	3,509,288	6,898,838	34,835	26,639	61,474
2022	3,419,230	3,354,940	6,774,170	19,235	25,827	45,062
2023	3,001,850	3,196,782	6,198,632	15,720	25,384	41,104
2024	2,952,420	3,063,496	6,015,916	8,235	25,110	33,345
2025 - 2029	15,390,365	13,310,231	28,700,596	91,760	120,483	212,243
2030 - 2034	15,372,190	9,845,976	25,218,166	213,615	93,792	307,407
2035 - 2039	15,275,520	5,714,354	20,989,874	163,935	59,862	223,797
2040 - 2044	7,779,010	1,578,687	9,357,697	138,605	33,150	171,755
2045 - 2049	2,702,965	296,179	2,999,144	109,760	9,205	118,965
2050	—	—	—	2,390	48	2,438
Total	**$ 72,651,425**	**$ 47,522,059**	**$ 120,173,484**	**$ 841,255**	**$ 447,830**	**$ 1,289,085**

E. General Obligation Bond Defeasances

1. Current Year Activity

On September 18, 2018, the primary government issued $881 million in general obligation bonds to current refund $1.0 billion in outstanding general obligation bonds with principal redemptions scheduled in 2020 to 2031, 2034, and 2037 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $253 million and resulted in an economic gain of $205 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.46% per year over the life of the new bonds.

On March 14, 2019, the primary government issued $2.0 billion in general obligation bonds to current refund $2.3 billion in outstanding general obligation bonds with principal redemptions scheduled in 2020, 2030 to 2033, and 2035 to 2038. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $1.0 billion and resulted in an economic gain of $739 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.63% per year over the life of the new bonds.

On April 18, 2019, the primary government issued $1.6 billion in general obligation bonds to current refund $1.9 billion in outstanding general obligation bonds with principal redemptions scheduled in 2020 to 2029. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased overall debt service by $404 million and resulted in an economic gain of $363 million. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at 2.12% per year over the life of the new bonds.

2. Outstanding Balance

In the current and prior years, the primary government placed the proceeds of the refunding bonds and other resources in a special irrevocable escrow trust account with the State Treasury to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and liability for defeased bonds are not included in the State's financial statements. As of June 30, 2019, the outstanding balance of defeased general obligation bonds was approximately $1.5 billion.

NOTE 16: REVENUE BONDS

A. Governmental Activities

The State Treasurer is authorized by state law to issue Federal Highway Grant Anticipation Revenue Vehicles (GARVEE bonds). The purpose of these bonds is to accelerate the funding and construction of critical transportation infrastructure projects to provide congestion relief benefits to the public significantly sooner than with traditional funding mechanisms. These bonds are secured and payable from the annual federal appropriation for the State's federal-aid transportation projects. The primary government has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $11 million, payable through 2020. In addition, the California Alternative Energy and Advanced Transportation Financing Authority is authorized to issue Clean Renewable Energy Bonds to fund the acquisition and installation of certain transportation-related solar energy facilities located throughout the State. Both of these bonds finance activity in the Transportation Fund and are included in the governmental activities column of the government-wide Statement of Net Position.

The Golden State Tobacco Securitization Corporation (GSTSC), a blended component unit, as authorized by state law, has issued asset-backed bonds to purchase 100% of the State's rights to future revenues from the Master Settlement Agreement with participating tobacco companies. These bonds are secured by and payable solely from future Tobacco Settlement Revenue and interest earned on that revenue. The primary government has no legal liability for the payment of principal and interest on the bonds. The Legislature has annually granted a General Fund appropriation for payment of debt service in the event tobacco settlement revenues and other available amounts prove insufficient to make these payments during the next fiscal year. However, the use of the appropriated monies has never been required. Total principal and interest remaining on all asset-backed bonds is $14.0 billion, payable through 2047. All of the Tobacco Settlement Revenue and interest has been pledged in support of these asset-backed bonds. Principal and interest paid in the current year totaled $1.2 billion, while Tobacco Settlement Revenue and interest earned totaled $446 million. These bonds are included in the governmental activities column of the government-wide Statement of Net Position.

Under state law, the State Public Works Board (SPWB), an agency that accounts for its activity in the Public Buildings Construction Fund, an internal service fund, and certain building authorities may issue revenue bonds. These bonds are issued for the purpose of designing, acquiring, or constructing state buildings, related improvements, and equipment. Leases with state agencies pay the principal and interest on the revenue bonds issued by the Public Buildings Construction Fund and building authorities. The General Fund has no legal liability for the payment of principal and interest on these revenue bonds. Total principal and interest remaining on the bonds is $12.5 billion, payable through 2044. These revenue bonds are included in the governmental activities column of the government-wide Statement of Net Position.

For the specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

B. Business-type Activities

Revenue bonds that are directly related to, and are expected to be paid from, the resources of enterprise funds are included in the accounts of such funds. Principal and interest on revenue bonds are payable from the pledged revenues of the respective funds of agencies that issued the bonds. The General Fund has no legal liability for payment of principal and interest on revenue bonds. For specific debt service coverage ratios, refer to the Schedule of Pledged Revenue Coverage in the Statistical Section.

Revenue bonds to acquire, construct, or renovate state facilities or to refund outstanding revenue bonds in advance of maturity are issued for water resources, financing of electric power purchases for resale to utility customers, state university campuses, and certain nonmajor enterprise funds.

