



KATHLEEN CONNELL
Controller of the State of California

December 19, 2001

**To the Citizens, Governor, and Members
of the Legislature of the State of California:**

I am pleased to submit the State of California's *Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 2001. This report contains all of the information needed to fully assess California's fiscal condition.

This CAFR is prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). It is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal, which presents a summary of financial data that is useful in evaluating the fiscal condition of the State. The Financial Section includes the general purpose financial statements and notes to the financial statements; it also includes the combining fund and account group financial statements and schedules, which are presented for the purpose of additional analysis. The Statistical Section includes selected financial and demographic information, generally presented on a multi-year basis.

Responsibility for the accuracy of data and for the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that fairly presents the financial position and operation of the various funds, account groups, and component units of the State.

Economic Outlook

The terrorist attack on America weakened an already softening national economy in September and October of 2001. Both the third and fourth quarters of the year show negative growth in U.S. production, indicating an economic recession. The weakness has spread into California, especially from the decline in domestic and foreign travel, idling much of the state's visitor-serving sector during the early autumn months. However, a tourism rebound was evident by November, and consumers were beginning to spend again in time for Christmas.

The summer of 2001 was cool, and that reduced the demand for power and the need for peak electricity generation in California. Hence, no brownouts or blackouts occurred in the state during its most vulnerable season. Voluntary conservation by consumers and businesses also helped to reduce the demand for electricity and avoid

the possibility of blackouts. Consequently, the energy crisis has been relatively tame since the spring of 2001.

Nevertheless, economic growth has cooled in the state, especially during the second half of 2001. Labor markets are shedding jobs in Northern California but remain relatively stable in Southern California. To date, the slowdown of technology-sector growth has impacted the state's unemployment rate principally in the Bay Area counties. The Sacramento Valley and the Southern California economies are not reeling from the information-technology fallout that the Bay Area is experiencing. Unemployment rates remain at low levels in these regions, and job and income creation is still positive.

The overall unemployment rate is rising, though it is still low at 5.7%. Non-farm employment is expected to post a 1.9% rate of growth in 2001, with most of the gain occurring in the first half of the year. Consumer confidence in the Pacific region, which includes California, has declined sharply in recent months, jeopardizing the retail sector in the state. Real retail sales in California fell in 2001, and only a modest gain is forecast for 2002 because both job and income gains will be limited.

Following a 22% increase in imports during 2000, exports rose just 3% during the first half of 2001 and have shrunk slightly during the third quarter. Nevertheless, the state's ports are still quite busy, with container traffic recording all-time record numbers in 2001.

The Federal Reserve's nine interest rate cuts during 2001 have helped boost the housing sector and new residential construction. New single-family residential units authorized by building permits in California rose to an annual rate of 160,000 during the first ten months of 2001, the highest levels since 1989. Though the increase in new home construction is encouraging, the number of new homes is far from adequate because it seriously lags the growth of population and jobs in the state. Housing is generally in short supply across coastal California and accordingly expensive, especially in the Bay Area counties.

The median selling price of homes in California jumped 12% in 2001 to \$266,000, the highest value on record. Among the larger California counties, Santa Clara County posted the highest median selling value in 2001, at \$548,300. San Francisco County was not far behind, with a median home price of \$515,000. In Southern California, the median selling price in Los Angeles County during 2001 was a relatively affordable \$238,600. In Orange County, the median price jumped 13% to \$355,000.

During 2000, the major metropolitan areas reported very tight vacancy in office and industrial space throughout the state. The softening economy in 2001 has created more vacancies, especially in San Francisco and Santa Clara counties, where most of the high-technology fallout was concentrated. More available commercial space has also been observed in Southern California. As a result of the weakened demand for non-residential space, new commercial and industrial building is off 8.1% this year.

Personal income tax receipts, the largest single source of revenue to the California's General Fund, increased by 12.9% in fiscal year 2000-01. In the spring of 2001, revenue growth slowed sharply. The Governor's budget for 2001-02 assumed that revenue in fiscal year 2001-02 would decline by 3.7%. By the end of November, revenues/receipts had slowed further and were coming in 3.4% below the budget projections. On the assumption that the economy rebounds in early 2002, tax receipts should stabilize in the spring.

