

State of California

Popular Annual Financial Report

For the Year Ended
June 30, 2004



Steve Westly
California State Controller

The State Controller is the Chief Financial Officer of the State, elected by the people.

As such, the Controller's primary objectives are to:

- provide sound fiscal control over both receipts and disbursements of public funds;
- report periodically on the financial operations and condition of both state and local governments;
- make certain money due the State is collected through fair, equitable and effective tax administration;
- provide fiscal guidance to local governments;
- administer the Unclaimed Property and Property Tax Postponement Programs;
- develop and establish policy for a significant number of boards and commissions, including all major tax boards.

Controller's Message

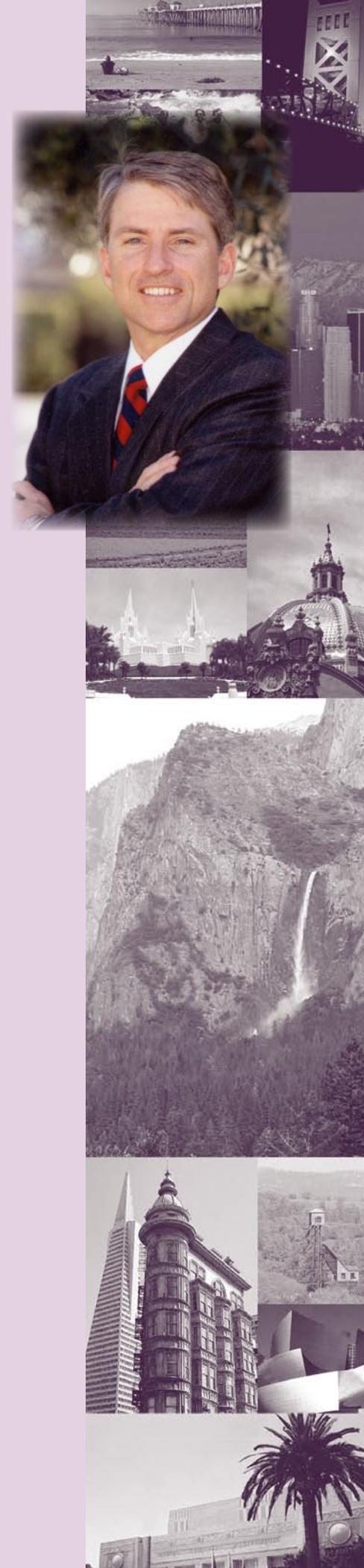
As the chief financial officer of the State of California, it is my pleasure to provide this *Popular Annual Financial Report for the Year Ended June 30, 2004*. This report provides the citizens of California with an overview of the state's financial condition. It presents selected information about the state of California's budget, economy, revenues, spending, and demographics in a nontechnical, easy to understand format.

California's economy continues to improve, along with that of the rest of the nation. However, a continuing gap between revenues and expenditures has prompted calls for governmental reform. To help close the gap, I co-sponsored the first tax amnesty program in 20 years, which allowed taxpayers to avoid tax penalties and fees on overdue taxes for tax years prior to 2003. This program has brought over \$380 million in additional revenues to the State. The State's tax agencies estimate that the 2004-05 fiscal year cash receipts due directly or indirectly to the amnesty program will total roughly \$4.6 billion. Following are some major fiscal highlights of the year.

- Total governmental fund revenues rose to \$135.3 billion in the 2003-04 fiscal year, an 8.4% increase over the prior fiscal year's revenue. Personal income tax revenues increased modestly to \$37.7 billion, \$5.1 billion more than in the 2002-03 fiscal year.
- Total spending reached \$144.7 billion in the 2003-04 fiscal year, outpacing revenues by \$9.4 billion.
- On a government-wide basis, net assets declined \$8.5 billion, from \$48.5 billion on July 1, 2003, to \$40.0 billion on June 30, 2004. Although the State's structurally imbalanced budgeting continued, the State's fiscal problems have eased, due to the modest economic recovery that has helped generate increased tax revenues and facilitate stable expenses.
- The number of Californians employed rose slightly, from 16.2 million in 2002 to 16.3 million in 2003, while the unemployment rate remained at an average of 6.7% for 2003.

There is still much more to be done to fully restore confidence in California's credit and government accountability. Achieving lasting reforms will require thoughtful bipartisan focus on budget priorities to solve the State's budgeting problems.

Steve Westly
California State Controller



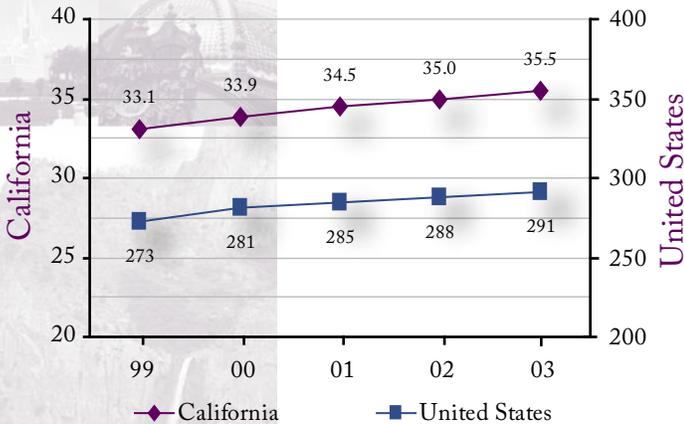
Demographics & Economy

From the high Sierra Nevada to the wave-tossed majesty of Big Sur, from the Cascades to Baja, California is an unparalleled region rich in natural and cultural treasures. California relies on an understanding of its population, culture, and earning abilities to govern the state's programs and identify areas where future needs may arise.



*Old Town Tortillas
San Diego*

**Chart 1
Population**
As of July 1
(Amounts in millions)



**Chart 2
Per Capita Personal Income Ranked by State**
Fiscal Year Ended 2003
(Amounts in dollars)



Population Trends

Between 1988 and 2003, the state's population increased by 31.0%, while the U.S. population as a whole increased by 20.2%. This means that, over the 15 year period, California's population growth has outpaced the nation's by 53.5%.

California's population has grown by 2.4 million people, or 7.3%, between 1999 and 2003. Overall, the U.S. population increased by 6.6% during this same period (Chart 1).

Between July 1, 1999, and June 30, 2004, California was the destination for 1,480,816 international immigrants, more than twice as many as arrived in New York, the state with the next highest number. During this same period, 517,484 California residents moved to other states, second only to New York, where 973,178 residents moved to other states.

Personal Income

California's per capita personal income increased by 12.0% between 1999 and 2003, while U.S. per capita personal income increased by 10.3%.

The difference between California's per capita personal income and the national average continued to decrease in 2002-03. In 2001-02, California's per capita personal income was 6.6% greater than the national average of \$30,795. In 2002-03, California's per capita personal income was \$33,403, 6.2% greater than the national average.

In 2003, California retained its ranking as 10th in per capita personal income. California's per capita personal income was 22.8% less than that of first-ranked Connecticut (Chart 2).

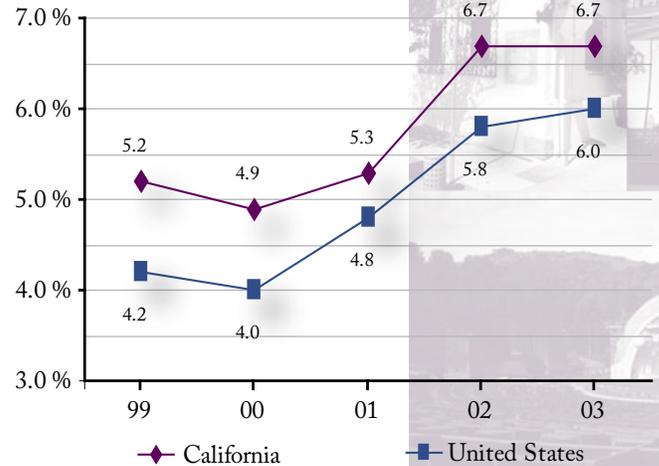
Employment Trends

California's unemployment rate, along with the nation's, enjoyed a moderate decline in the late 1990s. With the advent of the "Dot Com" bust and the resulting recession, California's and the national unemployment rates rose from 4.9% and 4.0%, respectively, in 2000 to 6.7% and 6.0% in 2003 (Chart 3).