Revenue bonds related to two enterprise funds contain provisions that define events of default related to punctuality of the payment of the outstanding principal and interest, which could result in acceleration of debt payments.

C. Discretely Presented Component Units

The University of California issues revenue bonds to finance various auxiliary, administrative, academic, medical center, and research facilities. The revenue bonds are not collateralized by any encumbrance, mortgage, or other pledge of property except pledged revenues, and do not constitute general obligations of the University. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the University, refer to its separately issued financial report for fiscal year 2018-19, which may be found on its website at www.ucop.edu.

Under state law, the California Housing Finance Agency (CalHFA) issues fixed-rate and variable-rate revenue bonds to fund loans to qualified borrowers for single-family houses and multifamily developments. Variable-rate debt is typically related to remarketed rates or common indices, such as the Securities Industry and Financial Markets Association (SIFMA) or the London Interbank Offered Rate (LIBOR) and is reset periodically. CalHFA issues both federally taxable and tax-exempt bonds. The bonds issued by CalHFA are payable solely from and collateralized by revenues and other pledged assets. For more information regarding revenue bonds, current year defeasances, and outstanding defeasances of the CalHFA, refer to its separately issued financial report for fiscal year 2018-19, which may be found on its website at www.CalHFA.ca.gov.

Table 46 shows outstanding revenue bonds of the primary government and the discretely presented component units.

Table 46

Schedule of Revenue Bonds Payable
June 30, 2019
(amounts in thousands)

Primary government	
Governmental activities	
Transportation Fund	$ 13,082
Public Buildings Construction Fund	9,015,944
Nonmajor governmental funds:	
Golden State Tobacco Securitization Corporation Fund	6,572,733
Building authorities	109,901
Total governmental activities	**15,711,660**
Business-type activities	
Electric Power Fund	2,543,000
Water Resources Fund	3,222,577
California State University	6,831,764
Nonmajor enterprise funds	1,924,119
Total business-type activities	**14,521,460**
Total primary government	**30,233,120**
Discretely presented component units	
University of California	23,020,473
California Housing Finance Agency	1,181,933
Nonmajor component units	458,151
Total discretely presented component units	**24,660,557**
Total revenue bonds payable	**$ 54,893,677**

Table 47 shows the debt service requirements for fixed-rate and variable-rate bonds. It excludes unamortized premiums and discounts that are included in Table 46.

Table 47

Schedule of Debt Service Requirements for Revenue Bonds
(amounts in thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-type Activities			
Year Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest ***
2020	$ 680,891	$ 685,380	$ 1,178,118	$ 596,432	$ 744,855	$ 1,045,973
2021	645,521	653,960	1,233,725	540,249	762,960	1,030,079
2022	625,186	623,527	1,327,545	485,908	526,595	1,003,499
2023	505,401	594,198	484,010	429,048	579,575	979,598
2024	575,811	584,971	491,790	405,125	590,720	955,099
2025-2029	3,192,928	2,527,817	2,438,840	1,677,535	3,929,595	4,289,802
2030-2034	3,311,655	1,678,848	2,334,770	1,099,388	4,270,010	3,351,318
2035-2039	2,414,035	976,178	1,685,255	615,823	3,940,245	2,411,607
2040-2044	1,534,490	623,359	1,042,460	323,617	3,545,253	1,452,261
2045-2049	1,354,332	2,730,267	779,220	107,355	2,408,700	721,469
2050-2054	—	—	173,045	8,578	371,335	393,953
2055-2116	—	—	—	—	1,455,080	3,889,474
Total	**$ 14,840,250**	**$ 11,678,505**	**$ 13,168,778**	**$ 6,289,058**	**$ 23,124,923**	**$ 21,524,132**

* Includes interest on variable-rate bonds based on rates in effect on June 30, 2019.

D. Revenue Bond Defeasances

1. Current Year – Governmental Activities

In August 2018, the GSTSC issued $711 million in Tobacco Settlement Asset-Backed bonds. The bond proceeds were used to current refund $694 million in outstanding Tobacco Settlement Asset-Backed bonds with maturities in June of 2047. The refunding decreased debt service payments by $151 million and resulted in an economic gain of $3 million.

2. Current Year – Business-type Activities

In August 2018, the California State University issued $10 million in systemwide revenue bonds to current refund certain outstanding systemwide revenue bonds. Portions of the proceeds from the refunding bonds were deposited in escrow accounts to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $2 million and resulted in an economic gain of $2 million.

In October 2018, the Department of Water Resources issued $215 million of tax-exempt water system revenue bonds to pay off or refund certain outstanding debt obligations. A portion of the revenue bond proceeds, along with additional resources, was deposited in an escrow account to refund $109 million of outstanding water system revenue bonds, and to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the financial statements. The refunding decreased debt service payments by $3 million and resulted in an economic gain of $2 million.

3. Outstanding Balances

In current and prior fiscal years, the primary government placed the proceeds of the refunding bonds and other resources in irrevocable trust accounts to provide for all future debt service requirements. Accordingly, the assets and liabilities for these defeased bonds are not included in the financial statements. As of June 30, 2019, the outstanding balances of defeased revenue bonds were $875 million for governmental activities and $819 million for business-type activities.