With lower interest rates now prevailing as calendar year 2001 draws to a close, the outlook for home sales in 2002 is positive. Job creation is expected to remain weak during the first half of 2002 but to accelerate by the summer months. With the lack of available inventory and with continued growth, home selling prices are not expected to retreat in 2002.

Regionally, Southern California will outperform the rest of the state in economic growth, followed by the Sacramento Valley, and the mid-Central Valley. The Bay Area will rebound slowly, as new technology products are introduced in 2002 and available commercial space is absorbed. There is still considerable weakness in Santa Clara County, though that malaise is expected to diminish in 2002.

Major Initiatives for the Year

With the further decline of U.S. economic growth during calendar year 2001, California and the nation have entered into a recession. The outlook is for a recession short in duration, with a rebound to begin in early 2002. Consumer conservation, along with new generating capacity, has improved both the short-term and the long-term outlook for electricity availability in California. The travel and tourism industry, hard hit in the aftermath of the September 11 attacks, has begun to revive.

The immediate concern then is the outlook for new growth of the California economy, including jobs and income. The weakness in the information technology industries should begin to improve early in calendar year 2002. Business failures in this sector are on the decline, excess inventories have been reduced, and balance sheets have been aligned with more realistic growth prospects.

During calendar year 2000, personal income jumped 11.5%. In 2001, there were sharply lower capital gains from stock market sales. Wages and salary income growth is being limited by moderate labor market growth, and the extent of corporate income gains is weakened by the softening U.S. and state economies. Consequently, State revenue generation has suffered, especially since the spring of 2001. As the economy strengthens in 2002 and the stock market moves higher, an in-tandem rebound in revenue growth is expected.

Affordable housing is another principal challenge facing the state this year. What has been missing from the housing boom of the late 1990s is home production. Limited production leads to higher prices and rents and to increased congestion. With mortgage rates now at or near all-time record lows, and a predicted strengthening of the state's economy during 2002, more housing will be forthcoming.

Year Ended June 30, 2001

Following are some of the major features of the 2000-01 Budget Act:

- Proposition 98 funding for kindergarten through twelfth grade (K-12) schools was increased by \$3.0 billion in General Fund moneys over revised 1999-00 levels, \$1.4 billion higher than the minimum Proposition 98 guarantee. Per-pupil spending is estimated at \$6,701 per ADA (average daily attendance), an 11% increase from the 1999-00 Budget Act. Of the 2000-01 funding provided, over \$1.8 billion is allowed for discretionary spending by school districts. Major new programs include money for high school scholarships to high-achieving students, promoting English language and literacy, improving teacher quality, funding teacher bonuses and salaries for beginning teachers, increasing investments in technology, and funding professional development institutes. The 2000-01 Budget Act also includes an income tax credit to compensate credentialed teachers for the purchase of classroom supplies.

- Funding for higher education increased substantially above the revised 1999-00 level. General Fund support was increased by \$486 million (17.9%) for the University of California (UC) and \$279 million (12.7%) for the California State University (CSU). In addition, community colleges funding increased by \$497 million (9.0%). Undergraduate fees at UC and CSU and the per-unit charge at community colleges did not change. The 2001-01 Budget Act anticipated enrollment increases in all sectors and an expansion of financial aid.
- Funding from the General Fund for health and human services increased by \$2.7 billion.
- Significant monies were devoted to capital outlay. A total of \$2.0 billion of General Fund money was appropriated for transportation improvements, supplementing gasoline tax revenues also used for that purpose. This is part of the \$6.9 billion Transportation Congestion Relief Program, to be implemented over six years. In addition, the 2000-01 Budget Act included \$570 million from the General Fund in new funding for housing programs.
- A total of about \$1.5 billion of tax relief was enacted as part of the budget process. The vehicle-license-fee reduction, started in 1998, was accelerated to the final 67.5% level for calendar year 2001, two years ahead of schedule. The acceleration cost the General Fund about \$887 million in fiscal year 2000-01 and will cost \$1.4 billion in fiscal year 2001-02 to make up lost funding to local governments. A personal income tax credit for teachers cost \$218 million and a refundable credit for child care expenses cost \$195 million. Several other tax changes were also approved, at a cost of \$89 million in the fiscal year 2000-01.