Even with a rise in the unemployment rate, more Californians found work during this period, with employment rising from 15.7 million in 1999 to 16.3 million in 2003, a 3.8% increase. During this same period, employment in the U.S. increased by 3.1%.

In 2003, California employed approximately 16.3 million people, or 11.8% of the national work force. The nation as a whole employed 137.7 million people (Chart 4).

Chart 3
Unemployment Rate
Annual Average
(Amounts in percent)



Poverty Levels

While the percent of Californians living in poverty decreased overall between 1999 and 2003 by 2.9%, there has been a moderate trend upward since late 2000, locally and nationally. For the nation as a whole, the percent of persons living below the poverty level has actually increased by 7.6%, from 11.8% to 12.7% (Chart 5).

In 2003, 13.4% of California's population lived below the poverty level, which ranked 18th among the states. Louisiana had the highest level, with 20.3%, and New Hampshire had the lowest level, with 7.7%. Texas was ranked 7th, with 16.3%, and New York was ranked 17th, with 13.5%.

Chart 4
Employment
Annual Average
(Amounts in millions)

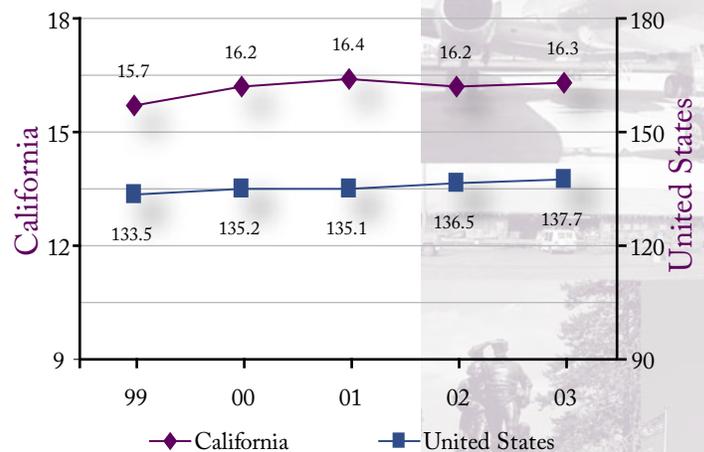
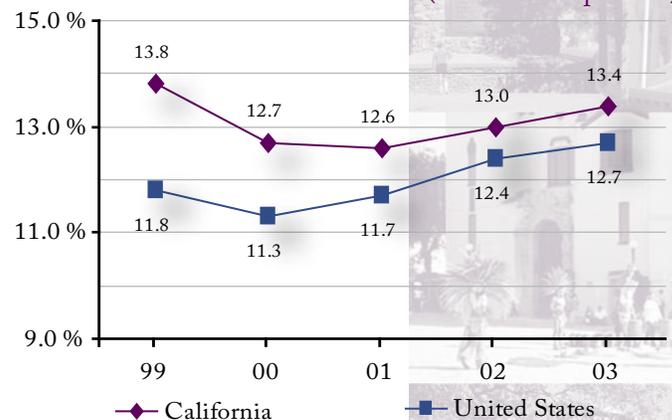


Chart 5
Population Below the Poverty Level
(Amounts in percent)



California's Budget

California continues to experience some critical budget difficulties, but relief may be in sight. Stock market problems, mixed together with the 9/11 tragedy, helped bring about a short recession, which was followed by a year of economic stagnation. This had a detrimental effect on state tax revenues. However, revenues are once again on a modest upward trend, meeting or exceeding budget forecasts. Personal income taxes, which account for 48.0% of tax revenues in the 2003-04 fiscal year, reflects this trend. After dropping by 26.0% in the 2001-02 fiscal year and remaining relatively unchanged in the 2002-03 fiscal year, personal income tax revenues increased by 11.3% in the 2003-04 fiscal year.

Modest revenue growth is expected to continue for the 2004-05 fiscal year. With the stronger-than-expected increase in year-end tax payments, the Legislative Analyst's Office (LAO) is projecting that revenues will experience an ongoing increase of about \$0.5 billion per fiscal year, suggesting ongoing economic improvement. The State's tax agencies estimate that the 2004-05 cash receipts due directly or indirectly to the amnesty program totaled roughly \$4.6 billion. However, the LAO considers this a one-time boon that will not help the State's structural budget shortfall.

The State continues to face major challenges in its budget, including an on-going operating shortfall between revenues and expenses. The 2005-06 Governor's budget proposal addresses the shortfall by utilizing an expected current-year reserve of \$6.1 billion to cover the \$4.6 billion gap between revenues and expenditures without relying on continued deficit bond proceeds. If the current fiscal conditions hold true, the LAO projects the State to end the 2005-06 fiscal year with a \$1.4 billion reserve (Chart 6).

The LAO believes that, while the Governor's proposals for the 2005-06 fiscal year would address the projected shortfall, they fall well short of fully addressing the State's ongoing structural imbalances. In addition, the budget reform proposals would dramatically reduce the ability of policy makers to establish budget priorities during future budget sessions.

On July 11, 2005, the Governor signed the \$117.3 billion 2005-06 Budget. Though the Governor and the Legislature worked together to pass this budget, a continued bipartisan approach is needed to work together in identifying potential solutions, including additional savings proposals and possible tax increases, to place the State's future budgets on a sound foundation.

Chart 6
Governor's Budget — May Revision
General Fund Condition
(Amounts in millions)

	Fiscal Year 2003-04	Fiscal Year 2004-05	Proposed for 2005-06	
			Amount	% Change
Prior-year fund balance	\$ 5,060	\$ 7,200	\$ 6,714	
Revenues and transfers	74,762	79,495	83,867	5.5%
Deficit bond proceeds	—	2,012	—	
Total resources available	79,822	88,707	90,581	
Expenditures	76,333	81,993	88,525	8.0%
Ending fund balance	3,489	6,714	2,056	
Encumbrances	641	641	641	
Reserve	2,847	6,073	1,415	



General Fund Cash Management

After ending the 2002-03 fiscal year with a \$10.5 billion deficit, the State's General Fund has improved significantly, ending the 2003-04 fiscal year with a total cash balance of \$2.8 billion. This total is made up of \$538 million in the General Fund (Chart 7) and \$2.2 billion in the General Fund's Special Fund for Economic Uncertainties. The greatest contributing factor in the turnaround was the passage of Proposition 57, which authorized \$15.0 billion of Economic Recovery Bonds to be used to reduce the State's budget shortfall. The sale of \$10.9 billion in bonds generated \$11.3 billion for the General Fund, because the bonds sold at a premium. The bond proceeds helped the State repay \$14 billion of short-term loans due in June 2004.

California manages its General Fund cash shortages through a combination of internal borrowing from other state funds and external borrowing from lenders outside of state government. Short-term external borrowing for General Fund cash purposes takes the form of revenue anticipation notes (RANs) and revenue anticipation warrants (RAWs). Chart 8 illustrates the variation in monthly receipts and disbursements that results in General Fund borrowing.

On June 18, 2003, the State Controller's Office issued \$11.0 billion in RAWs to meet cash flow needs for the early part of the 2003-04 fiscal year. These RAWs were repaid with interest on June 16, 2004.

The State also issued \$3.0 billion in RANs on October 28, 2003, to cover cash flow needs for the later half of the 2003-04 fiscal year. These RANs were repaid with interest on June 23, 2004.