NOTE 17: RISK MANAGEMENT

The primary government has elected, with a few exceptions, to be self-insured against loss or liability. The primary government generally does not maintain reserves. Losses are covered by appropriations from each fund responsible for payment in the year in which the payment occurs. The State is permissively self-insured and, barring any extraordinary catastrophic event, the potential amount of loss faced by the State is not considered material in relation to the primary government's financial position. Generally, the exceptions are when a bond resolution or a contract requires the primary government to purchase commercial insurance for coverage against property loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, no insurance settlement in the last three years has exceeded insurance coverage. All claim payments are on a "pay-as-you-go" basis, with workers' compensation benefits for self-insured agencies initially being paid by the State Compensation Insurance Fund.

The discounted liability for unpaid self-insurance claims of the primary government is estimated to be $4.4 billion as of June 30, 2019. This estimate is primarily based on actuarial reviews of the State's workers' compensation program and includes indemnity payments to claimants, as well as all other costs of providing workers' compensation benefits, such as medical care and rehabilitation. The estimate also includes the liability for unpaid services fees, industrial disability leave benefits, and incurred-but-not-reported amounts. The estimated total liability of approximately $6.2 billion is discounted to $4.4 billion using a 3.5% interest rate. Of the total discounted liability, $473 million is a current liability, of which $330 million is included in the General Fund, $140 million in the special revenue funds, and $3 million in the internal service funds. The remaining $3.9 billion is reported as other noncurrent liabilities in the government-wide Statement of Net Position.

The University of California, a discretely presented component unit, is self-insured or insured through a wholly-owned captive insurance company. Additional disclosures for the University's risk management and self-insurance claims liability is included in its separately issued financial statements, which can be obtained from the University on its website at www.ucop.edu.

Table 48 shows the changes in the self-insurance claims liability for the primary government.

Table 48

Schedule of Changes in Self-insurance Claims
Year Ended June 30
(amounts in thousands)

	2019	2018
Unpaid claims, beginning	$ 4,307,537	$ 4,041,294
Incurred claims	641,653	731,749
Claim payments	(512,470)	(465,506)
Unpaid claims, ending	**$ 4,436,720**	**$ 4,307,537**

NOTE 18: INTERFUND BALANCES AND TRANSFERS

A. Interfund Balances

Short-term interfund receivables and payables result from the time lag between the dates on which goods and services are delivered and the dates on which payments between entities are made. In addition, the majority of the fiduciary funds' amount due from the General Fund, the Federal Trust Fund, and the Health Care Related Programs Fund is to pay for Medi-Cal and other health-care related expenditures accrued in the Health Care Deposit Fund.

Table 49 shows the amounts due from and due to other funds.

Table 49

Schedule of Due From Other Funds and Due To Other Funds
June 30, 2019
(amounts in thousands)

	Due To					
Due From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Health Care Related Programs Fund**	**Nonmajor Governmental Funds**	**Electric Power Fund**
Governmental funds						
General Fund	$ —	$ 307,053	$ 215,461	$ —	$ 200,727	$ —
Federal Fund	1,262,724	1,244,144	73,347	49,913	29,543	—
Transportation Fund	—	—	—	—	330,800	—
Environmental and Natural Resources Fund	—	54,415	—	—	25	—
Health Care Related Programs Fund	1,403,708	—	7	—	10,888	—
Nonmajor governmental funds	361,001	24,205	37,231	5,416	38,464	—
Total governmental funds	**3,027,433**	**1,629,817**	**326,046**	**55,329**	**610,447**	**—**
Enterprise funds						
Electric Power Fund	55	—	—	—	—	—
Water Resources Fund	1,535	—	—	—	—	—
State Lottery Fund	—	—	—	—	441,283	—
Unemployment Programs Fund	71,513	—	—	—	—	—
California State University Fund	3,425	—	—	—	—	—
Nonmajor enterprise funds	4,589	606	16,102	—	1,498	—
Total enterprise funds	**81,117**	**606**	**16,102**	**—**	**442,781**	**—**
Internal service funds	17,938	45,193	57,852	5,377	44,505	7,720
Total due from other funds	**$ 3,126,488**	**$ 1,675,616**	**$ 400,000**	**$ 60,706**	**$ 1,097,733**	**$ 7,720**

Due To

Water Resources Fund	State Lottery Fund	Unemployment Programs Fund	California State University Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Due To Other Funds
$ —	$ 975	$ —	$ 342	$ 809	$ 271,045	$ 5,124,089	$ 6,120,501
—	—	3,456	—	19,960	61,218	20,444,923	23,189,228
—	—	—	—	—	19,606	67,202	417,608
—	—	—	—	2,007	15,506	—	71,953
—	—	—	—	—	169	4,736,764	6,151,536
—	—	—	10,786	100	71,778	28,673	577,654
—	**975**	**3,456**	**11,128**	**22,876**	**439,322**	**30,401,651**	**36,528,480**
—	—	—	—	—	183	—	238
—	—	—	—	—	50,821	—	52,356
—	—	—	—	—	—	—	441,283
—	—	—	—	—	—	—	71,513
—	—	—	—	—	18,441	—	21,866
—	—	—	—	—	3	36	22,834
—	**—**	**—**	**—**	**—**	**69,448**	**36**	**610,090**
1,582	3,358	18,753	49	9,382	99,421	17,523	**328,653**
$ 1,582	**$ 4,333**	**$ 22,209**	**$ 11,177**	**$ 32,258**	**$ 608,191**	**$ 30,419,210**	**$ 37,467,223**

Interfund receivables and payables are the result of interfund loans that are not expected to be repaid within one year. In addition to the temporary interfund cash-flow borrowing shown in Table 49, annual enacted budgets provide for long-term loans from many of the State's special funds—mainly the Transportation Fund, the Environmental and Natural Resources Fund, and nonmajor governmental funds—to the General Fund. The $1.2 billion in Transportation Fund loans payable from the General Fund also includes $236 million in deferred Proposition 42 transfers for traffic congestion relief.