Year Ending June 30, 2002

Following are some of the major features of the 2001-02 Budget Act:

- Proposition 98 funding for kindergarten through twelfth grade (K-12) schools was increased by 4.9%, to \$7,002 per pupil. Total General Fund spending of \$32.4 billion for K-12 education will fund enrollment and cost of living increases and also provides additional funding for a number of programs, such as teacher and principal training programs, instructional and student achievement improvement programs, energy cost assistance, and high-tech high schools.
- Higher education funding was increased to allow for enrollment increases at both the UC and the CSU systems with no fee increases. Additional funding will be provided for 3% student growth at community colleges. The UC system remains on track to open its Merced campus by fall 2004.
- Health, welfare and social services generally are funded for anticipated caseload growth. The 2001-02 Budget Act utilizes \$402 million of tobacco litigation settlement payments to fund certain health programs.
- The 2001-02 Budget Act contains approximately \$125 million in new General Fund tax relief, primarily for senior citizens property tax assistance and certain new tax credits aimed at rural areas and agricultural equipment.

In addition to the major features of the 2001-02 Budget Act, voters passed Proposition 39 (School Facilities - 55% Local Vote, Bond, Taxes, and Accountability Requirements) in November 2000. The proposition makes it easier for local communities to pass school bonds by lowering the vote requirement from 66.7% to 55%. As a result, subject to voter approval, additional resources could become available to assist school districts in meeting their facility needs.

Financial Information

Reporting Entity: The financial reporting entity of the State includes all of the funds and account groups of the primary government as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the building authorities are reported within the capital projects funds of the primary government. The lease agreements, amounting to \$805 million between the building authorities and the primary government, have been eliminated from the combined balance sheet. Instead, only the underlying fixed assets and the debt used to acquire them are reported in the appropriate account groups. Discretely presented component units are reported in separate columns in the combining financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The University of California and special purpose authorities are reported as discretely presented component units.

Budgetary Controls: Annually, the State Legislature prepares a budget that contains estimates of revenues and expenditures for the ensuing fiscal year. This budget is the result of negotiations between the Governor and the State Legislature. Throughout the fiscal year, adjustments in the form of budget revisions, executive orders, and financial legislation agreed to by the parties, are made to the budget. The State Controller is statutorily responsible for maintaining control over revenues due the primary government and for the expenditure of each appropriation contained in the budget. Budgeted appropriations are the expenditure authorizations that allow state agencies to purchase or create liabilities for goods and services.

The accounting system provides the Controller's Office with a centralized control record system to fully account for each budgeted appropriation, including its unexpended balance, and for all cash receipts and disbursements. The accounting system is decentralized in that the detail of each control account is maintained at the agency level. During the fiscal year, the control accounts and the agency accounts are maintained and reconciled on a cash basis. At the end of the fiscal year, each agency prepares annual accrual reports for receivables and payables. The Controller's Office combines its control accounts with the agency accrual reports to prepare the *Budgetary/Legal Basis Annual Report* and the *Budgetary/Legal Basis Annual Report Supplement*. The methods of accounting for expenditures and revenues in these reports are governed by state laws and regulations that, in some cases, are not in full agreement with generally accepted accounting principles. The information in the *Comprehensive Annual Financial Report* presents a consolidation of the amounts in the *Budgetary/Legal Basis Annual Report* and adjustments to the account balances to conform to generally accepted accounting principles.

