



KATHLEEN CONNELL
Controller of the State of California

December 15, 2000

**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, 2000. This report contains all the information needed to fully assess California's fiscal condition.

This CAFR is prepared in accordance with generally accepted accounting standards (GAAP). It is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this letter of transmittal. The letter 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. The Financial Section 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 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

With the slowing of the United States economy, there is some concern over the outlook for California in 2001. The strength of the economy is weakening, though most business sectors are still growing, and at relatively healthy rates. Certainly, home buying has now slowed and prices for real estate are not soaring as they were earlier in the year. New business formation in the state has also slowed, due largely to consolidations in the United States equities markets this year, leaving a reduced capital base for expansion. Furthermore, as a result of the difficulty in permitting new housing in the coastal areas of the state, new residential building has stalled.

Labor markets remain very tight and the unemployment rate is at a record low. Non-farm employment growth will rise 3.2% in 2000, signaling a very healthy year for job creation. Consumer confidence in the Pacific region, which includes California, is still quite auspicious, supporting strong growth of consumption in the state. Taxable sales

of goods to consumers and businesses leaped 11% in the first 9 months of 2000, the highest growth rate for consumption in California since 1984.

The solid growth of the California economy is dominated by the unprecedented rise in income. Strong employment growth, higher salaries, and sharply rising asset values have produced 8.6% annual growth in personal income this year. The growth rate in income is also the highest recorded in the state in 16 years.

The continued expansion of the California economy is being led by a number of sectors, including biotechnology, information processing, recreation, tourism, and construction. Job growth is still impressive, despite a recent surge in dot-com layoffs. To date, the slowdown of technology sector growth has not impacted the state's unemployment rate.

Private sector investment in new technology continues to provide California firms with significant capital for innovation and expansion. In 1999, the Bay Area received 34% of all venture capital investment in United States companies. The \$13.4 billion received by Bay Area firms ranked No. 1 for a metropolitan area in the nation. Southern California ranked 5th in the country, behind the New York metro area, with \$3.3 billion or 9.3% of total venture capital investment in all United States companies. In calendar year 2000, venture capital investment in California companies was even greater, shattering all previous records.

Exports have been key to California's economic growth in 2000. Our trading partners in the Pacific Rim have steadily recovered from the financial crisis that dragged down the region in 1998 and 1999, and the Mexican economy is booming. This produces greater demand for California goods and services. Exports to the top 10 Asian nations leaped 26% in the first half of 2000. Exports to Mexico—our largest market—soared 35% this year.

New residential units authorized by building permits in California rose to an annual rate of 147,000 for the first 10 months of 2000, a 5% increase over last year's level. Although the increase in new home construction is encouraging, the number of new homes in the state is far from adequate because it seriously lags the growth of population and jobs. Housing is generally in short supply across the state and, accordingly, expensive, particularly in the large metropolitan areas of Northern and Southern California.

The median selling price of homes in California soared 12% in 2000 to \$243,000, the highest value on record. Among the larger California counties, Santa Clara County posted the highest median selling value in 2000, at \$528,850. With a median home price of \$485,980, San Francisco County was not far behind. In Southern California, the median selling price in Los Angeles County during 2000 was a relatively affordable \$210,600. In Orange County, the median price was \$316,300.

Nearly 420,000 jobs will be created in California this year, principally in the business services, education, and construction sectors. More residents of California are currently employed than at any other time in the history of the state. The unemployment rate fell to 4.5% in October of 2000, the lowest rate since 1969.

With the major metropolitan areas reporting very tight vacancy in 2000, office and industrial space has become scarce in the state. The continued demand for non-residential structures is driving the surge in new commercial building this year. At the current pace of investment in commercial structures, new non-residential development will increase 22% in 2000.

Personal income tax receipts, the largest single source of revenue to the California General Fund, soared 28% for the year ending June 30, 2000. Overall, General Fund revenues advanced 21% for fiscal year 2000.

With lower interest rates now prevailing as calendar 2000 draws to a close, the outlook for home sales in 2001 is mixed. Rates are likely to fall before they rise again, barring any expected trauma in the United States economy next year. However, job creation is expected to moderate, causing personal income growth to cool. Together with the lack of available inventory and continued population growth, home selling prices are not expected to retreat in 2001.