In fiscal year 2017-18, a supplemental employer contribution was made to the California Public Employees' Retirement System (CalPERS) to help reduce the State's net pension liability. The supplemental employer contribution was funded through a cash loan from borrowable deposits in the State's internal investment pool—mainly from the Environmental and Natural Resources Fund and nonmajor governmental funds. The General Fund and other funds that normally contribute to CalPERS and benefit from the supplemental contribution will repay the loan and replenish the internal investment pool deposits. The table below includes an outstanding balance of $3.5 billion of interfund loans. There is an additional $204 million reported as loans receivable from entities outside of the State's primary government.

Table 50 shows the primary government's interfund receivables and payables.

Table 50

Schedule of Interfund Receivables and Payables
June 30, 2019
(amounts in thousands)

	Interfund Payables			
Interfund Receivables	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**	**Health Care Related Programs Fund**
Governmental funds				
General Fund	$ —	$ 1,231,260	$ 1,590,994	$ 216,643
Transportation Fund	—	—	244,499	39,063
Environmental and Natural Resources Fund	158,474	10,000	—	—
Nonmajor governmental funds	68,687	1,448	397	63
Total governmental funds	**227,161**	**1,242,708**	**1,835,890**	**255,769**
Enterprise funds				
Electric Power Fund	—	—	303	49
Water Resources Fund	—	—	28,723	4,589
State Lottery Fund	—	—	6,487	1,037
California State University Fund	—	—	66,681	10,653
Nonmajor enterprise funds	20,150	—	924	148
Total enterprise funds	20,150	—	103,118	16,476
Internal service funds	926,359		35,633	5,693
Total interfund receivables	**$ 1,173,670**	**$ 1,242,708**	**$ 1,974,641**	**$ 277,938**

Interfund Payables

Nonmajor Governmental Funds	Water Resources Fund	Unemployment Programs Fund	Nonmajor Enterprise Funds	Internal Service Funds	Fiduciary Funds	Total Interfund Payables
$ 886,700	$ —	$ 706,206	$ 9,696	$ 17,531	$ 155,163	$ 4,814,193
110,775	—	85,144	1,748	937	27,977	510,143
7,406	—	—	—	2,689	—	178,569
147	—	138	3	—	46	70,929
1,005,028	**—**	**791,488**	**11,447**	**21,157**	**183,186**	**5,573,834**
113	—	105	2	—	35	607
10,664	—	10,002	205	—	3,287	57,470
2,408	—	2,259	46	—	742	12,979
24,757	—	23,221	477	—	7,630	133,419
342	—	322	7	—	106	21,999
38,284	—	35,909	737	—	11,800	226,474
13,230	96,048	12,409	255	17,379	4,077	1,111,083
$ 1,056,542	**$ 96,048**	**$ 839,806**	**$ 12,439**	**$ 38,536**	**$ 199,063**	**$ 6,911,391**

The amounts shown as due from primary government and due to component units represent short-term receivables and payables between the primary government and component units resulting from the time lag between the dates on which goods and services are provided and received and the dates on which payments between entities are made.

Table 51 shows the amounts due from the primary government and due to component units.

Table 51

Schedule of Due From Primary Government and Due To Component Units
June 30, 2019
(amounts in thousands)

Due From		Due To University of California
Governmental funds		
General Fund	$	163,305
Transportation Fund		5,958
Environmental and Natural Resources Fund		2,500
Nonmajor governmental funds		50,290
Total governmental funds		**222,053**
Total due from primary government	**$**	**222,053**

This page intentionally left blank

B. Interfund Transfers

Transfers move money collected by one fund to another fund, which then disburses it as required by law. The General Fund and certain other funds transfer money to support various programs accounted for in other funds. The largest transfer from the General Fund was $3.9 billion to the California State University, an enterprise fund. The General Fund also transferred $1.6 billion to nonmajor governmental funds, mainly for support of trial courts and local governments. The Transportation Fund transferred $1.5 billion in weight fee revenues to the Transportation Debt Service Fund, a nonmajor governmental fund, for transportation-related debt service costs. The Federal Fund transferred $485 million to the General Fund for administration of the Unemployment Insurance Program.

Table 52 shows interfund transfers of the primary government.

Table 52

Schedule of Interfund Transfers
June 30, 2019
(amounts in thousands)

	Transferred To		
Transferred From	**General Fund**	**Transportation Fund**	**Environmental and Natural Resources Fund**
Governmental funds			
General Fund	$ —	$ —	$ 119,547
Federal Fund	484,715	—	8,386
Transportation Fund	89,381	—	10,520
Environmental and Natural Resources Fund	50,594	1,405	—
Nonmajor governmental funds	53,683	14	26,792
Total governmental funds	**678,373**	**1,419**	**165,245**
Nonmajor enterprise funds	3,250	—	—
Internal service funds	15,588	—	—
Total transfers from other funds	**$ 697,211**	**$ 1,419**	**$ 165,245**

			Transferred To		
Health Care Related Programs Fund	**Nonmajor Governmental Funds**	**California State University Fund**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers To Other Funds**
$ 168,288	$ 1,647,978	$ 3,934,300	$ 1,750	$ —	$ 5,871,863
—	7,502	—	—	—	500,603
—	1,536,119	—	—	—	1,636,020
—	12,630	—	—	—	64,629
6,996	135,275	—	—	2,220	224,980
175,284	**3,339,504**	**3,934,300**	1,750	**2,220**	**8,298,095**
—	1,894	—	—	—	5,144
—	33,693	—	—	—	49,281
$ 175,284	**$ 3,375,091**	**$ 3,934,300**	**$ 1,750**	**$ 2,220**	**$ 8,352,520**

NOTE 19: FUND BALANCES, NET POSITION DEFICITS, AND ENDOWMENTS

A. Fund Balances

Table 53 shows the composition of the governmental fund balances.