Internal Controls: An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. In addition, the government maintains extensive budgetary controls. The objective of these controls is to ensure compliance with

Chart 1

**REVENUES 2000-01
General, Special Revenue, and
Capital Projects Funds**

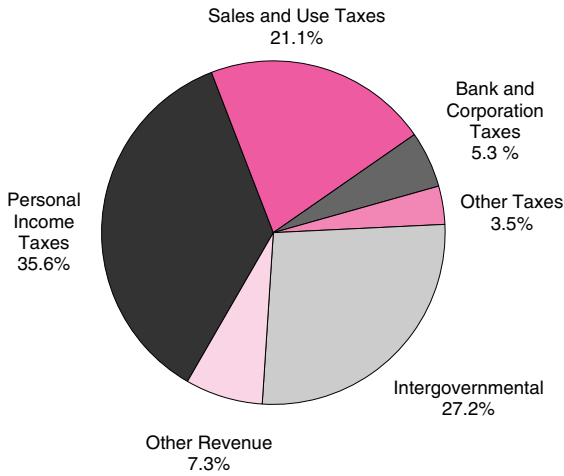
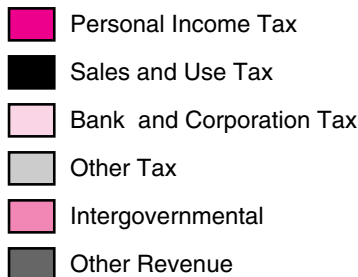
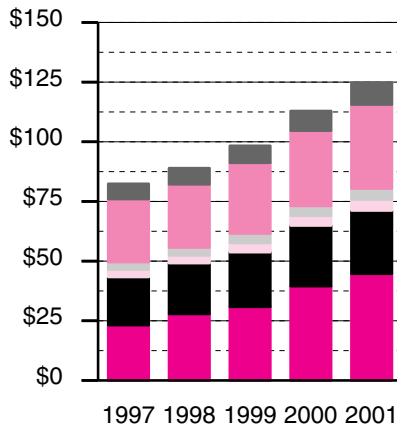


Chart 2

**REVENUES by SOURCE
General, Special Revenue, and
Capital Projects Funds
(amounts in billions)**



legal provisions embodied in the annual appropriated budget approved by the Legislature.

General Government Functions: The government provides a full range of services, including education, health and social services, transportation, law, justice, public safety, recreation, resource development, and public improvements. These general government functions are accounted for in the General Fund, special revenue funds, and capital projects funds.

2000-01 Revenues: Table 1 presents a summary of General Fund, special revenue funds, and capital projects funds revenues for the year ended June 30, 2001. Revenues for the General Fund, special revenue funds, and capital projects funds totaled \$125.2 billion for the year ended June 30, 2001. This was an increase of \$9.9 billion, or 8.5%, over the previous year. Tax revenues increased by \$6.4 billion, or 8.5%, over the previous year. Personal income, sales and use, bank and corporation, and other taxes increased by \$5.1 billion, \$987 million, \$10 million, and \$321 million, or 12.9%, 3.9%, 0.2%, and 7.8%, respectively. Intergovernmental revenue increased by \$2.6 billion, or 8.2%.

Five-Year Trend: Total revenues for the General Fund, special revenue funds, and capital projects funds have increased from \$84.9 billion in 1997 to \$125.2 billion in 2001, an increase of \$40.3 billion, or 47.5%. Personal

Table 1

Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Revenues

Year Ended June 30, 2001 (amounts in thousands)

Sources	2000-01 Amount	Percent of Total	Increase (Decrease) from 1999-00	Percent of Increase (Decrease)
Taxes				
Personal income	\$ 44,629,742	35.6 %	\$ 5,113,724	12.9 %
Sales and use	26,385,224	21.1	986,907	3.9
Bank and corporation	6,580,178	5.3	10,373	0.2
Other taxes	4,427,943	3.5	321,061	7.8
Intergovernmental	34,136,903	27.2	2,593,683	8.2
Other revenue				
Licenses and permits	3,276,612	2.6	30,761	0.9
Fees and penalties	2,239,817	1.8	241,141	12.1
Charges for services	831,988	0.7	(16,364)	(1.9)
Investment and interest	1,366,104	1.1	427,207	45.5
Other minor	1,203,750	1.0	93,689	8.4
Natural resources	140,294	0.1	48,632	53.1
Total	\$ 125,218,555	100.0 %	\$ 9,850,814	8.5