Chart 7
Ending General Fund Cash Balance Before Loans
June 30
(Amounts in billions)

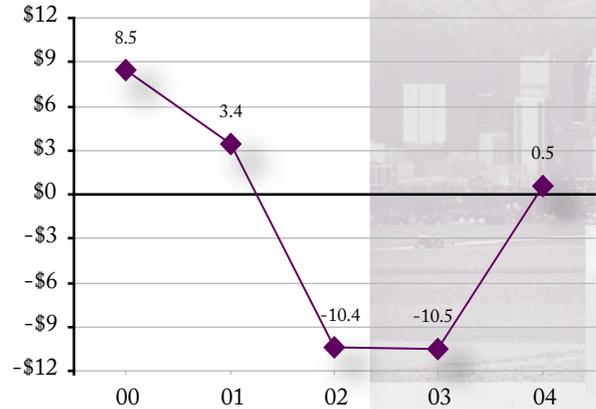
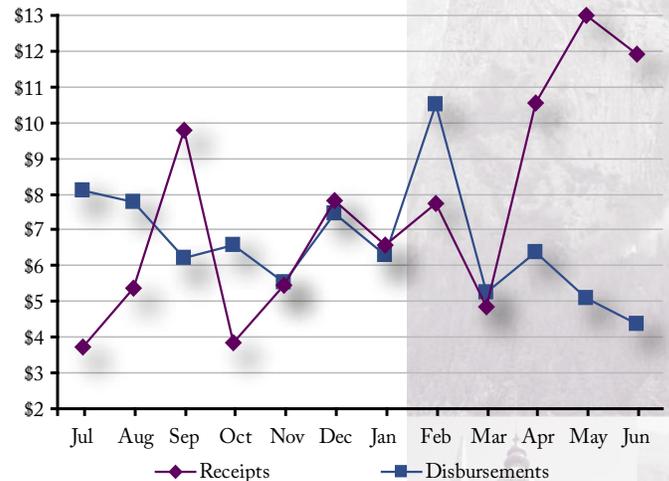


Chart 8
Monthly General Fund Cash Receipts and Disbursements
Year Ended June 30, 2004
(Amounts in billions)



*Walt Disney Concert Hall
Los Angeles*

Revenues

California is home to major economic hubs: technology in the Silicon Valley, agriculture in the Central Valley, and finance in San Francisco and Los Angeles. Changes in the business world can significantly impact California's revenues. The "Dot Com" boom then bust and the national recession, compounded by the 9/11 terrorist attack, are prime examples of how the world-wide economic picture impacts California's economy.

However, the State's governmental revenues, including personal income tax, sales and use taxes, and federal receipts, have weathered the latest recession. Between the 1999-00 fiscal year and the 2003-04 fiscal year, they increased by 17.2% (Chart 9). Almost half of California's 2003-04 revenue came from its citizens, in the form of personal income taxes (27.9%) and sales and use taxes (21.2%), as illustrated in Chart 10.

Per capita revenues rise during periods of economic growth, as evidenced from 1998 through 2001. However, between 2000-01 and 2001-02, per capita revenues leveled off for the nation while declining in California by 6.1%, to \$4,042. With the improvement of the national economy, California's per capita revenues are expected to make modest gains in 2003 (Chart 11).

In 2002, California's ranking fell six places, to 19th among the states in per capita revenue collection, at \$4,042. Alaska ranked first, with \$8,460, and Florida ranked last, with \$2,815.

Chart 9
Revenues
Fiscal Year Ended June 30
(Amounts in billions)

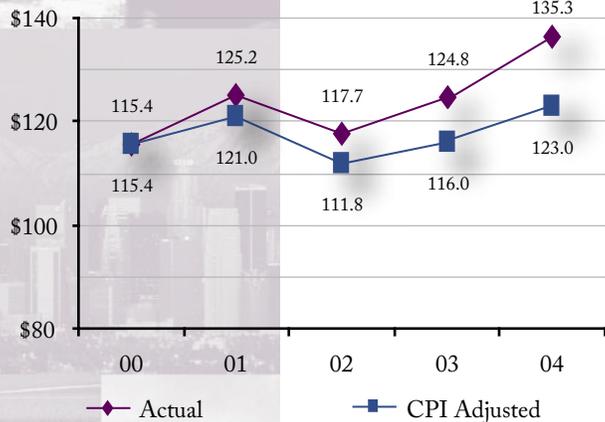


Chart 10
Revenues by Source
Fiscal Year Ended June 30, 2004
(As a percent)

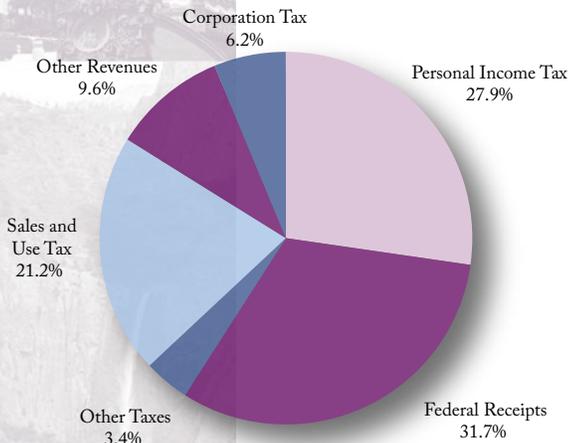
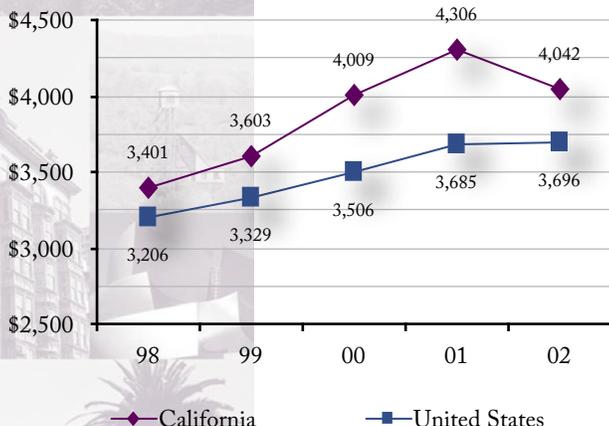


Chart 11
Per Capita Revenues
Fiscal Year Ended
(Amounts in dollars)



Lompoc



CAF WWII Aviation Museum

Camarillo

Personal Income Tax

Personal income tax revenues have had a bumpy ride in the last five years. Years of steady increases culminated in the 2000-01 fiscal year with revenues of \$44.6 billion; but a minor recession and drops in capital gains and stock options caused a one-year 26.2% drop in these revenues the following year. With the economic recovery, personal income tax revenues are on the upswing with \$37.7 billion received in the 2003-04 fiscal year (Chart 12).

In 2002, California's \$944 per capita personal income tax collection ranked 6th when compared to other states. New York ranked first, with \$1,337. The states of Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not collect personal income tax (Chart 13).

Chart 13
Per Capita Personal Income Tax Ranked by State
Fiscal Year Ended 2002
(Amounts in dollars)



Sales and Use Tax

From the 1999-00 fiscal year to the 2003-04 fiscal year, sales and use tax revenue increased by 13.0%, from \$25.4 billion to \$28.7 billion (Chart 14). As a result of the recession, there was a 1.9% decline in sales and use taxes in the 2001-02 fiscal year.

In 2002, California ranked 17th among the states in per capita sales and use tax collection, at \$680. This compares to a national average of \$625 (Chart 15).

Chart 12
Personal Income Tax
Year Ended June 30
(Amounts in billions)

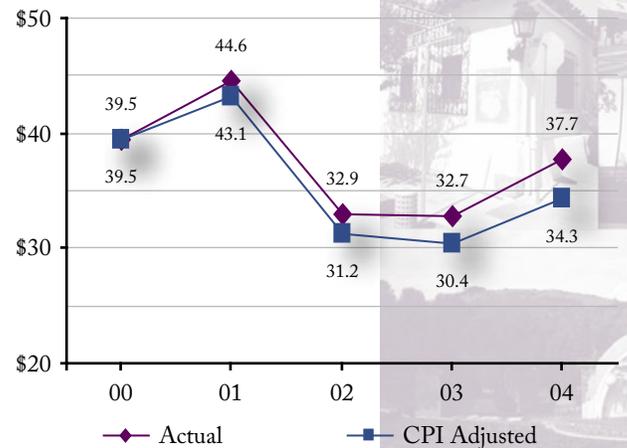


Chart 14
Sales and Use Tax
Year Ended June 30
(Amounts in billions)