Table 53

Schedule of Fund Balances by Function
June 30, 2019
(amounts in thousands)

	General Fund	Federal Fund	Transportation Fund	Environmental and Natural Resources Fund	Health Care Related Programs Fund	Nonmajor Governmental Funds
Nonspendable						
Long-term interfund receivables	$ 1,173,670	$ —	$ —	$ —	$ —	$ —
Long-term loans receivable	6,905	—	—	—	—	—
Other	—	—	—	—	—	12,760
Total nonspendable	**1,180,575**	**—**	**—**	**—**	**—**	**12,760**
Restricted						
General government	14,846	—	—	1,922	1	3,951,852
Education	178,111	404	1,384	—	95,455	573,142
Health and human services	200,399	257	—	89,148	960,387	2,174,801
Natural resources and environmental protection	4,367	1,574	—	5,029,044	—	199,176
Business, consumer services, and housing	2,377	220,953	221,241	24,364	—	3,749,867
Transportation	—	—	9,026,391	—	—	7,091
Corrections and rehabilitation	76,075	—	—	—	—	655
Budget stabilization	14,358,422	—	—	—	—	—
Total restricted	**14,834,597**	**223,188**	**9,249,016**	**5,144,478**	**1,055,843**	**10,656,584**
Committed						
General government	769,283	—	—	17,387	—	351,846
Education	101,502	—	—	—	—	61,863
Health and human services	904,437	—	431	—	79,939	250,716
Natural resources and environmental protection	4,604	—	3	8,389,105	—	579,486
Business, consumer services, and housing	—	—	—	72,693	—	135,970
Transportation	—	—	50,044	—	—	5,164
Corrections and rehabilitation	7,316	—	—	—	—	331
Total committed	**1,787,142**	**—**	**50,478**	**8,479,185**	**79,939**	**1,385,376**
Assigned – general government	—	—	—	—	—	19,247
Unassigned	765,568	—	—	—	—	—
Total fund balances	**$ 18,567,882**	**$ 223,188**	**$ 9,299,494**	**$ 13,623,663**	**$ 1,135,782**	**$ 12,073,967**

B. Net Position Deficits

Table 54 shows the net position deficit balances.

Table 54

Schedule of Net Position Deficits
June 30, 2019
(amounts in thousands)

	Internal Service Funds	Enterprise Funds
Architecture Revolving Fund	$ 119,905	$ —
Service Revolving Fund	1,149,798	—
Prison Industries Fund	32,216	—
Technology Services Revolving Fund	460,918	—
Water Resources Revolving Fund	3,339	—
Other Internal Service Programs Fund	950,154	—
State Lottery Fund	—	151,716
California State University Fund	—	16,732,827
Total net position deficits	**$ 2,716,330**	**$ 16,884,543**

C. Discretely Presented Component Unit Endowments and Gifts

The University of California, a discretely presented component unit, administers certain restricted nonexpendable, restricted expendable, and unrestricted endowments that are included in the related net position categories of the government-wide and fund financial statements. As of June 30, 2019, the value of restricted endowments and gifts totaled $19.0 billion, and unrestricted endowments and gifts totaled $5.7 billion. The University's policy is to retain realized and unrealized appreciation on investments with the endowment after an annual income distribution. The net appreciation available to meet future spending needs upon approval by the Board of Regents amounted to $2.7 billion at June 30, 2019. The portion of investment returns earned on endowments and distributed each year to support current operations is based on a rate approved by the Board of Regents. In addition, the California State University Auxiliary Organizations and the University of California Hastings College of the Law, nonmajor component units, have restricted nonexpendable and restricted expendable endowments of $1.4 billion and $13 million, respectively.

NOTE 20: DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

In the fund financial statements, governmental funds reported deferred inflows of resources of $6.7 billion as this amount represents revenues that are earned and measurable, but not available within 12 months of the end of the reporting period.

Table 55 shows the detail of the deferred outflows of resources and deferred inflows of resources reported in the government-wide Statement of Net Position. For descriptions of the deferred outflows and deferred inflows of resources transactions, see Note 1.L.