Though the economy will continue to slow in 2001, a recession is not probable. There is still considerable strength in most business sectors of the economy. More importantly, the technology economy continues to draw venture capital investment and create high paying jobs, and our export markets will keep the state growing at a pace that will continue to eclipse United States economic growth.

Major Initiatives for the Year

Following a severe recession beginning in 1990, the State's financial condition improved markedly during the fiscal years starting in 1995-96, due to a combination of better than expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in the years ending June 30, 1996 and 1997, and to fund new program initiatives, including education spending above Proposition 98 minimums. In 1999 and early 2000, the combination of resurging exports, a strong stock market, and a rapidly growing economy resulted in unprecedented growth in General Fund revenues during the year ended June 30, 2000. As a result, a record Unreserved Undesignated GAAP balance of approximately \$6.3 billion was left in the General Fund at June 30, 2000.

Year ended June 30, 2000

Some of the major features of the 1999-00 Budget were the following:

- Proposition 98 funding for Kindergarten through twelfth grade (K-12) schools was increased by \$1.6 billion in General Fund moneys over revised 1998-99 levels, \$108.6 million higher than the minimum Proposition 98 guarantee. Of the 1999-00 funds, major new programs included money for reading improvement, new textbooks, school safety, improving teacher quality, funding teacher bonuses, providing greater accountability for school performance, increasing preschool and after school care programs and funding deferred maintenance of school facilities.
- Funding for higher education increased substantially above the actual 1998-99 level. General Fund support was increased by \$184 million (7.3%) for the University of California and \$126 million (5.9%) for the California State University system. In addition, Community Colleges funding increased by \$324 million (6.6%). As a result, undergraduate fees at UC and CSU were reduced for the second consecutive year, and the per-unit charge at Community Colleges was reduced by \$1.
- Funding for health and human services increased by nearly \$600 million.
- About \$800 million from the General Fund was directed toward infrastructure costs, including \$425 million in additional funding for the Infrastructure Bank, initial planning costs for a new

prison in the Central Valley, additional equipment for train and ferry service, and payment of deferred maintenance for state parks.

- The Legislature enacted a one-year additional reduction of 10% of the Vehicle License Fee (VLF) for calendar year 2000, at a General Fund cost of about \$250 million in each of fiscal years 1999-00 and 2000-01 to make up lost funding to local governments.

Year ending June 30, 2001

Some of the major features of the 2000-01 Budget Act were the following:

- Proposition 98 funding for 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, an 11% increase from the 1999 Budget Act. Of the 2000-01 funds, 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, 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 and \$279 million (12.7%) for the California State University system. In addition, Community Colleges funding increased by \$497 million (9.0%). Undergraduate fees at UC and CSU and the per-unit charges at Community Colleges will be unchanged. The Budget Act anticipates 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 for capital outlay. A total of \$2.0 billion of General Fund money was appropriated for transportation improvements, supplementing gasoline tax revenues normally used for that purpose. This was part of a \$6.9 billion Transportation Congestion Relief Program to be implemented over six years. In addition, the 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 VLF reduction, started in 1998, was accelerated to the final 67.5% level for calendar year 2001, two years ahead of schedule. The acceleration will cost the General Fund about \$887 million in fiscal year 2000-01 and \$1.4 billion in fiscal year 2001-02. A personal income tax credit for teachers will cost \$218 million and a refundable credit for child care expenses will cost \$195 million. Several other tax changes were also approved, at a cost of \$243 million in fiscal year 2000-01.

Financial Information

Reporting Entity: The financial reporting entity of the State includes all 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 \$836 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 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 Controller is statutorily responsible for maintaining control over revenues due the primary government and 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 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.