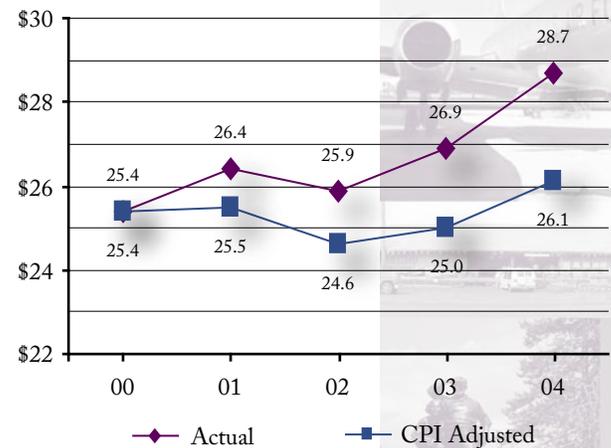


Chart 15
Per Capita Sales and Use Tax Ranked by State
Fiscal Year Ended 2002
(Amounts in dollars)

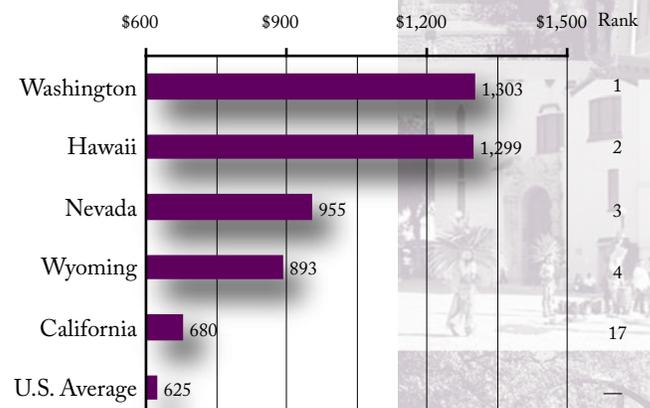


Chart 16
Corporation Tax
 Year Ended June 30
 (Amounts in billions)

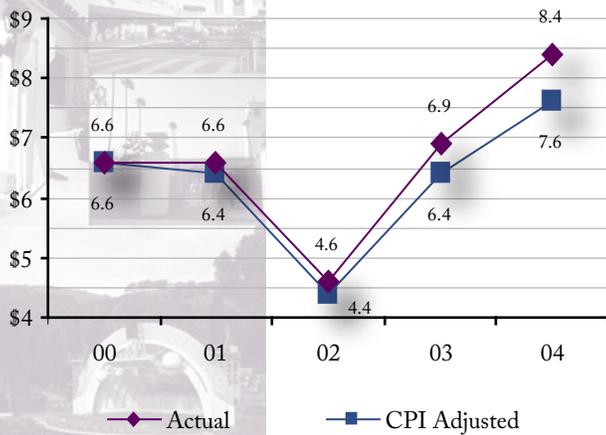


Chart 17
Federal Receipts
 Year Ended June 30
 (Amounts in billions)

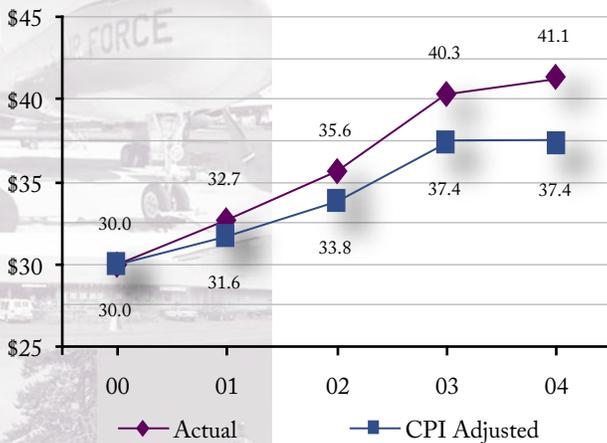


Chart 18
Per Capita Federal Receipts Ranked by State
 Fiscal Year Ended 2002
 (Amounts in dollars)



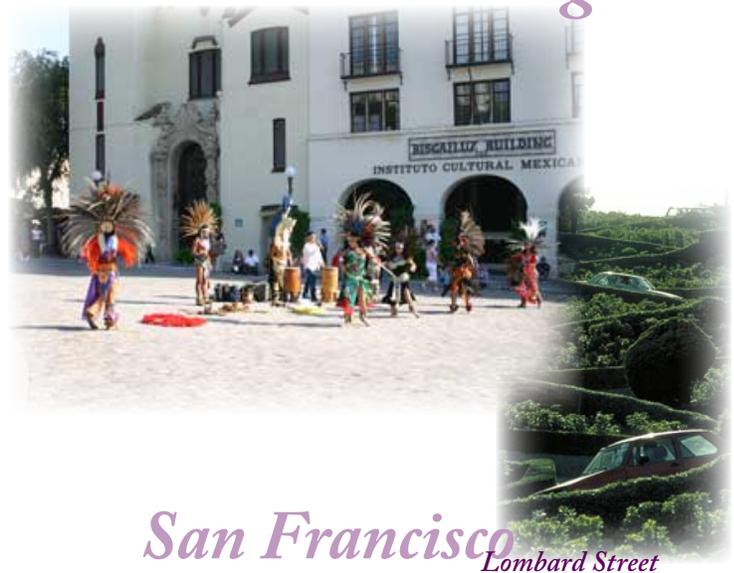
Corporation Tax

Corporation tax revenues have shown strong growth, despite a temporary downturn from the 2001-02 recession. Changes in tax law and a general tax amnesty contributed to a 27.3% increase in corporation tax revenues over the five years ending June 30, 2004 (Chart 16).

In 2002, California ranked 5th among the states in per capita corporation tax collection, at \$152. The U.S. average was \$87.

Mexican Cultural Institute

Los Angeles



San Francisco

Lombard Street

Federal Receipts

Between the 1999-00 fiscal year and the 2003-04 fiscal year, the State's share of federal receipts increased by 36.9%. However, after being adjusted for inflation, the increase was 24.6% (Chart 17).

In 2002, California's \$1,189 per capita federal aid was 66.1% less than that of first-ranked Alaska, at \$3,503. Kansas ranked last of the states, with \$106 (Chart 18).

In the 2003-04 fiscal year, the State allocated \$29.5 billion of federal receipts to health and human services programs, \$6.1 billion to education, and \$5.0 billion to various other programs.

Spending

Analyses of spending data, enables citizens to evaluate and measure how well the State is supporting its programs, managing its assets, and meeting its obligations.

Over 78.0% of the State's spending goes toward local assistance and public safety, for education, health, social services, and correctional programs. For example, 41.4% of the State's operational expenditures were for health and human services, while 34.2% was spent for education (Chart 19).

Between the 1999-00 and the 2003-04 fiscal years, state spending increased by 33.7%. However, after adjusting for inflation, spending increased by 21.6% (Chart 20).

From 1998 to 2002, California's per capita spending increased by 38.4%, from \$3,266 to \$4,521. The State spent 17.1% more per capita than the national average (Chart 21).

In 2002, California ranked 11th among the states in per capita spending, at \$4,521. Alaska was ranked first, with \$10,456, and Florida ranked last, with \$2,833.

Chart 19
Spending by Program
Year Ended June 30, 2004
(As a percent)

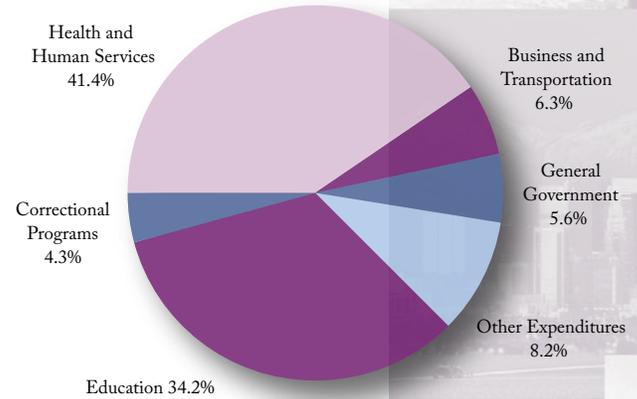


Chart 20
Spending
Year Ended June 30
(Amounts in billions)