Table 55

Schedule of Deferred Outflows and Deferred Inflows of Resources
June 30, 2019
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Deferred outflows of resources:				
Loss on refunding of debt	$ 913,116	$ 291,756	$ 1,204,872	$ 323,705
Decrease in fair value of hedging derivatives	—	—	—	130,328
Net pension liability	21,628,966	2,255,009	23,883,975	6,378,719
Net other postemployment benefits liability	2,322,641	454,103	2,776,744	3,928,129
Deferred asset retirement obligation	—	—	—	73,996
Total deferred outflows of resources	**$ 24,864,723**	**$ 3,000,868**	**$ 27,865,591**	**$ 10,834,877**
Deferred inflows of resources:				
Gain on refunding of debt	$ 389,648	$ —	$ 389,648	$ 3,167
Service concession arrangements	55,014	—	55,014	248,002
Irrevocable split-interest agreements	—	—	—	352,483
Net pension liability	5,021,701	369,544	5,391,245	178,033
Net other postemployment benefits liability	12,001,684	3,000,361	15,002,045	5,939,846
Other deferred inflows	—	1,217,582	1,217,582	458,111
Total deferred inflows of resources	**$ 17,468,047**	**$ 4,587,487**	**$ 22,055,534**	**$ 7,179,642**

NOTE 21: NO COMMITMENT DEBT

The California Housing Finance Agency (CalHFA), a major component unit, issued conduit debt to provide financial assistance for the acquisition, construction, and development of multifamily rental housing. As of June 30, 2019, the CalHFA had $1.1 billion of conduit debt obligations outstanding, which is not debt of the State.

Certain debt of the nonmajor component units is issued to finance activities such as the promotion of renewable energy sources and financing for economic development projects. This debt is secured by the credit of private and public entities and is administered by trustees independent of the State. As of June 30, 2019, these component units had approximately $4.2 billion of debt outstanding, which is not debt of the State.

NOTE 22: CONTINGENT LIABILITIES

A. Litigation

The primary government is a party to numerous legal proceedings, many of which are not unusual for governmental operations. To the extent they existed, the following legal proceedings were accrued as a liability in the government-wide financial statements: those decided against the primary government before June 30, 2019; those in progress as of June 30, 2019, and settled or decided against the primary government as of August 17, 2020; and those having a high probability of resulting in a decision against the primary government as of August 17, 2020, and for which amounts could be estimated. In the governmental fund financial statements, the portion of the liability that is expected to be paid within the next 12 months is recorded as a liability in the fund from which payment will be made. In the proprietary fund financial statements, the entire liability is recorded in the fund from which payment will be made.

In addition, the primary government is involved in certain other legal proceedings that, if decided against the primary government, may impair its revenue sources or require it to make significant expenditures. Because of the prospective nature of these proceedings, no provision for the potential liability has been made in the financial statements.

Following are descriptions of the more significant lawsuits pending against the primary government:

The primary government is a defendant in two cases, *Bakersfield Mall, LLC v. Franchise Tax Board*, and *CA-Centerside II, LLC v. Franchise Tax Board*, both regarding the constitutionality of a fee imposed on limited-liability companies (LLC). Plaintiffs assert class action and declaratory relief, and seek attorney fees based on alleged violations of the state and federal constitutions. They seek certification of two classes of allegedly similarly situated LLCs and unspecified refunds on behalf of the LLC classes, alleged to be in excess of 50,000 members. On January 30, 2013, Franchise Tax Board's Petition to Coordinate these cases was granted. The trial court denied class certification and the plaintiffs appealed. On December 17, 2014, the briefing of the appeal was completed. On August 27, 2018, the Court of Appeal reversed the trial court decision, directing the trial court to certify one or more classes. The State filed a petition for review in the California Supreme Court challenging the Court of Appeal's decision. On October 31, 2018, the California Supreme Court denied the State's petition for review. The plaintiffs' underlying challenge to the LLC fee will be tried. On July 2, 2019, plaintiffs filed a motion for an award of interim attorneys' fees, which was denied. Plaintiffs filed a motion for class certification, which was granted. The parties had cross-motions for summary judgment and a case management conference was scheduled on September 17, 2020, and a trial date was scheduled on October 5, 2020. Actual and expected future claims for refunds from LLCs are estimated to be as high as $1.2 billion.

In a previously settled case, *Northwest Energetic Services, LLC v. Franchise Tax Board*, the Court of Appeal found the fee unconstitutional only as applied to the plaintiff. In another previously settled case, *Ventas Finance I, LLC v. Franchise Tax Board,* the Court of Appeal also ruled that the fee was unconstitutional as applied to the plaintiff, but it awarded only a partial refund because Ventas received income from both inside and outside of California. *Bakersfield Mall, LLC v. Franchise Tax Board* raises the same constitutional issues as Northwest and Ventas, but initially pertained to LLCs that conduct business solely within California. Bakersfield Mall, LLC later amended its complaint to reflect the fact that not all of its income is derived within the State, making it similar to the Ventas case. *CA-Centerside II, LLC v. Franchise Tax Board* raises the same constitutional issues as the Bakersfield case, and alleges that the LLC fee is unconstitutional regarding any activities, whether in-state or out-of-state.

A writ petition, *Bekkerman et al. v. California Department of Tax and Fee Administration (formerly the California Board of Equalization)*, was filed against the primary government challenging the validity of a California Department of Tax and Fee Administration (CDTFA) sales tax regulation (California Code of Regulations, Title 18, section 1585) that requires the sales tax charged on a mobile telephone to be based on the full retail price of the phone, rather than any discounted price that is contingent on a service plan contract. A companion class action has been filed. The primary government filed a demurrer that was sustained on September 5, 2017, which resulted in the dismissal of the state defendants from the class action. The plaintiffs appealed that order and subsequently dismissed that appeal voluntarily. In the writ action, plaintiffs amended the writ petition to add class action claims for refunds of sales tax. On September 14, 2018, the court granted the State's motion to strike the class action claims for refunds from the writ petition. CDTFA filed an answer to the amended petition on September 20, 2018 and is conducting discovery. In the writ action, the Court granted the writ on September 4, 2020, and ordered that Rule 1585 may not be applied to bundled sales in which the retailer is also the service carrier. The State expects to appeal. If the sales tax regulation is invalidated, the companion class action could lead to an order requiring the CDTFA to refund up to $1.0 billion in sales tax collections.

