



Joint Legislative Audit Committee
Office of the Auditor General



FINANCIAL AUDIT REPORT
STATE SCHOOL BUILDING AID FUND
YEAR ENDED JUNE 30, 1979

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-739**

REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

739

FINANCIAL AUDIT REPORT
STATE SCHOOL BUILDING AID FUND
YEAR ENDED JUNE 30, 1979

OCTOBER 1980



California Legislature

Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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S. FLOYD MORI
CHAIRMAN

November 21, 1980

739

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the Auditor General's financial audit report of the State School Building Aid Fund, year ended June 30, 1979.

The auditors are Richard I. LaRock, CPA; Fredrick Lewis; Stephen Lozano; and Charles Thrasher.

Respectfully submitted,

S. FLOYD MORI
Chairman, Joint Legislative
Audit Committee

Attachment

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INTRODUCTION

In response to a resolution of the Joint Legislative Audit Committee and in compliance with federal Office of Revenue Sharing regulations, we have conducted an audit of the State School Building Aid Fund. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

Chapter 27, Statutes of 1952 created the State School Building Aid Fund as a fund in the State Treasury. The fund provides financial assistance to school districts to acquire and construct classroom facilities, to rehabilitate and replace structurally inadequate school facilities, to construct regional occupational centers, to acquire portable school and classroom buildings, and to provide for compensatory education programs.

The Director of General Services and the State Allocation Board are responsible for the administration of the State School Building Aid Fund. The Director of General Services serves a dual role in the administration of the fund. First, the director acts through the Office of Local Assistance to help administer programs of the fund and to provide

assistance to the State Allocation Board. Second, the director serves with the Director of Finance and the Superintendent of Public Instruction as a member of the State Allocation Board.

The State Allocation Board generally apportions funds to school districts based upon the acuteness of overcrowding, the rapidity of growth in attendance, and the length of time applications have been ready for allotment.

Two members of the Senate appointed by the Senate Committee on Rules and two members of the Assembly appointed by the Speaker meet with and advise the State Allocation Board. The State Controller's office maintains the central accounts for the fund.

Programs of the State School Building Aid Fund are supported primarily by proceeds from the sale of general obligation bonds authorized by legislative enactment and approved by the electorate of California, proceeds from bonds issued by school districts and remitted to the State School Building Aid Fund as a condition to receiving an apportionment, and receipts from districts from the sale of property.


AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the balance sheet of the State School Building Aid Fund as of June 30, 1979 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 of the Notes to the Financial Statements, the State Controller computes the annual amount of loans receivable from school districts and payable to the General Fund partially based upon the assessed valuation of property in each district. The Director of General Services and the State Allocation Board estimate that 80 percent of the \$2,011,435,158 in loans receivable from school districts at June 30, 1979 will be collected and repaid to the General Fund. This estimate is based upon the statutory requirements for the repayment of loans and estimates of current and probable changes in assessed valuations of property in school districts. Because of the uncertainty involved in determining future assessed valuations of property, this estimate is not verifiable by auditing procedures.

In our opinion, subject to the effects of such adjustments, if any, as might have been required had the amount of loans to be collected from school districts and the amount payable to the General Fund been known, the aforementioned financial statements present fairly the financial position of the State School Building Aid Fund at June 30, 1979 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



WESLEY E. VOSS
Assistant Auditor General

Date: September 2, 1980

Staff: Richard I. LaRock, CPA
Fredrick M. Lewis
Stephen Lozano
Charles Thrasher

STATE SCHOOL BUILDING AID FUND
BALANCE SHEET
JUNE 30, 1979

ASSETS

Cash (Note 3)		\$ 47,748,922
Accounts receivable	\$332,522	
Less: Allowance for deferred accounts receivable	254,446	78,076
Due from other funds		55,928
Loans receivable from school districts:		
Current (Note 2)		165,286,530
In excess of one year (Note 2)	1,846,148,628	
Less: Allowance for uncollectible loans receivable	<u>402,287,032</u>	1,443,861,596
Equipment (Note 4)		<u>846,901</u>
Total Assets		<u><u>\$1,657,877,953</u></u>