Chart 3

**EXPENDITURES 2000-01
General, Special Revenue, and
Capital Projects Funds**

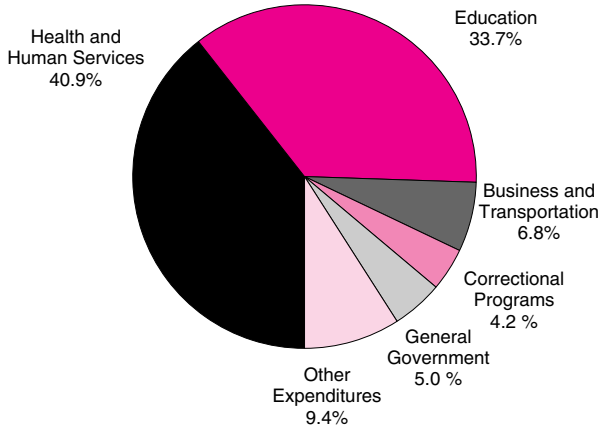
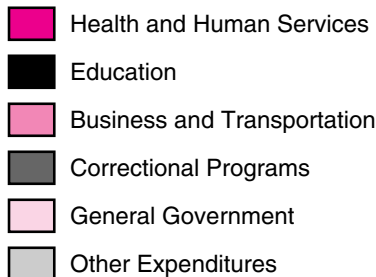
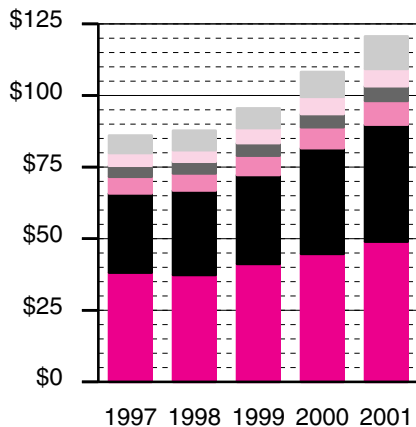


Chart 4

**EXPENDITURES by FUNCTION
General, Special Revenue, and
Capital Projects Funds
(amounts in billions)**



income taxes have increased from \$23.2 billion in 1997 to \$44.6 billion in 2001, an increase of \$21.4 billion, or 92.2%. Sales and use taxes have increased from \$20.2 billion in 1997 to \$26.4 billion in 2001, an increase of \$6.2 billion, or 30.7%. Total revenues for the five-year period increased by \$5.0 billion, \$6.4 billion, \$8.5 billion, \$15.5 billion, and \$9.9 billion in the years ending June 30, 1997, 1998, 1999, 2000, and 2001, respectively.

2000-01 Expenditures: Table 2 presents a summary of General Fund, special revenue funds, and capital projects funds expenditures for the year ended June 30, 2001. Expenditures for the General Fund, special revenue funds, and capital projects funds totaled \$121.2 billion for the year ended June 30, 2001. This was an increase of \$13.0 billion, or 12.0%, over the previous year. Changes in expenditures by function from the previous year's levels are presented in Table 2. Health and human services expenditures increased by \$4.7 billion, or 10.4%. This increase was caused by increased funding in Medi-Cal, developmental services, in-home supportive services, state supplementary payments (SSI/SSP), and mental health programs. Education expenditures increased by \$3.9 billion, or 10.7%. This increase was due to more funding for K-12, the University of California, and community colleges. Property tax relief increased by

Table 2

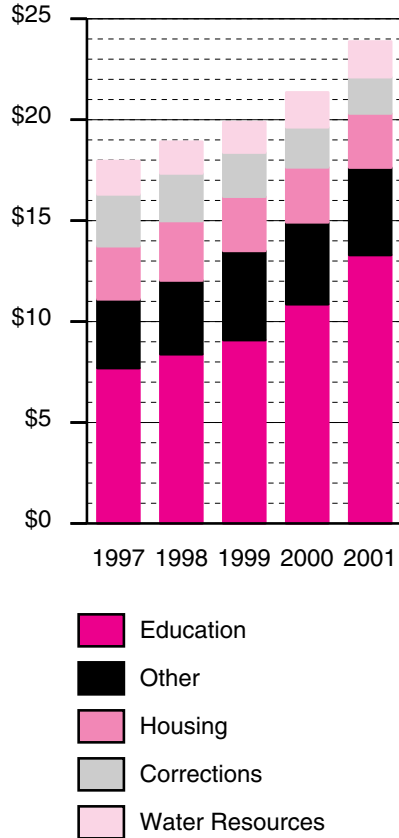
Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Expenditures