The primary government is a defendant in a case, *Coast Community College District (District), et al. v. Commission on State Mandates (Commission)*, regarding a claim that various laws and regulations prescribing standards for the formation and basic operation of California community colleges created reimbursable state mandates under Government Code section 17514 and article XII B, section 6, of the California Constitution. The District filed a test claim before the Commission and on May 26, 2011. The Commission ruled that the test claim did not constitute a reimbursable state-mandated program. On May 22, 2014, the District filed a petition for administrative mandate, seeking review of the Commission's decision. On June 12, 2015, the Superior Court held a hearing and denied the petition. On September 15, 2015, the District filed a notice of appeal. In February 2017, the briefing of the appeal was completed. On April 3, 2020, the Court of Appeal reversed and remanded much of the matter to the Commission on State Mandates to determine whether several minimum conditions for state aid constitute new programs or higher levels of service requiring state reimbursement. The Supreme Court granted review and depublished the Court of Appeal's opinion on August 12, 2020. The estimated range of loss is not possible to ascertain at this time. As this case is a test claim, other districts could also bring claims for reimbursement for the same reason.

The primary government is a defendant in a case, *People of the State of California (Butte County D.A.) v. Department of Water Resources*, regarding the claims that the debris deposited into the Feather River due to the failure of the Oroville Dam spillway in 2017 was harmful to fish and wildlife. This case is one of ten coordinated cases concerning the Oroville Dam spillway failure. On October 2, 2020, a hearing was set for a Motion to Intervene by the State Water Contractors. On November 20, 2020, a hearing is set for a Motion for Summary Judgment. An inverse condemnation bench trial is set for April 5, 2021. A bench trial of the matter is estimated to be in June 2021. The Butte County District Attorney seeks to impose up to $51.0 billion in civil penalties for alleged pollution that violates Fish and Game Code section 5650.

The primary government is a defendant in nine other coordinated cases related to the failure of the Oroville Dam spillway in 2017. The plaintiffs are seeking relief for business losses, property damage (personal and real property), evacuation and relocation costs, and other damages, resulting from the flooding and debris. Class certification motions were filed seeking to certify putative classes, and an opposition was filed. On May 17, 2019, a hearing on the class certification motions was held. On September 25, 2019, the class certification motion was denied and is being appealed. Merits discovery is underway. A trial date was set for October 1, 2020. All plaintiffs in this complaint have either a summary judgment of their claims granted or a dismissal of their claims. The estimated range of loss for the coordinated cases is not possible to ascertain at this time.

The primary government is a defendant in two similar cases: *Perea v. Wilkening,* and *Deuschel v. California Health & Human Services Agency*. The petitioners sued the primary government alleging that reimbursements paid to providers under the Medi-Cal program are too low and therefore impaired access to care and services for Medi-Cal patients. The petitioners argue that this constitutes discrimination against Latinos, senior citizens, and persons with disabilities. The petitioners do not seek damages but seek prospective declaratory and injunctive relief that would require the State to increase the reimbursement rates paid to providers by the Medi-Cal program. The State filed a demurrer to petitioners' Third and First Amended Complaints. A hearing for the First Amended Complaint was held on February 13, 2020. The Third Amended Complaint was overruled on June 21, 2019, and the matter was actively litigated until April 2020, when the parties stipulated to a stay in light of the coronavirus pandemic. Prior to the stay, the parties exchanged initial written discovery and deposed a Department of Health Care Services representative regarding the department's data and information and electronic data storage systems. A demurrer for the First Amended Complaint is scheduled for a hearing on November 24, 2020. The estimated impact to prospective rates is not possible to ascertain at this time. The estimated potential loss in the case of *Perea v. Wilkening* is $1.0 billion.

The primary government was a defendant in the following cases: *Anthem Blue Cross v. David Maxwell-Jolly, et al.; Molina Family Health Plan v. Department of Health Care Services;* and *Health Net of California v. Department of Health Care Services* regarding application of budget reduction factors to managed-care capitated rates. These cases were settled on a contingent basis based on the plans' profitability. The estimated combined total potential loss is more than $400 million based on three separate settlement agreements that were entered into in 2013 and 2014.

B. Federal Audit Exceptions

The primary government receives substantial funding from the federal government in the form of grants and other federal assistance. The primary government, the University of California, California Housing Finance Agency (CalHFA), and certain nonmajor discretely presented component units are entitled to these resources only if they comply with the terms and conditions of the grants and contracts and with the applicable federal laws and regulations; they may spend these resources only for eligible purposes. If audits disclose exceptions, the primary government, the University, CalHFA, and certain nonmajor discretely presented component units may incur a liability to the federal government.

NOTE 23: SUBSEQUENT EVENTS

The following information describes significant events that occurred subsequent to June 30, 2019, but prior to the date of the auditor's report.

A. Debt Issuances

In July 2019 and February and August 2020, the California State University (CSU) issued $1.7 billion in revenue bonds to finance and refinance projects; to acquire, construct, improve, and renovate certain CSU facilities; to refund certain outstanding system-wide revenue bonds; to fund capitalized interest; and to pay related issuance cost.