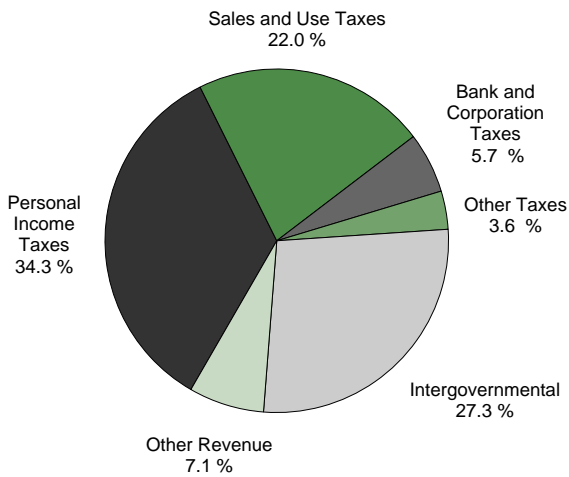
Internal Controls: An internal control structure has been designed to ensure that the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted 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 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.

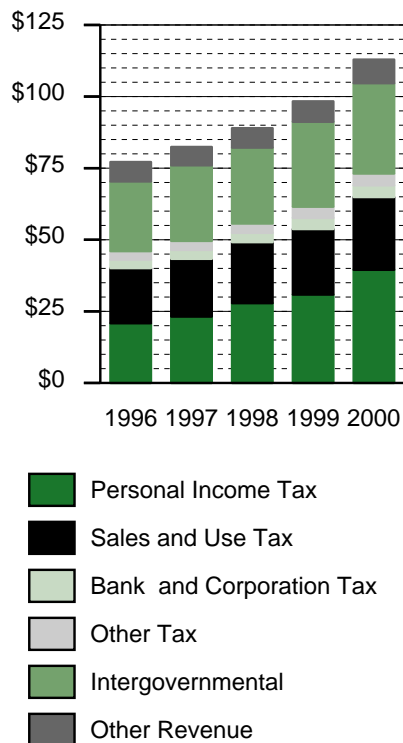
1999-00 Revenues: Table 1 presents a summary of General Fund, special revenue funds, and capital projects funds revenues for the year ended June 30, 2000. Revenues for the General Fund, special revenue funds, and capital projects funds totaled \$115.4 billion for the year ended June 30, 2000. This

Chart 1

REVENUES 1999-00
General, Special Revenue, and
Capital Projects Funds

**Chart 2**

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



was an increase of \$15.5 billion, or 15.5%, over the previous year. Tax revenues increased \$12.5 billion, or 19.9%, over the previous year. Personal income, sales and use, bank and corporation, and other taxes increased \$8.7 billion, \$2.5 billion, 1.1 billion, and \$207 million, or 28.0%, 11.0%, 21.2%, and 5.3%, respectively. Intergovernmental revenue increased \$1.9 billion, or 6.3%.

Five-Year Trend: Total revenues for the General Fund, special revenue funds, and capital projects funds have increased from \$79.9 billion in 1996 to \$115.4 billion in 2000, an increase of \$35.5 billion, or 44.4%. This increasing revenue trend is the result of a rebounding California economy that is generating increased collections of taxes. Personal income taxes have increased from \$20.8 billion in 1996 to \$39.5 billion in 2000, an increase of \$18.7 billion, or 89.7%. Sales and use taxes have increased from \$19.3 billion in 1996 to \$25.4 billion in 2000, an increase of \$6.1 billion, or 31.7%. Total revenues for the five-year period increased \$5.7 billion, \$5.0 billion, \$6.4 billion, \$8.5 billion, and \$15.5 billion in the years ending June 30, 1996, 1997, 1998, 1999, and 2000, respectively.

1999-00 Expenditures: Table 2 presents a summary of General Fund, special revenue funds, and capital projects funds expenditures for the year ended June 30, 2000.

Table 1

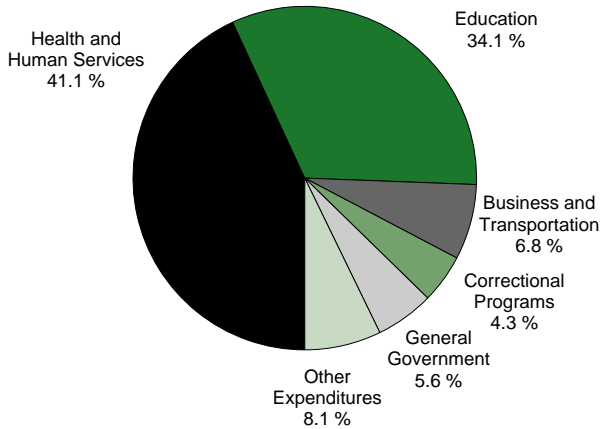
Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Revenues