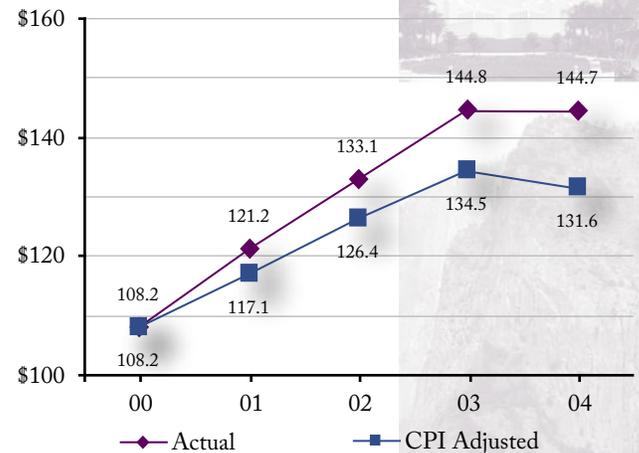
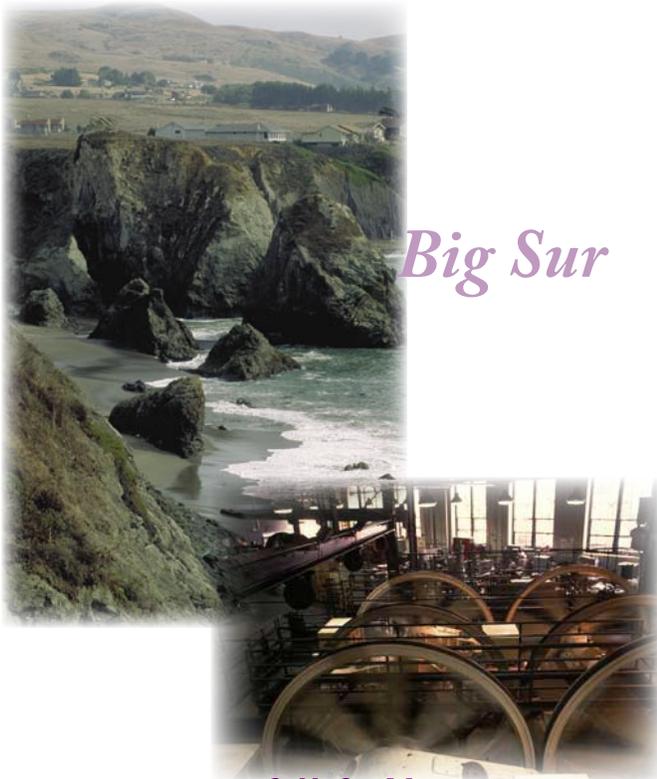
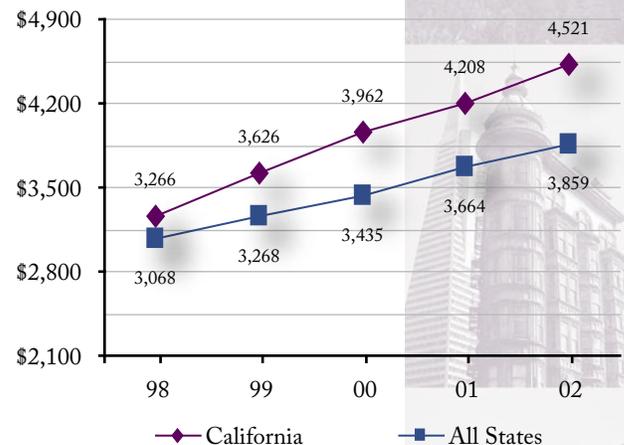


Chart 21
Per Capita Spending
Fiscal Year Ended
(Amounts in dollars)



Cable Car Museum
San Francisco

Chart 22
Social Services Recipients
 (Per thousand population)

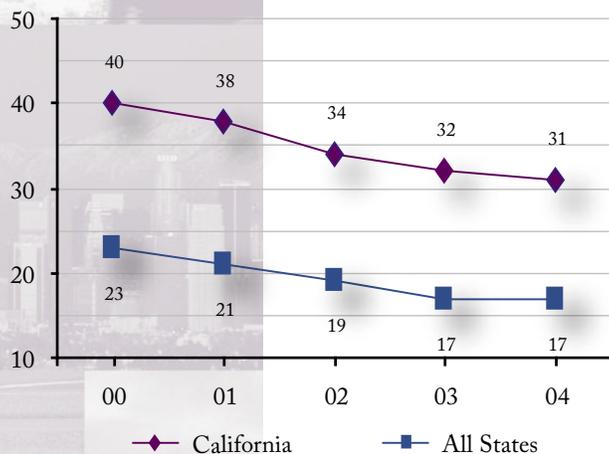


Chart 23
Health and Human Services Spending
 Year Ended June 30
 (Amounts in billions)

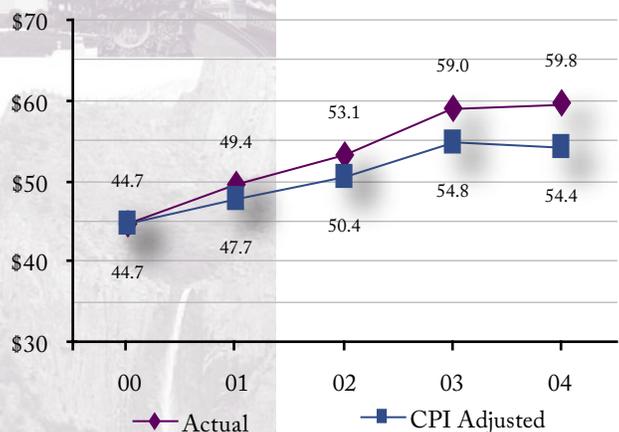
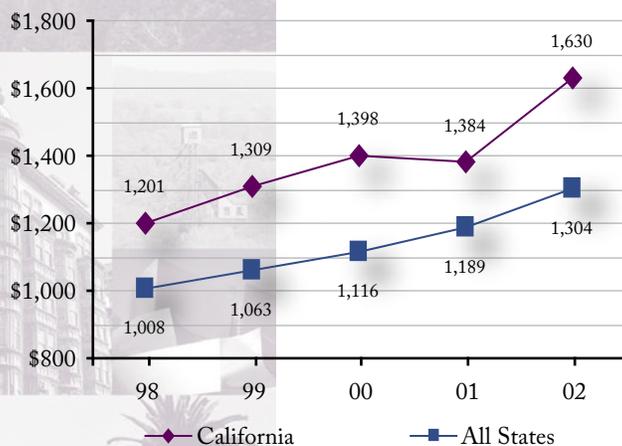


Chart 24
Per Capita Health and Human Services Spending
 Fiscal Year Ended
 (Amounts in dollars)



Health and Human Services

Health and human services programs such as Medi-Cal and CalWORKS provide essential services to many of the State's most vulnerable and at-risk residents.

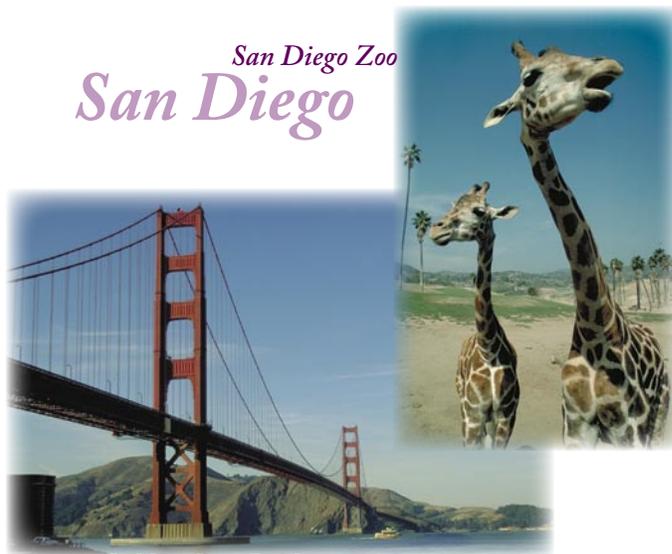
As a result of welfare reform, the number of social services recipients per thousand population declined nationally by 26.1% between 2000 and 2004. In California, the number of recipients per thousand population decreased by 22.5% during the same period.

California has more social services recipients per thousand population than the national average. In 2000, there were 73.9% more California recipients per thousand population than the national average. By 2004, that number had increased to 82.4% more than the national average (Chart 22).