In July 2019 and February and July 2020, the University of California, a major component unit, through its conduit, issued $4.8 billion in revenue bonds to finance or refinance certain improvements to the Medical Centers and construction projects, fund capitalized interest and refunded bonds, and pay working capital cost and related issuance costs.

In September, October, and November 2019, and March, April and September 2020, the primary government issued a total of $10.4 billion in general obligation bonds to fund various capital projects and other voter-approved costs related to K-12 schools and higher education facilities, transportation improvements and high-speed rail, water quality and environmental protection, and other public purposes; to pay certain commercial paper notes as they mature; to current refund certain outstanding bonds; and to pay related issuance costs.

In September and October 2019, and April 2020, the State Public Works Board issued a total of $488 million in lease revenue bonds to finance and refinance the design and/or construction of various projects, refund and defease lease revenue bonds, reimburse interim loans, fund capitalized interest, and pay related issuance costs.

In September, October, and November 2019, CSU issued a total of $215 million in bond anticipation notes to finance various capital outlay projects including facilities renewal and improvements.

In November 2019, the California Health Facilities Financing Authority issued $500 million in revenue bonds under the No Place Like Home Program to provide housing for persons experiencing homelessness, chronic homelessness, or who are in need of mental health services; to fund capitalized interest; and to pay related issuance costs.

In December 2019, the California Infrastructure and Economic Development Bank issued $273 million in lease revenue bonds to construct, furnish and equip an expansion to the headquarters of the California State Teachers' Retirement; to pay capitalized interest; and to pay issuance costs.

In March 2020, the California Earthquake Authority (CEA) issued $400 million in revenue bonds to enhance its claim-paying capacity.

In July 2020, the Department of Water Resources issued a total of $1.0 billion in revenue bonds to fund construction of water system projects, repay commercial papers, refund certain outstanding water system revenue bonds, fund capitalized interest, fund a deposit to the debt service reserve account and pay related issuance costs.

In September 2020, the primary government issued $97 million in veterans home purchase revenue bonds to build bond reserve accounts, to fund contracts of purchase to be originated in the future, and to pay related issuance cost and to finance current and future veterans home purchase programs.

B. Other

In July 2019, the State of California established the Wildfire Fund, a fund outside of the state treasury administered by the CEA (a related organization), to pay eligible claims arising from a covered wildfire. In August 2019, the State of California transferred $2.0 billion to the Wildfire Fund as a short-term loan from the Surplus Money Investment Fund as required by Assembly Bill 1054. The loan is expected to be repaid to the State in the last quarter of calendar year 2020.

California continues to face a lengthening fire season and catastrophic wildfires. While the 2019 fire season was relatively mild, with just under 260,000 acres burned, the 2020 fire season has seen over 3,627,000 acres burned through mid-September. The estimated loss due to these wildfires is not available at this time.

Beginning March 2020, the State of California allocated up to $2.4 billion to respond to the disease caused by the novel coronavirus (COVID-19) through a series of enacted legislations, and administrative actions and Executive Orders pursuant to Government Code section 8690.6 and Control Section 36.00 of the 2019-20 Budget Act.

Beginning in April 2020, the State received approximately $214 billion in funding from the federal government through stimulus packages enacted to help mitigate the effects of the COVID-19 public health crisis, encourage recovery, and support Californians in need. The stimulus packages include amounts related to Coronavirus Preparedness and Response Supplemental Appropriations Act; the Family First Coronavirus Response Act; the Coronavirus Aid, Relief and Economy Security (CARES) Act; and the Paycheck Protection and Health Care Enhancement Act.

In August 2019, Fitch Ratings raised the State's general obligation bonds rating to "AA" from "AA-", stating that the upgrade reflects the improved fiscal management that has become institutionalized across administrations, which allows it to better withstand economic and revenue cyclicality. In addition, Fitch stated that California's economy is unmatched in comparison to other U.S. states economies in its size and diversity. According to Fitch, California's economy is generally stable despite a considerable presence of economic and revenue cyclicality.

In October 2019, Moody's Investors Service raised the State's general obligation bonds rating to "Aa2" from "Aa3", stating that the upgrade reflects the continued expansion of the state's massive, diverse, and dynamic economy and corresponding growth in revenue.

In August 2020, the State's contracted actuary published the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2019*, which will be used to measure the State's net OPEB liability as of June 30, 2020. The report shows a net OPEB liability of $91.9 billion as of June 30, 2020, a $6.3 billion increase over the net OPEB liability reported as of June 30, 2019. The report is available on the State Controller's Office website, at www.SCO.ca.gov.

California has experienced a significant increase in the State's unemployment rate due to the COVID-19 pandemic. The unemployment rate increased from 5.5% in March 2020 to 15.5% in April 2020, which created a high demand for Unemployment Insurance benefits. Beginning in late April 2020, that high demand depleted the reserves of the Unemployment Programs Fund. As of June 30, 2020, the State had $2.2 billion in outstanding loans from the U.S. Department of Labor that was used to cover deficits in the Unemployment Programs Fund. As of September 28, 2020, the State increased its loan balance to $12.8 billion and it expects to request additional loans throughout 2020.

BETTY T. YEE
California State Controller’s Office
State Accounting and Reporting Division
P.O. Box 942850
Sacramento, CA 94250
(916) 445-2636
www.sco.ca.gov