Year Ended June 30, 2000 (Amounts in thousands)

Sources	1999-00 Amount	Percent of Total	Increase (Decrease) from 1998-99	Percent of Increase (Decrease)
Taxes				
Personal income	\$ 39,516,018	34.3 %	\$ 8,653,146	28.0 %
Sales and use	25,398,317	22.0	2,520,001	11.0
Bank and corporation	6,569,805	5.7	1,148,063	21.2
Other taxes	4,106,882	3.6	207,080	5.3
Intergovernmental	31,543,220	27.3	1,875,238	6.3
Other revenue				
Licenses and permits	3,245,851	2.8	(89,012)	(2.7)
Fees and penalties	1,998,676	1.7	141,578	7.6
Charges for services	848,352	0.7	36,016	4.4
Investment and interest	938,897	0.8	246,159	35.5
Other minor	1,110,061	1.0	702,972	172.7
Natural resources	91,662	0.1	75,712	474.7
Total	\$ 115,367,741	100.0 %	\$ 15,516,953	15.5

Chart 3

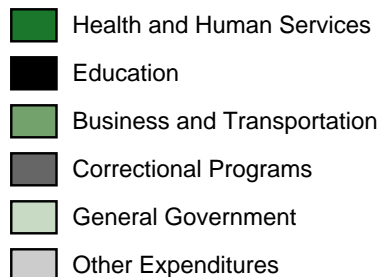
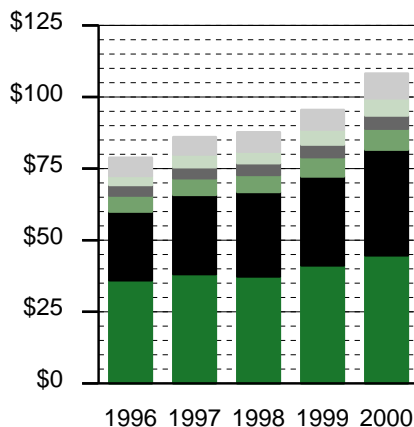
EXPENDITURES 1999-00
General, Special Revenue, and
Capital Projects Funds



Expenditures for the General Fund, special revenue funds, and capital projects funds totaled \$108.2 billion for the year ended June 30, 2000. This was an increase of \$12.7 billion, or 13.3%, 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 \$3.5 billion or 8.5%. This increase relates to changes in the Medi-Cal, public health services, supplemental security income and state supplementary payments (SSI/SSP), child welfare services, and county administration. Education expenditures increased by \$5.9 billion or 18.9%. Approximately \$3.0 billion of this increase is due to more funding for K-12 and community colleges. The balance of the increase is mainly due to changes in school facilities aid, teachers' retirement contributions, and higher education. Property tax relief increased by \$1.6 billion or 263%. This increase is mainly due to replacement payments to local governments for the decrease in VLF.

Chart 4

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



Five-Year Trend: Total expenditures for the General Fund, special revenue funds, and capital projects funds have increased from \$78.8 billion in 1996 to \$108.2 billion in 2000, an increase of \$29.4 billion, or 37.3%. During this period, expenditures have increased 24.2% for health and human services, 53.8% for education, 30.4% for business

Table 2

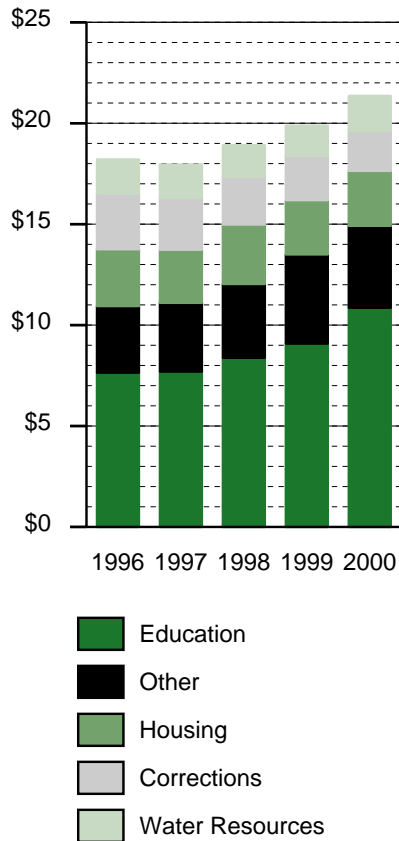
Schedule of General Fund, Special Revenue Funds, and Capital Projects Funds Expenditures