Between the 1999-00 and the 2003-04 fiscal years, state spending on health and human services increased by 33.8%. After adjusting for inflation, spending increased by 21.7% (Chart 23).

Between 1998 and 2002, California's per capita health and human services spending increased by 35.7%. Nationally during this period, per capita health and human services spending increased by 29.3% (Chart 24).

San Diego Zoo
San Diego



Golden Gate Bridge

San Francisco

Education

With 6.4 million students in kindergarten through 12th grade (K-12) classrooms, more children are educated in California schools than in any other state. California schools educate 13.3% of the nation's students.

Between the 1999-00 and the 2003-04 fiscal years, the State's actual education spending increased by 34.1%. Adjusted for inflation, spending increased by 22.0% (Chart 25).

In 2003, California's average per-pupil yearly expenditure of \$7,523 was below the national average of \$8,428 (Chart 26). Compared to other states, California ranked 35th in K-12 per-pupil spending.

In 2003, California schools had more students per teacher than all other states except Utah and Arizona. The students-to-teacher ratio in California was 19.4:1. The national average was 14.7:1. This is an improvement from prior years, due mainly to class-size reduction legislation. Vermont had the lowest ratio, at 9.8:1.

Between 2000 and 2004, California's total verbal and math Scholastic Aptitude Test (SAT) scores improved by 0.5%, from 1,015 to 1,020. National scores increased by 0.7%, from 1,019 to 1,026. In comparison, Florida's scores remained level at 998, while New York's scores increased by 0.7%, to 1,007 (Chart 27).

Charter schools in California continue to gain in popularity. In an effort to find new ways to improve education, these publicly funded schools are created and run by private entities, exempt from many state laws and regulations governing school districts. Special charter institutions may be a new school or converted existing public school and frequently have a specific mission. Charter schools are subject to the State's Standardized Testing and Reporting (STAR) program and provisions of the federal No Child Left Behind Act.

From the 1999-00 through the 2003-04 school year, enrollment in charter schools increased by 57.5%, from 104,631 to 164,808 students. During the same period, the number of charter schools increased by 88.5%, from 235 to 443.

Chart 25
Education Spending
Year Ended June 30
(Amounts in billions)

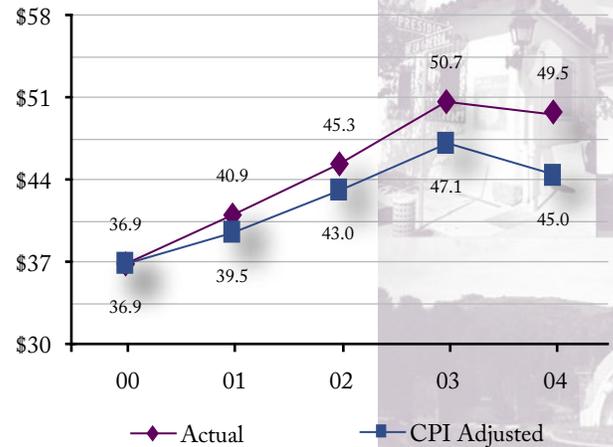


Chart 26
Per Pupil K-12 Spending
Fiscal Year Ended in June
(Amounts in dollars)

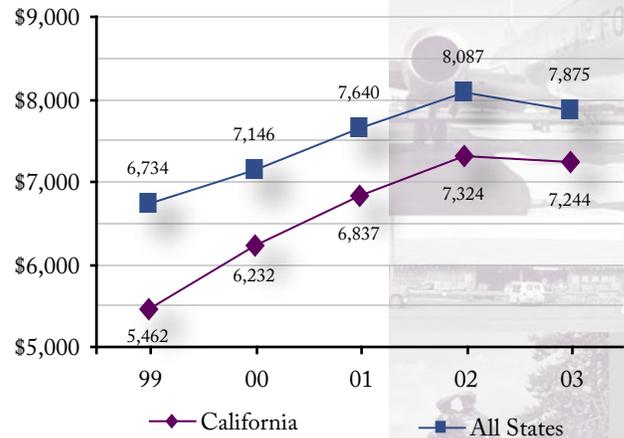


Chart 27
Scholastic Aptitude Test Scores
School Year Ending in June

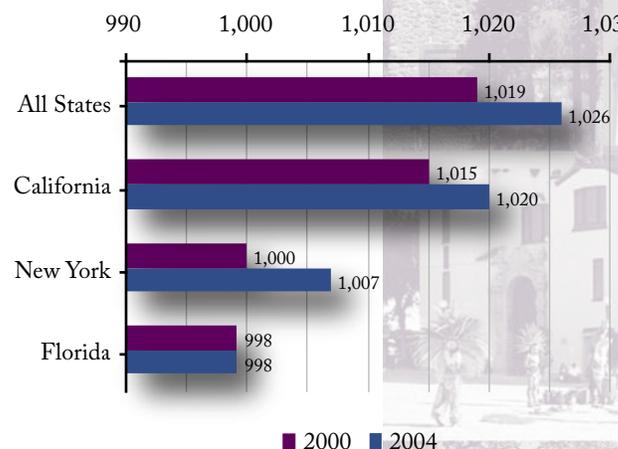


Chart 28
Transportation Spending
 Year Ended June 30
 (Amounts in billions)

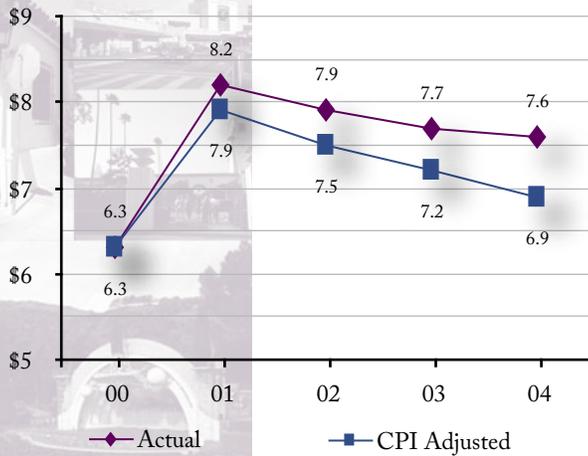


Chart 29
Per Capita Highway Spending
 Fiscal Year Ended
 (Amounts in dollars)

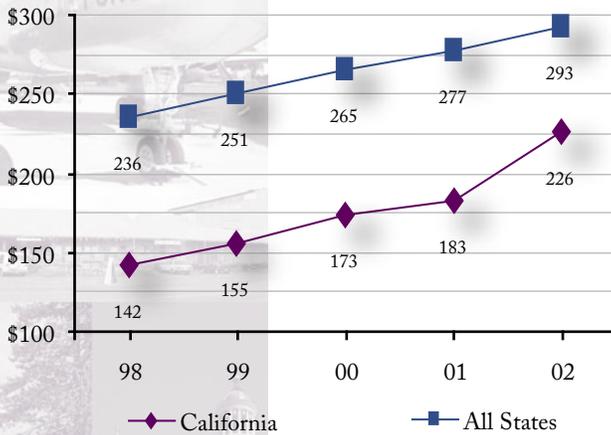
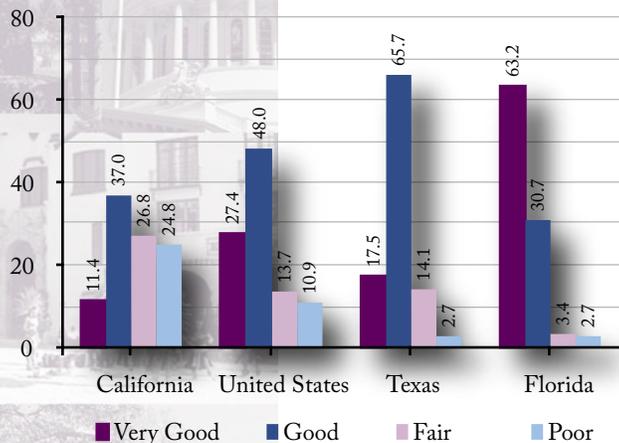


Chart 30
2003 National Highway System Condition
 Percent of Miles Measured by Pavement Roughness



Transportation

California is home to the most extensive highway system in the country. The State operates more than 50,000 miles of vehicle lanes over 15,000 miles of highways. In addition, there are over 24,200 State and locally-owned bridges on the State's roadways. Ensuring that our highways can handle the traffic of an ever-increasing population efficiently and safely is fundamental to maintaining a vigorous economy.

