

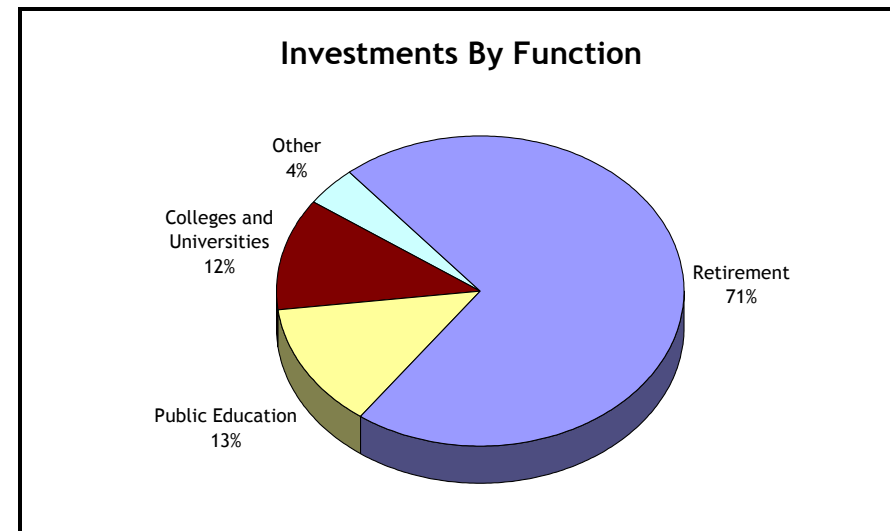
## Investments Decreased by \$16 Billion in Fiscal Year 2001

During fiscal year 2001, the market value of the State's investments decreased by \$16.3 billion due to unfavorable market conditions.

Four state entities held more than 95 percent (\$129 billion) of the State's investments (see table below). At the end of the fiscal year investments reflected in the State's financial statements had a market value of \$136 billion.

| Investments By Entity               |                           |                           |                            |
|-------------------------------------|---------------------------|---------------------------|----------------------------|
| Entity                              | Fiscal Year 2000          | Fiscal Year 2001          | Net Increase/(Decrease)    |
| Teacher Retirement System           | \$ 87,849,875,056         | \$ 78,379,822,440         | \$ (9,470,052,616)         |
| Texas Education Agency              | 21,848,672,125            | 17,972,963,205            | (3,875,708,920)            |
| The University of Texas System      | 16,237,641,532            | 13,860,499,870            | (2,377,141,662)            |
| Employees Retirement System         | 20,586,685,078            | 18,563,382,190            | (2,023,302,888)            |
| All Other Agencies and Universities | 6,290,210,027             | 7,707,181,209             | 1,416,971,182              |
| <b>Total Statewide Investments</b>  | <b>\$ 152,813,083,818</b> | <b>\$ 136,483,848,914</b> | <b>\$ (16,329,234,904)</b> |

In fiscal year 2001, the State's investments were primarily held in three functional areas: retirement, public education, and higher education. (See pie chart below.)



Source: Texas Comprehensive Annual Financial Report for Fiscal Year 2001

Seventy-one percent of the State's investments were funds held in trust by the State's two major retirement systems. Another 13 percent, or \$18 billion, were public education funds maintained in the Permanent School Fund. Interest and dividends earned by the Permanent School Fund are deposited to the Available School Fund for public education expenditures. Colleges and universities held 12 percent (\$16 billion) to support higher education programs. The remaining 4 percent (\$6 billion) were held for programs at various agencies.

This information provided by the  
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The results of the Statewide Single Audit, including findings, recommendations, and management responses, are available at the State Auditor's Office Web site or by calling (512) 936-9880. This document may be requested in alternative formats.

## Highlights from the 2001 Statewide Single Audit

### Financial Information

#### Overall

Texas' 2001 *Comprehensive Annual Financial Report* (CAFR), prepared by the Comptroller of Public Accounts, is accurate and based on generally accepted accounting principles. The CAFR provides the most complete financial information available on Texas state government as a whole.

Observations for expenditures and revenues are limited to governmental funds, which are the primary operating funds of the State. Observations do not include expenditures and revenues for higher education and proprietary funds.

#### Observations Related to Expenditures

Texas spent \$48.9 billion in state and federal funds during fiscal year 2001. This was an increase of \$2.3 billion over the previous year. Seventy-two percent of all state expenditures supported education and health and human services. Health and human services continued to require the State's highest expenditure at \$20.4 billion, an increase of \$1.4 billion over fiscal year 2000. Capital outlay decreased 25 percent (\$129 million) and debt service refunding costs increased 110 percent (\$122 million).