Year Ended June 30, 2000 (Amounts in thousands)

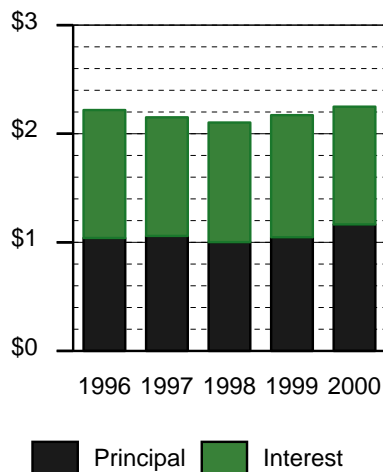
Function	1999-00 Amount	Percent of Total	Increase (Decrease) from 1998-99	Percent of Increase (Decrease)
Health and human services..	\$ 44,702,748	41.1 %	\$ 3,504,906	8.5 %
Education	36,905,181	34.1	5,857,159	18.9
Business and transportation	7,320,420	6.8	567,661	8.4
Correctional programs	4,601,199	4.3	219,070	5.0
General government	6,011,645	5.6	754,957	14.4
Other expenditures				
Debt service	2,248,224	2.1	78,078	3.6
Resources	2,678,453	2.5	326,657	13.9
State and consumer services	850,322	0.8	53,195	6.7
Tax relief	2,173,459	2.0	1,574,455	262.8
Capital outlay	709,698	0.7	(230,051)	(24.5)
Total	\$ 108,201,349	100.0 %	\$ 12,706,087	13.3

Chart 5

**GENERAL
OBLIGATION BONDS
by FUNCTION**
(Amounts in billions)

**Chart 6**

**DEBT SERVICE
EXPENDITURES**
(Amounts in billions)



and transportation, and 24.4% for corrections. In the aggregate, expenditures for the five-year period increased \$4.6 billion, \$7.2 billion, \$1.7 billion, \$7.8 billion, and \$12.7 billion in the years ending June 30, 1996, 1997, 1998, 1999, and 2000, respectively.

Debt Administration: In August 1999, Standard and Poor's Rating Group raised its bond rating for California from "A+" to "AA-." In February 2000, Fitch Investors Services raised its rating from "AA-" to "AA."

General Obligation Bonds: General obligation bonded debt, which is backed by the full faith and credit of the General Fund, increased from \$19.9 billion on June 30, 1999, to \$21.4 billion on June 30, 2000. This change reflected an increase of \$1.5 billion, or 7.5%.

Five-Year Trend: Total outstanding general obligation bonds increased from \$18.2 billion in 1996 to \$21.4 billion in 2000, an increase of \$3.2 billion, or 17.6%. During this period, education bonded debt increased from \$7.6 billion in 1996 to \$10.9 billion in 2000, an increase of \$3.3 billion, or 43.4%. Also during this period, bonded debt for water resources, corrections, and housing decreased from \$7.3 billion in 1996 to \$6.4 billion in 2000, a decrease of \$900 million, or 12.3%. In aggregate, general obligation bonds for the five-year period increased (decreased) \$(871) million, \$(252) million, \$957 million, \$972 million, and \$1.5 billion in the years ending June 30, 1996, 1997, 1998, 1999, and 2000, respectively.