Even with an over-all decline in transportation spending, the State had over \$7.3 billion of improvements underway at the end of the 2002-03 fiscal year — more than at any other time in California history. One in every five miles of California's highways was undergoing improvement at the end of 2002.

Between the 1999-00 and the 2003-04 fiscal year, California's total transportation spending increased by 20.6%. Adjusted for inflation, total spending increased by 9.5%. A reduction in federal funding for transportation resulted in a reduction in California's transportation-related expenditures, from \$7.7 billion in 2003 to \$7.6 billion in 2004 (Chart 28).

Although California's per capita spending for highways was 23.0% below the national average in 2002, the State's per capita transportation spending increased by 59.1%. Such spending for all states increased by 24.1% from 1998 to 2002 (Chart 29).

As measured by the International Roughness Index, California has a lower percentage of "very good" highway miles than the nation as a whole, 11.4% and 27.4%, respectively. California has a higher percentage of "fair" and "poor" highway miles than the nation as a whole, 51.6% and 24.6%, respectively (Chart 30).



American River

El Dorado County

Corrections

California is committed to providing safe and secure detention facilities for convicted felons and to supervising felons after their parole. In 2003, California's average inmate population in its 33 state prisons and 11 youth authority institutions totaled 164,487.

From the 1999-00 fiscal year to the 2003-04 fiscal year, actual corrections spending increased by 34.8%, from \$4.6 billion to \$6.2 billion. After adjusting for inflation, spending increased by 21.7% (Chart 31).

In 2002, California ranked 12th among the states in per capita corrections spending, at \$160. Delaware ranked first, with \$304, and North Dakota ranked last, with \$61 (Chart 32).

In 2002, California spent an average of \$34,457 on each inmate. The national average was \$30,473.

Between 1999 and 2003, California's prison population per 100,000 residents decreased by 5.7%, while that of the nation as a whole decreased by 1.3%. In 2003, after a two-year decline, the prison population per 100,000 residents increased slightly both nationally and in California (Chart 33).

California's inmate population per 100,000 residents remains above the national average. In 1999, California had 8.8% more prisoners per 100,000 residents than did the nation as a whole. By 2003, California's inmate population per 100,000 residents had declined to 4.0% more than the national average (Chart 33).



Alcatraz State Park

San Francisco Bay

Chart 31
Corrections Spending
Year Ended June 30
(Amounts in billions)

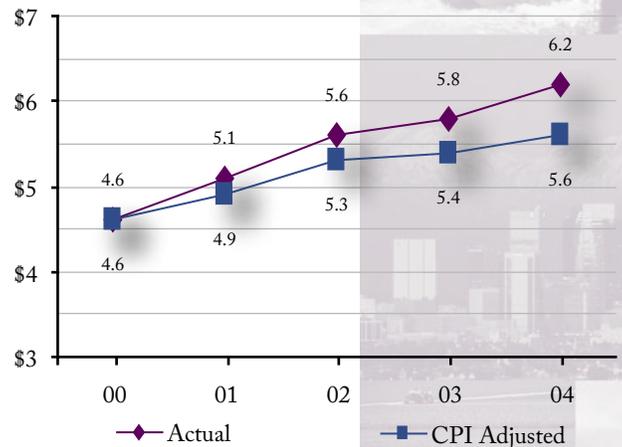


Chart 32
Per Capita Corrections Spending Ranked by State
Fiscal Year Ended 2002
(Amounts in dollars)



Chart 33
Prison Inmate Population
(Per 100,000 Residents)

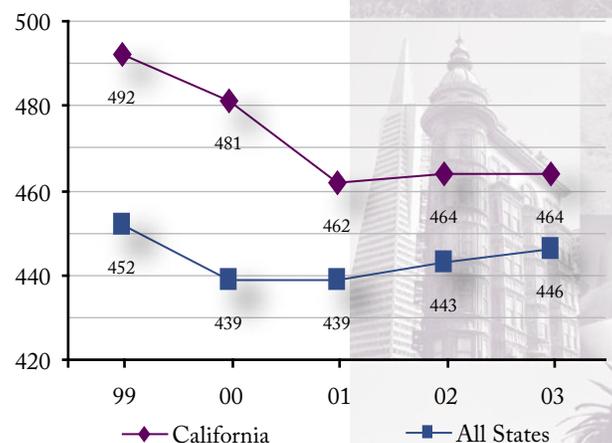


Chart 34
State General Long-Term Obligation Bonds for Governmental Activities

June 30
 (Amounts in billions)

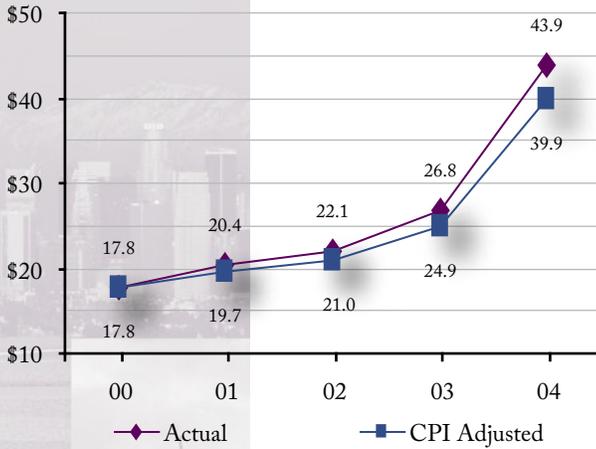
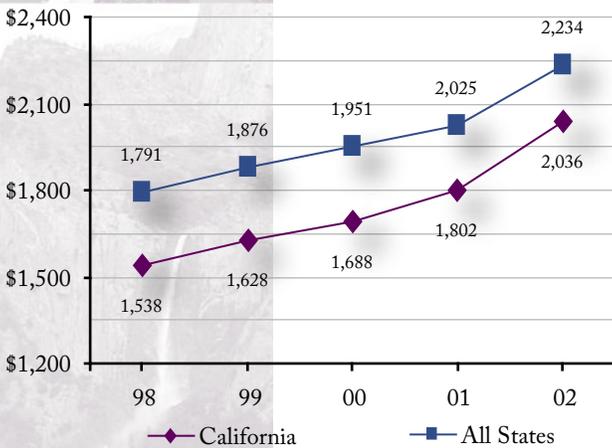


Chart 35
Per Capita Debt Service
 Fiscal Year Ended
 (Amounts in dollars)



Bonded Debt

California's constitution permits the State to issue Economic Recovery Bonds to reduce the State's budget shortfall and general long-term obligation bonds for the construction of water projects, correctional facilities, housing, educational facilities, and other major projects. Such bonds are basically long-term loans that are backed by the full faith and credit of the State. Bonds must be approved by a two-thirds majority of both houses of the Legislature and by a majority of the voters in a general or direct primary election.

From 2002-03 through 2004-05, the State authorized over \$28.0 billion in budget-related borrowing. Borrowing represented nearly 40% of the total solution to California's budget shortfalls during those years.

Credit rating agencies have looked favorably on California's economic recovery bonds. In May 2004, Moody's upgraded the State's general obligation bonds to "A3" and assigned a positive outlook rating. Standard and Poor's also upgraded the State's general obligation bond rating to "A," in August 2004.

As of June 30, 2004, California's total general long-term obligation bonded debt for governmental activities was \$43.9 billion. Between June 30, 2000, and June 30, 2004, California's general long-term obligation bonded debt for governmental activities increased by 146.6%. Adjusted for inflation, the debt increased by 124.2% during the period (Chart 34).

In 2002, California ranked 29th among the states in total per capita debt service at \$2,036. Alaska was first, at \$8,281, and Tennessee last, at \$627 (Chart 35).