#### Observations Related to Revenues

The State collected revenues of \$53.2 billion during fiscal year 2001. This was an increase of \$3.6 billion (7.2 percent) over the previous year.

- Tax collections of \$28.1 billion constituted more than one-half of the State's revenue.
- Texas received \$17.4 billion in federal funds, a 7 percent increase over fiscal year 2000. (Texas received \$16.2 billion in fiscal year 2000.)
- Tobacco settlement revenues received in fiscal year 2001 were \$379.4 million, an increase of \$84.2 million over the previous year.

#### What is the Statewide Single Audit?

The Statewide Single Audit is an annual audit for the State of Texas. It is conducted so the State complies with the Single Audit Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133.

**Federal portion.** The State Auditor's Office contracted KPMG, LLP, to perform the federal portion of the Statewide Single Audit. The federal portion included a review of compliance and controls over the State's federal awards and an audit of the Schedule of Expenditures of Federal Awards.

**Financial portion.** The State Auditor's Office performed the financial portion of the Statewide Single Audit. The financial portion includes an audit of the State's financial statements and a review of significant financial and compliance controls.

#### Additional Observations

The State's financial position decreased in fiscal year 2001. Assets decreased 4.73 percent to \$224.8 billion. Cash and investments accounted for 82 percent of all assets.

The State's \$181.9 billion of fund equity represented a decrease of 5.8 percent from fiscal year 2000. Fund equity is the amount by which total assets exceed total liabilities. The majority of fund equity is legally restricted for specific uses—only \$1.63 billion was available for the Legislature to use at its discretion to fund future operations. The State's "Rainy Day Fund" increased \$111.8 million in fiscal year 2001. The balance as of August 31, 2001, was \$196.5 million.

Actuarial reports of the State's two largest retirement funds state that as of August 31, 2001, these retirement funds remained fully funded (actuarial assets exceed actuarial accrued liabilities). The two retirement funds are the Teacher Retirement fund and the Employees Retirement fund. Because of unfavorable market conditions, the funding excess for these two funds has significantly declined. Furthermore, the costs exceed the contributions for both plans, which means that the cost of future benefits exceeds the contributions from both the State and members. As of August 31, 2001, the net assets of these retirement funds were approximately \$97.5 billion.

### A Glimpse Into the Future

#### New Format for Future CAFRs

Texas will implement a new financial reporting model for the fiscal year 2002 *Comprehensive Annual Financial Report* (CAFR). The Governmental Accounting Standards Board designed the new model to make annual reports easier to understand. The new format added government-wide financial statements and an analytical overview of the State's financial activities. The use of this format is now required for the State to receive a clean audit opinion. Without a clean opinion, the State's bond ratings could be negatively affected.

#### Growth in E-Government

Texas has experienced significant growth in the use of e-government technology such as Texas Online, a web portal that provides online access to governmental services. To reduce the resulting risk to the State's electronic information, the State's staff members and auditors will need to place a stronger emphasis on automated security.



Lawrence F. Alwin, CPA  
State Auditor

# State of Texas Financial Profile

**Summary of Budget<sup>1</sup> and Actual Activity by Fiscal Year for the State's General Fund<sup>2</sup>**  
(Amounts in Thousands)