Year Ended June 30, 2001 (amounts in thousands)

Function	2000-01 Amount	Percent of Total	Increase From 1999-00	Percent of Increase
Health and human services	\$ 49,361,053	40.9 %	\$ 4,658,305	10.4 %
Education	40,854,070	33.7	3,948,889	10.7
Business and transportation	8,288,123	6.8	967,703	13.2
Correctional programs	5,125,032	4.2	523,833	11.4
General government	6,061,660	5.0	50,015	0.8
Other expenditures				
Debt service	2,416,710	2.0	168,486	7.5
Resources	3,516,139	2.9	837,686	31.3
State and consumer services	941,884	0.8	91,562	10.8
Tax relief	3,686,373	3.0	1,512,914	69.6
Capital outlay	905,116	0.7	195,418	27.5
Total	\$ 121,156,160	100.0 %	\$ 12,954,811	12.0

Chart 5

GENERAL OBLIGATION BONDS by FUNCTION
(amounts in billions)



\$1.5 billion or 69.6%. This increase is mainly due to replacement payments to local governments for the vehicle license fee reduction.

Five-Year Trend: Total expenditures for the General Fund, special revenue funds, and capital projects funds have increased from \$86.0 billion in 1997 to \$121.2 billion in 2001, an increase of \$35.2 billion, or 40.9%. During this period, expenditures have increased by 29.4% for health and human services, 47.7% for education, 42.7% for business and transportation, and 33.1% for corrections. In the aggregate, expenditures for the five-year period increased by \$7.2 billion, \$1.7 billion, \$7.8 billion, \$12.7 billion, and \$13.0 billion in the years ending June 30, 1997, 1998, 1999, 2000, and 2001, respectively.

Debt Administration: In April 2001, Standard and Poor’s Rating Group lowered its bond rating for California from “AA” to “A+.” In May 2001, Moody’s Investors Service lowered its ratings from “Aa2” to “Aa3.”

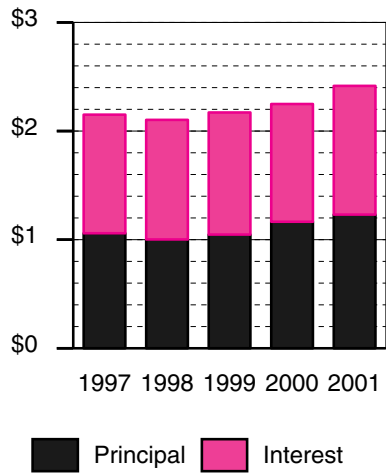
General Obligation Bonds: General obligation bonded debt, which is backed by the full faith and credit of the General Fund, increased from \$21.4 billion on June 30, 2000, to \$23.8 billion on June 30, 2001. This was an increase of \$2.4 billion, or 11.2%.

Five-Year Trend: Total outstanding general obligation bonds increased from \$18.0 billion in 1997 to \$23.8 billion in 2001, an increase of \$5.8 billion, or 32.6%. During this period, education and other general purpose bonded debt increased from \$11.1 billion in 1997 to \$17.6 billion in 2001, an increase of \$6.5 billion, or 58.5%. During the same period, bonded debt for water resources, corrections, and housing decreased from \$6.9 billion in 1997 to \$6.2 billion in 2001, a decrease of \$700 million, or 10.1%. In the aggregate, general obligation bonds for the five-year period increased (decreased) by \$(252) million, \$957 million, \$972 million, \$1.5 billion, and \$2.4 billion in the years ending June 30, 1997, 1998, 1999, 2000, and 2001, respectively.