Angel Island
San Francisco Bay

Government-Wide Financial Statements

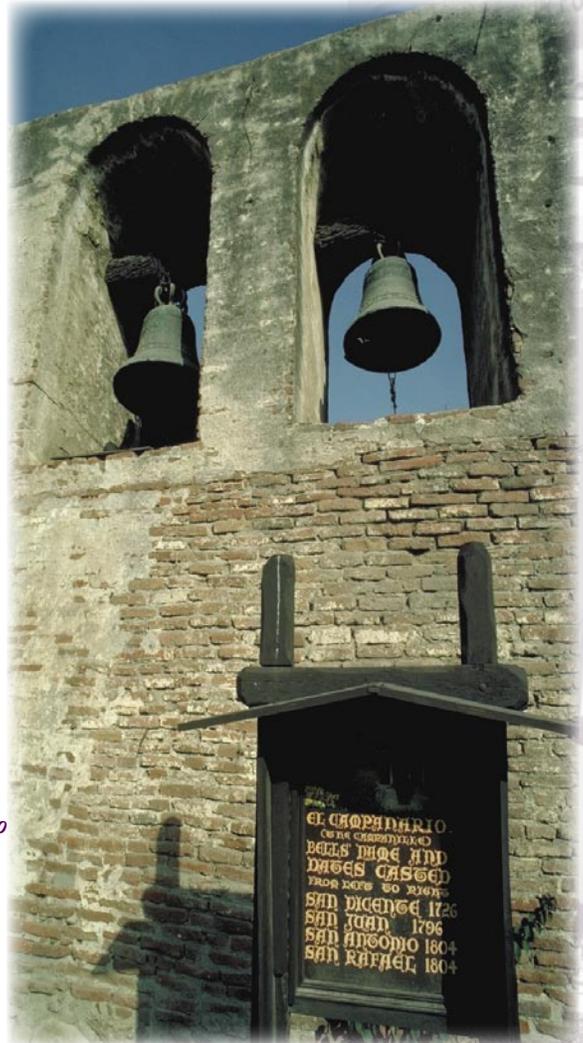
Government-wide financial statements provide readers with a broad overview of California's finances as a single unified entity, similar to a private-sector business. These statements provide both long-term and short-term information about the State's overall financial condition, as well as revenue and expense data during the year.

The State's government-wide financial statements consist of the Statement of Activities and the Statement of Net Assets. The Statement of Activities shows how net assets changed for California's governmental activities. The change in net assets represents the difference between total revenues and total expenditures used to operate government services during the fiscal year. Chart 36 shows the change in net assets for the three years presented.

In the Statement of Net Assets, the net assets amount represents the difference between total assets and total liabilities. The State's net assets dropped by \$22.8 billion between the 2001-02 fiscal year and the 2002-03 fiscal year, from a negative \$1.7 billion in net assets to a negative \$24.5 billion. This decline was mainly a result of the national recession.

The State's net assets improved dramatically in the 2003-04 fiscal year. The State added \$63.9 billion of state highway infrastructure to its net assets. This combined with moderate increases in revenues, and stable expenses, led to a \$56.5 billion increase in net assets, to \$32.0 billion at June 30, 2004.

Chart 36
Statement of Activities
Comparison of Gross Revenues and Expenditures to Change in Net Assets
 Year Ended June 30
 (Amounts in billions)



San Juan Capistrano
Orange County

Governmental Funds

Chart 37
Governmental Funds Operating Results
 Year Ended June 30
 (Amounts in billions)

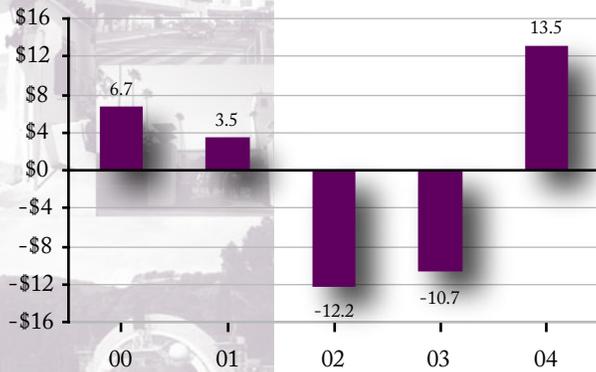


Chart 38
Governmental Funds Fund Balances
 June 30
 (Amounts in billions)

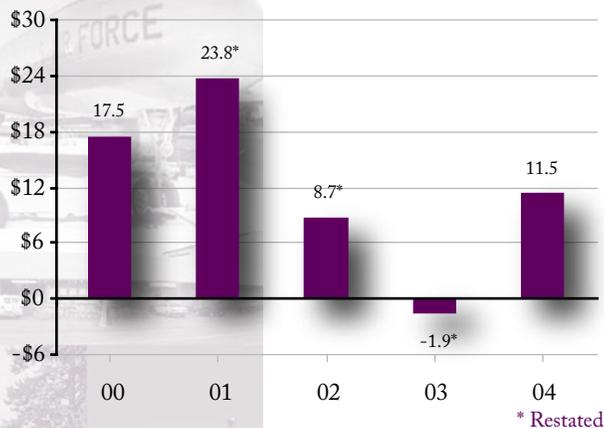


Chart 39
Governmental Funds Unreserved Fund Balances
 June 30
 (Amounts in billions)



Governmental funds account for services provided to Californians that are financed primarily by taxes and grants. The State's General Fund, special revenue funds, and capital projects funds are combined to form the governmental fund statements.

Governmental fund statements provide information about California's short-term financial position and compare previous years' information with the current year. The revenues and spending sections of this report use governmental fund statement information rather than government-wide statement information to present multiyear comparisons.

Key data used to analyze the finances of a governmental entity are the financial position of the entity and operating results. Operating results measure the difference between receipts and spending during the fiscal year. Deficits or surpluses result, depending on whether spending is more or less than the receipts for the reporting period. The financial position shows the assets, liabilities, and fund balance on June 30.

California's operating results have increased 101.5% in the last five years, from \$6.7 billion for the 1999-00 fiscal year to \$13.5 billion for the 2003-04 fiscal year (Chart 37). However, there has been extreme fluctuations. The 2003-04 \$13.5 billion balance is largely attributed to the transfer of \$11.3 billion in Economic Recovery Bonds proceeds to the General Fund.

The difference between the financial assets and liabilities of governmental funds is reported as the governmental fund balance. The fund balance is then divided between reserved and unreserved balances. While the reserved fund balance denotes monies reserved for repayment of loans, legal restrictions, and encumbrances, the unreserved fund balance represents amounts considered available for new spending.

Recovery was also seen in the governmental funds balance. After a two-year, \$25.7 billion drop that culminated in a negative \$1.9 billion fund balance in the 2002-03 fiscal year, the balance rebounded by \$13.4 billion, to \$11.5 billion, for the 2003-04 fiscal year (Chart 38).

As of June 30, 2000, the unreserved fund balance was \$6.5 billion. However, by June 30, 2004, it had dropped by 173.8%, to negative \$4.8 billion (Chart 39).

Sources and Acknowledgements

The following sources were used to compile this report:

California state departments and offices
Education Data Partnership
National Center for Education Statistics
California Travel and Tourism Commission
The College Board
U.S. Census Bureau
U.S. Department of Health and Human Services
U.S. Department of Justice
U.S. Bureau of Labor Statistics
U.S. Department of Transportation

This publication presents financial information using accounting principles generally accepted in the United States of America (GAAP). GAAP financial information is presented in a standardized manner that is comparable to that of other governmental entities.

The information on page 4, California's Budget, presents estimates based on California's budgetary basis of accounting. The information on page 5 utilizes a cash basis of accounting. The per capita receipt, spending, and debt comparisons with other states are based on data for 2002 and 2003, the most current available from the U.S. Census Bureau.

The U.S. Department of Transportation uses a worldwide standard for measuring pavement roughness, called the International Roughness Index. The lower the index number, the smoother the pavement. We have categorized the index numbers as very good, good, fair, and poor. These labels correspond to index readings of less than 95, 96 to 170, 171 to 220, and greater than 220, respectively.

This report is not intended to replace the more detailed reports prepared by the State Controller's Office. A more detailed and complete presentation of the State's GAAP financial information is presented in the Comprehensive Annual Financial Report, which is available from the State Controller's Office, Division of Accounting and Reporting, P.O. Box 942850, Sacramento, California 94250. This and other publications of the State Controller's Office are also available at www.sco.ca.gov.

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