LIABILITIES AND FUND EQUITY

Liabilities:		
Accounts payable		\$ 733,716
Payable to the General Fund:		
Current (Note 2)		165,286,530
In excess of one year (Note 2)		<u>1,443,861,596</u>
Total Liabilities		<u>1,609,881,842</u>
Fund Equity:		
Investment in fixed assets (Note 4)		<u>846,901</u>
Fund balance:		
Reserved for loans to school districts (Note 11)		46,116,123
Reserved for districts affected by seasonal agricultural employment (Note 12)		589,509
Reserved for compensatory education (Note 13)		<u>443,578</u>
Total Fund Balance		<u>47,149,210</u>
Total Fund Equity		<u>47,996,111</u>
Total Liabilities and Fund Equity		<u><u>\$1,657,877,953</u></u>

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

STATE SCHOOL BUILDING AID FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Interest income (Note 5)	\$ 78,996,534
Miscellaneous revenues	<u>314,490</u>
Total Revenues	<u>79,311,024</u>
Other Financing Sources:	
School district loan repayments (Note 5)	77,236,771
Refunds of loans to school districts (Note 6)	14,702,367
Adjustment from liquidation of accruals (Note 7)	<u>6,699</u>
Total Other Financing Sources	<u>91,945,837</u>
Total Revenues and Other Financing Sources	<u>171,256,861</u>
Expenditures:	
Current:	
State operations (Note 8)	986,181
Operating expenses and equipment (Note 9)	<u>184,128</u>
Total Expenditures	<u>1,170,309</u>
Other Uses:	
Loans to school districts (Note 10)	49,058,322
Transfers to the General Fund (Note 5)	<u>156,179,391</u>
Total Other Uses	<u>205,237,713</u>
Total Expenditures and Other Uses	<u>206,408,022</u>
Excess of Revenues and Other Financing Sources under Expenditures and Other Uses	(35,151,161)
Fund Balance:	
Fund balance - July 1	<u>82,300,371</u>
Fund balance - June 30	<u><u>\$ 47,149,210</u></u>

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

STATE SCHOOL BUILDING AID FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and the results of operations of the State School Building Aid Fund. The statements have been prepared in conformity with generally accepted accounting principles applicable to state and local governments as prescribed by the American Institute of Certified Public Accountants and by the National Council on Governmental Accounting.

The State Allocation Board and the Office of Local Assistance within the Department of General Services administer the programs of the fund. The State Controller maintains central accounts for this fund and annually publishes fund statements.

The State School Building Aid Fund is an expendable trust fund. Expendable trust funds account for fiduciary resources for which principal and income may be expended.

The State School Building Aid Fund provides financial assistance to school districts to acquire and construct classroom facilities; to rehabilitate and replace structurally inadequate school facilities; to construct regional occupational centers; to purchase portable school and classroom buildings for sale, lease, or rental to school districts affected by seasonal agricultural employment; and to provide for compensatory education programs.

The State School Building Aid Fund is maintained on a modified accrual basis of accounting. These are some of its significant elements:

Income

Throughout the fiscal year, income is accounted for on a cash basis. At June 30, the accounts are adjusted to accrue all earned but uncollected income.

Expenditures

Expenditures are accounted for at the time claims for payment are filed with the State Controller. At June 30, expenditure commitments are accrued.

2. LOANS RECEIVABLE FROM SCHOOL DISTRICTS
AND PAYABLE TO THE GENERAL FUND

The State Controller calculates the annual payments for loans receivable from school districts and deducts the amounts from apportionments made to districts from the State School Fund. The amount deducted is transferred to the State School Building Aid Fund and is available only for transfer to the General Fund. This transfer (1) reimburses the General Fund for expenditures incurred for the redemption and payment of interest on the general obligation bonds which were issued to provide resources to the State School Building Aid Fund, and (2) effective July 24, 1979, any excess of transfers over expenditures is appropriated for purposes of the Leroy F. Greene State Lease - Purchase Law of 1976. The State Controller transfers, as directed by the State Allocation Board, such appropriated amount to the State School Building Lease - Purchase Fund and to the State School Deferred Maintenance Fund.