Debt Service: Principal retirement expenditures for the General Fund, special revenue funds, and capital projects funds totaled \$1.2 billion for the year ended June 30, 2001. This change reflected an increase of \$109 million, or 9.7%, over the previous year. Interest and fiscal charges

Chart 6

DEBT SERVICE EXPENDITURES
(amounts in billions)



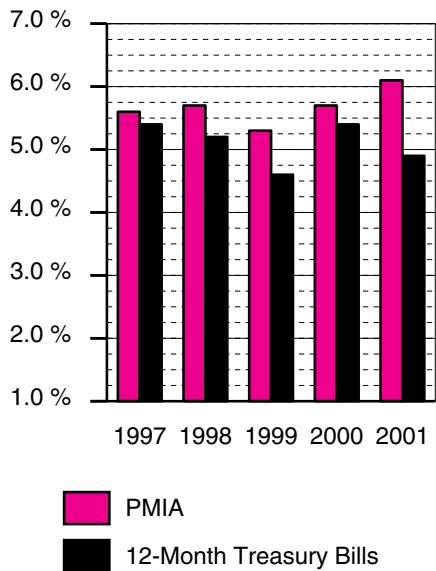
for these funds totaled \$1.2 billion for the year ended June 30, 2001. This was an increase of \$59 million, or 5.3%.

Five-Year Trend: General Fund, special revenue funds, and capital projects funds principal retirement expenditures increased from \$1.1 billion in 1997 to approximately \$1.2 billion in 2001, an increase of \$172 million, or 16.3%. Interest and fiscal charges increased from \$1.1 billion in 1997 to approximately \$1.2 billion in 2001, an increase of \$93 million, or 8.6%.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested in the Pooled Money Investment Account (PMIA). The investment of the PMIA is restricted by law to the following categories: U.S. government securities, securities of federally sponsored agencies, domestic corporate bonds, bank notes, interest-bearing time deposits in California banks and savings and loan associations, prime commercial paper, repurchase and reverse repurchase agreements, security loans, bankers' acceptances, negotiable certificates of deposit, and loans to various bond funds. The average daily investment balance for the year ended June 30, 2001, amounted to \$43.8 billion, with an average effective yield of 6.1%. For the year ended June 30, 2000, the average daily investment was \$35.0 billion and the average effective yield was 5.7%.

Chart 7

PMIA YIELD and AVERAGE TREASURY YIELD
Year Ended June 30



Five-Year Trend: The PMIA yield increased from 5.6% in 1997 to 6.1% in 2001. During the same time, the average yield on 12-month Treasury bills decreased, from 5.4% to 4.9%. The average daily investment portfolio also increased, from \$28.3 billion in 1997 to \$43.8 billion in 2001, an increase of \$15.5 billion, or 54.8%.

The total earnings of the PMIA for the year ended June 30, 2001, amounted to \$2.7 billion, which was distributed as follows: \$823 million to the General Fund, \$975 million to special funds, \$873 million to local governments, \$2.8 million to the Public Employees' Retirement System, and \$2.3 million to the State Teachers' Retirement System. The Pooled Money Investment Account portfolio is shown in Table 3.

General Fund Balance: The General Fund ended the year with a budgetary fund balance of \$9.0 billion and a fund balance of \$7.6 billion using generally accepted accounting principles. The budgetary fund balance includes \$3.6 billion in reserves. The reserves represent that portion of the fund

balance that is not available for appropriation or that is legally set aside for specific uses.

The Special Fund for Economic Uncertainties, the “rainy day fund,” had a balance of \$3.7 billion at the end of the year. Annually, an amount is appropriated from the General Fund to replenish the fund. The fund, as the name implies, provides the monies for those necessary expenditures throughout the year that have not been anticipated or provided for in the annual budget. It also provides relief, to the amount of its available funds, for any budgeted revenue shortfalls.

Proprietary Operations: Proprietary fund types present financial data on activities that are similar to those found in the private sector. Users are charged for the goods or services provided.

Enterprise funds account for goods or services provided to the general public on a continuing basis when the cost involved is to be financed or recovered primarily by user charges. Enterprise funds earned approximately \$7.9 billion in operating revenues and had \$6.7 billion in operating expenses for the year ended June 30, 2001.

Internal service funds account for activities that provide goods and services to other state departments or agencies on a cost reimbursement basis. Internal service funds earned approximately \$3.1 billion in operating revenues and had \$3.1 billion in operating expenses for the year ended June 30, 2001.