|  | 2000-2001 Biennium   |                      |                       |                      |                      |                     |
|--|----------------------|----------------------|-----------------------|----------------------|----------------------|---------------------|
|  | Fiscal Year 2001     |                      |                       | Fiscal Year 2000     |                      |                     |
|  | Budget               | Actual               | Variance              | Budget               | Actual               | Variance            |
| <b>REVENUES</b>  |                      |                      |                       |                      |                      |                     |
| → Taxes  | \$ 24,762,340        | \$ 27,195,658        | \$ 2,433,318          | \$ 23,885,184        | \$ 25,250,631        | \$ 1,365,447        |
| Federal  | 11,737,423           | 13,849,369           | 2,111,946             | 11,537,686           | 12,506,206           | 968,520             |
| Licenses, Fees, and Permits  | 1,712,703            | 1,562,090            | (150,613)             | 1,453,964            | 1,560,773            | 106,809             |
| Other  | 2,391,282            | 2,543,246            | 151,964               | 2,182,110            | 2,305,479            | 123,369             |
| <b>Total Revenues</b>  | <b>\$ 40,603,748</b> | <b>\$ 45,150,363</b> | <b>\$ 4,546,615</b>   | <b>\$ 39,058,944</b> | <b>\$ 41,623,089</b> | <b>\$ 2,564,145</b> |
| <b>EXPENDITURES</b>  |                      |                      |                       |                      |                      |                     |
| General Government   | \$ 1,393,637         | \$ 1,613,379         | \$ (219,742)          | \$ 1,852,163         | \$ 1,675,100         | \$ 177,063          |
| Education  | 13,856,625           | 13,553,898           | 302,727               | 13,913,133           | 13,390,469           | 522,664             |
| → Health and Human Services  | 15,312,075           | 16,972,657           | (1,660,582)           | 15,188,023           | 15,861,903           | (673,880)           |
| Public Safety and Corrections  | 3,368,764            | 3,388,515            | (19,751)              | 3,175,902            | 3,199,569            | (23,667)            |
| Other  | 967,019              | 914,355              | 52,664                | 1,419,352            | 899,104              | 520,248             |
| <b>Total Expenditures</b>  | <b>\$ 34,898,120</b> | <b>\$ 36,442,804</b> | <b>\$ (1,544,684)</b> | <b>\$ 35,548,573</b> | <b>\$ 35,026,145</b> | <b>\$ 522,428</b>   |
| <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>                               | <b>\$ 5,705,628</b>  | <b>\$ 8,707,559</b>  | <b>\$ 3,001,931</b>   | <b>\$ 3,510,371</b>  | <b>\$ 6,596,944</b>  | <b>\$ 3,086,573</b> |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                      |                      |                       |                      |                      |                     |
| → Operating Transfers In - Source  | \$ 1,329,159         | \$ 1,013,409         | \$ (315,750)          | \$ 1,233,492         | \$ 914,071           | \$ (319,421)        |
| → Operating Transfers Out - (Use)  | (7,838,517)          | (8,352,025)          | (513,508)             | (8,180,149)          | (7,990,701)          | 189,448             |
| Sale of Fixed Assets - Source  | 3,830                | 6,988                | 3,158                 | 4,310                | 5,848                | 1,538               |
| → Available Beginning Balance - Source   | 808,883              | 3,374,836            | 2,565,953             | 3,404,329            | 3,404,329            | 0                   |
| <b>Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b> | <b>\$ 8,983</b>      | <b>\$ 4,750,767</b>  | <b>\$ 4,741,784</b>   | <b>\$ (27,647)</b>   | <b>\$ 2,930,491</b>  | <b>\$ 2,958,138</b> |

In fiscal year 2001, actual taxes collected exceeded the budgeted amount because of increases in the collection of sales tax and natural gas prices.

Increases in Health and Human Services expenditures since fiscal year 1998 have resulted in a budget deficit.

The Transfers In category includes payment from the Lottery Commission to the Foundation School Fund. This category also includes the state match to Medicaid disproportionate share payments.

The Transfers Out category includes appropriations to universities, motor fuel tax transfers, and Teacher Retirement System retirement payments to universities.

In fiscal year 2000, actual revenues and sources exceeded expenditures and uses by \$2,930,491, increasing the actual available beginning balance for fiscal year 2001.

According to the Texas Constitution, appropriation expenditures cannot exceed estimated revenues for the biennium. The deficiency in fiscal year 2000 was created when \$176.3 million in appropriation authority for the Department of Health and the Department of Criminal Justice was moved from fiscal year 2001 to fiscal year 2000. Revenues to cover this authority were budgeted in fiscal year 2001.

A positive variance existed in each fiscal year primarily because actual revenue exceeded estimated revenue.

Source: Texas Comprehensive Annual Financial Report for fiscal years 2000 and 2001

<sup>1</sup> Budgeted revenues are based on revenue estimates certified by the Comptroller of Public Accounts. Budgeted expenditures are based on the General Appropriations Act. Uniform Statewide Accounting System (USAS) data is adjusted in order to compare budget to actual.  
<sup>2</sup> The General Fund is the principal operating fund used to account for most of the State's general activities. It includes the General Revenue Fund and General Revenue-Dedicated Accounts. Some federal funds are included in Dedicated Accounts. Other funds, such as federal food stamps and the disproportionate share portion of the Medicaid program, are not included.