Since the beginning of the State School Building Aid Fund's programs in 1952, payments by school districts have amounted to 60.7 percent of the expenditures incurred by the General Fund for the redemption of principal and for the payment of interest on general obligation bonds.

Loans receivable from school districts totaled \$2,011,435,158 as of June 30, 1979. The table below details this total by program.

<u>Program</u>	<u>Amount of Loans</u>
Acquisition and construction of classroom facilities	\$1,695,852,887
Rehabilitation and replacement of structurally inadequate school facilities	311,188,091
Compensatory education	2,530,118
Construction of regional occupational centers	<u>1,864,062</u>
Total Loans Receivable from School Districts	<u>\$2,011,435,158</u>

It is estimated that 80 percent of this total amount will be collected and will be available for transfer to the General Fund as reimbursement for expenditures incurred for the redemption of the general obligation bonds and for interest.

This estimate is based upon the statutory requirements for repayments of loans and current and probable changes in assessed valuations of property in school districts. Calculations of annual payments for the two largest programs--Acquisition and Construction of Classroom Facilities and Rehabilitation and Replacement of Structurally Inadequate School Facilities--are discussed below.

Acquisition and Construction of Classroom Facilities

The calculations of annual loan payments for acquisition and construction of classroom facilities are based upon a formula which includes the assessed valuation of property in each school district. The loan payments are partially offset by the school district's bonded indebtedness payments of the fiscal year. The net amount is due for repayment by the school district. The greater the district's assessed valuation of property, the greater the probability that the district's loans, including principal and interest, will be repaid. If an unpaid balance exists at the end of the 30-year loan period, the State Controller is required to cancel the debt.

Rehabilitation and Replacement of Structurally Inadequate School Facilities

Annual loan repayments under this program are limited to the lesser of (1) an equal annual amount (annuity factor for 20 equal annual payments x loan principal) or (2) an amount produced by a tax rate of \$.175 applied to the assessed valuation of property for each of the district's "grade levels" which are defined by Section 16002 of the Education Code. In any year in which the amount derived using the \$.175 tax rate is less than the equal annual amount, the State Controller is required to forgive the loan by the excess of the equal annual amount over the amount produced by a \$.175 tax rate. During the 1978-79 fiscal year, the State Controller forgave \$1,939,465 in loans receivable under this program.

3. CASH

The State School Building Aid Fund obtains resources to support the programs of the fund primarily from the sale of state general obligation bonds. The State Treasurer invests excess cash of the State School Building Aid Fund as part of the Pooled Money Investment Account. Interest on the excess cash of the State School Building Aid Fund accrues to the State's General Fund.

4. EQUIPMENT AND INVESTMENT IN FIXED ASSETS

These account balances represent the cost of equipment purchased for use by the State School Building Aid Fund. Portable school and classroom buildings represent \$831,945 of the account balance at June 30, 1979. The remaining \$14,956 of the equipment account balance represents the cost of office equipment purchased by the Office of Local Assistance within the Department of General Services to aid in the administration of the programs of the fund.

5. INTEREST INCOME, SCHOOL DISTRICT LOAN REPAYMENTS, AND TRANSFERS TO THE GENERAL FUND

Interest income and school district loan repayments received during the year are transferred to the General Fund to partially reimburse it for the redemption and payment of interest on the general obligation bonds issued to provide resources to the State School Building Aid Fund.

6. REFUNDS OF LOANS TO SCHOOL DISTRICTS

This account primarily includes (1) refunds from school districts for completed projects in which project costs were less than the sum of loans from the State School Building Aid Fund and (2) proceeds of local district bonds which had been deposited as a condition to receiving the state loans. The refunds are available for apportionment to school districts.

7. ADJUSTMENTS FROM LIQUIDATION OF ACCRUALS

This account includes the difference between the net amount of revenues and expenditures accrued as of the previous June 30 and the actual amount of revenues and expenditures received or expended during the current fiscal year but related to a prior fiscal year.