Table 3

Pooled Money Investment Account Portfolio

Year Ended June 30, 2001 (amounts in thousands)

<u>Type of Security</u>	<u>Average Daily Portfolio</u>	<u>Percent of Portfolio</u>	<u>Annual Earnings</u>	<u>Average Effective Yield</u>
Money market	\$ 17,469,731	39.8 %	\$ 1,051,383	6.0 %
Government securities	18,009,903	41.1	1,114,417	6.2
Corporate bonds	2,304,914	5.3	144,407	6.3
Loans to other funds	2,589,664	5.9	164,246	6.3
Repurchase agreements	5,808	—	332	5.7
Time deposits	4,317,936	9.8	251,214	5.8
Reverse repurchase agreements	(857,535)	(1.9)	(49,841)	5.8
Total Portfolio	\$ 43,840,421	100.0 %	\$ 2,676,158	6.1

Fiduciary Operations: Fiduciary fund types are used to account for assets held by the primary government as a trustee or agent. Four fiduciary fund types are reported: expendable trust funds, which account for assets held in a trustee capacity when both principal and income (earnings on principal) may be expended in the course of a fund's designated operations; pension trust funds, which account for transactions, assets, liabilities, and net assets available for plan benefits of the retirement systems; agency funds, which account for assets held by the primary government and where the primary government acts as an agent for individuals, private organizations, other governments, or other funds; and an investment trust fund, which accounts for deposits, withdrawals, and earnings of the Local Agency Investment Fund, an external investment pool for local governments and public agencies. Expendable trust funds earned approximately \$8.3 billion in revenues and had \$7.3 billion in expenditures for the year ended June 30, 2001. Pension trust funds had a loss of \$15.6 billion due to net depreciation in fair value of investments, and had \$10.3 billion in deductions to the net assets available for plan benefits. Agency funds had assets of \$19.8 billion as of June 30, 2001. The Investment Trust Fund had net assets of \$17.7 billion as of June 30, 2001.

Risk Management: The primary government has elected, with a few exceptions, to be self-insured against loss or liability and generally does not maintain reserves. Losses are covered by appropriations in the year in which the payment occurs, with workers' compensation benefits for self-insured agencies being initially paid by the State Compensation Insurance Fund (SCIF). The discounted liability for unpaid self-insured workers' compensation losses is estimated to be \$1.4 billion as of June 30, 2001. Of this amount, \$153 million is being reported in the General Fund, \$91 million in special revenue funds, \$19 million in proprietary funds, and \$1.2 billion in the general long-term obligations account group.

Independent Audit: State statutes require an annual audit of the general purpose financial statements of the State. To meet this requirement, the State Auditor has examined the accompanying financial statements in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and generally accepted auditing standards. The auditor's report on the general purpose financial statements and the combining and individual fund statements and schedules is included in this report.

The State of California is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1997, and the United States Office of Management and Budget's Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Generally accepted auditing standards and the standards set forth in the General Accounting Office's *Governmental Auditing Standards* were used by the auditors in conducting the engagement. Information related to this single audit, including a schedule of federal financial assistance, the independent auditor's report on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs, are included in a separately issued single audit report.

Certificate of Achievement: The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the State of California for its *Comprehensive Annual Financial Report* for the year ended June 30, 2000. This is the fifth consecutive year that the State has received this award. To earn this award, a governmental unit must publish an easily readable and efficiently organized comprehensive annual

financial report whose contents conform to program standards. The report must satisfy generally accepted accounting principles and applicable legal requirements.

The Certificate of Achievement is valid for only one year. It is the view of the State Controller's Office that this year's report continues to conform to the Certificate of Achievement program requirements, and it is being submitted to GFOA for review. The State Controller's Office is committed to ensuring that the *Comprehensive Annual Financial Report* will continue to conform to the Certificate of Achievement program requirements.

This CAFR could not have been prepared without the generous assistance and cooperation of all state agencies. We wish to thank the State Auditor and her staff for their audit of the financial statements contained in this report. Also, I am grateful to the members of my staff for their hard work and professionalism.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen Connell". The signature is written in a cursive, flowing style.

KATHLEEN CONNELL
California State Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



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Jeffrey L. Esser
Executive Director

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Governor

Cruz Bustamante
Lieutenant Governor

Kathleen Connell
State Controller

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