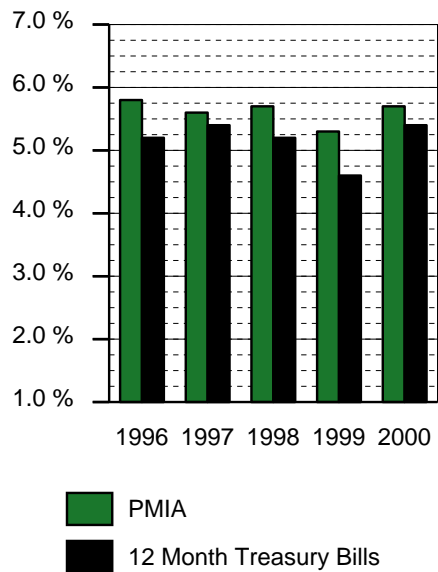
Debt Service: Principal retirement expenditures for the General Fund, special revenue funds, and capital projects funds totaled \$1.1 billion for the year ended June 30, 2000. This change reflected an increase of \$75 million, or 7.2%, over the previous year. Interest and fiscal charges for these funds totaled \$1.1 billion for the year ended June 30, 2000. This was an increase of \$2 million, or 0.2%.

Five-Year Trend: General Fund, special revenue funds, and capital projects funds principal retirement expenditures increased from \$1.0 billion in 1996 to approximately \$1.1 billion in 2000, an increase of \$81 million, or 9.6%. Interest and fiscal charges decreased from \$1.2 billion in 1996 to approximately \$1.1 billion in 2000, a decrease of \$52 million, or 8.5%.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested in the Pooled

Chart 7

**PMIA YIELD and AVERAGE
TREASURY YIELD**
Year Ended June 30



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, 2000, amounted to \$35.0 billion, with an average effective yield of 5.71%. For the year ended June 30, 1999, the average daily investment was \$33.5 billion and the average effective yield was 5.34%.

Five-Year Trend: The PMIA yield decreased from 5.8% in 1996 to 5.7% in 2000. During this same time, the average yield on 12-month Treasury bills increased from 5.2% to 5.4%. The average daily investment portfolio has also increased, from \$26.8 billion in 1996 to \$33.5 billion in 2000, an increase of \$6.7 billion, or 25.0%.

The total earnings of the PMIA for the year ended June 30, 2000, amounted to \$2.0 billion. Of this amount, \$473 million was distributed to the General Fund, \$788 million to special funds, \$734 million to local governments, \$2.4 million to the Public Employees' Retirement System, and \$1.9 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 \$9.6 billion and a fund

Table 3**Pooled Money Investment Account Portfolio**

Year Ended June 30, 2000 (Amounts in thousands)

Type of Security	Average Daily Portfolio	Percent of Portfolio	Annual Earnings	Average Effective Yield
Money market	\$ 15,857,843	45.3 %	\$ 931,404	5.9 %
Government securities	12,484,138	35.6	691,740	5.5
Corporate bonds	2,658,056	7.6	156,124	5.9
Loans to other funds	2,035,641	5.8	110,146	5.4
Repurchase agreements	8,866	0.0	482	5.4
Time deposits	2,820,736	8.1	152,310	5.4
Reverse repurchase agreements	(836,247)	(2.4)	(42,724)	5.1
Total Portfolio	\$ 35,029,033	100.0 %	\$ 1,999,482	5.7

balance of \$8.4 billion, using generally accepted accounting principles. The budgetary fund balance includes \$2.5 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 \$3.8 billion at the end of the year. Annually, an amount is appropriated in the General Fund to replenish the fund. This 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 \$4.5 billion in operating revenues and had \$3.5 billion in operating expenses for the year ended June 30, 2000.

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 \$2.5 billion in operating revenues and had \$2.6 billion in operating expenses for the year ended June 30, 2000.

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 the 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 \$7.7 billion in revenues and had \$6.9 billion in expenditures for the fiscal year ended June 30, 2000. Pension funds had \$35.6 billion in additions and \$9.4 billion in deductions to the net assets available for plan benefits. The investment trust fund had net assets of \$12.5 billion as of June 30, 2000. Agency funds had assets of \$19.8 billion as of June 30, 2000.

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 \$1.1 billion as of June 30, 2000. Of this amount, \$140 million is being reported in the General Fund, \$86 million in special revenue funds, \$19 million in proprietary funds, and \$846 million 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 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, 1999. This is the fourth consecutive year 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 its 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 my staff for their hard work and professionalism.

Sincerely,



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, 1999

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