8. STATE OPERATIONS

These expenditures represent the costs of personal services and operating expenses for the entities providing support services to the State School Building Aid Fund--the Office of Local Assistance within the Department of General Services, the State Allocation Board, the State Controller, the Department of Education, and the State Treasurer. Annual appropriations are made available to these departments from the State School Building Aid Fund.

Education Code Section 16065 provides that the State Allocation Board, with the approval of the Director of General Services, will fix the rate of interest to be paid by districts on the sum apportioned to them and adjust the average interest rate to the next highest one-tenth of one percent to cover the cost of sale and issuance of the bonds and costs of administration. However, Education Code Section 16080 provides that all money transferred to the State School Building Aid Fund to repay the loans of each school district is available only for transfer to the General Fund. The cost of sale and issuance of the bonds and the costs of administration have been paid from the bond proceeds rather than from the interest collected.

Costs of administration of the School Building Safety Fund and the Public School Building Loan Fund are also paid from bond proceeds of the State School Building Aid Fund.

9. OPERATING EXPENSES AND EQUIPMENT

This account represents expenditures for the purchase and repair of portable school buildings to be rented, leased, or sold to school districts affected by seasonal agricultural employment.

10. LOANS TO SCHOOL DISTRICTS

This account represents the total amount of loan payments made to the school districts by the Department of General Services' Office of Local Assistance during the 1978-79 fiscal year. The table below presents these loan payments by program:

<u>Program</u>	<u>Amount of Loans</u>
Acquisition and construction of classroom facilities	\$34,091,520
Rehabilitation and replacement of structurally inadequate school facilities	13,966,802
Construction of regional occupation centers	<u>1,000,000</u>
Total Loans to School Districts	<u><u>\$49,058,322</u></u>

11. FUND BALANCE--RESERVED FOR LOANS TO SCHOOL DISTRICTS

This account represents proceeds from bond sales that were approved for apportionment to school districts by the State Allocation Board as of June 30, 1979. In addition, the board apportioned \$33,486,453 from expected proceeds from the sale of \$65,000,000 in authorized and unissued general obligation bonds.

12. FUND BALANCE--RESERVED FOR DISTRICTS AFFECTED BY SEASONAL AGRICULTURAL EMPLOYMENT

This account represents funds restricted for the acquisition of portable school and classroom buildings and for expenses incurred to administer this program. Monies received from the rental, lease, or sale of portable school and classroom buildings are used to augment the appropriation for this program.

13. FUND BALANCE--RESERVED FOR COMPENSATORY EDUCATION

This account represents funds restricted by statute for compensatory education purposes. The State Allocation Board may apportion these funds to acquire, install, and equip portable classrooms for instructional purposes; to acquire land for school sites; to construct and equip permanent school buildings and facilities; or to reconstruct, renovate, or remodel existing school buildings and facilities. These funds are recovered from school districts over 30 fiscal years or until 50 percent of the amount of the funds has been recovered.

SUPPLEMENTAL INFORMATION

The data presented as supplemental information compares the legally adopted budget with actual data on the budgetary basis. The State's annual budget represents departmental appropriations as authorized by the Budget Act of 1978 and any authorized revisions during the year to reflect changes in programs and activities. The State's annual budget for the State School Building Aid Fund includes only the appropriations for the operating departments. Accordingly, the budgetary comparison represents only the budgeted portion of the State School Building Aid Fund.

STATE SCHOOL BUILDING AID FUND
 COMPARISON OF THE LEGALLY ADOPTED BUDGET
 WITH ACTUAL DATA ON THE BUDGETARY BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1979

	<u>Budget as Adjusted</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Department of General Services	\$ 727,211	\$600,511	\$126,700
State Controller	206,006	205,494	512
Department of Education	186,386	176,787	9,599
State Allocation Board	4,000	1,353	2,647
State Treasurer	<u>2,036</u>	<u>2,036</u>	<u>--</u>
Total Support	<u>\$1,125,639</u>	<u>\$986,181</u>	<u>\$139,458</u>

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
California State Department Heads
Capitol Press Corps