



Joint Legislative Audit Committee
Office of the Auditor General



**FINANCIAL AUDIT REPORT
CALIFORNIA POLLUTION CONTROL
FINANCING AUTHORITY
YEAR ENDED JUNE 30, 1979**

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT **F-999.20**

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

999.20

FINANCIAL AUDIT REPORT
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
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

999.20

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 California Pollution Control Financing Authority, year ended June 30, 1979.

The auditors are Curt Davis, CPA; Romero Zamora; and Geraldine Parks.

Respectfully submitted,

A handwritten signature in cursive script that reads "S. Floyd Mori".

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 the federal Office of Revenue Sharing regulations, we have conducted a financial audit of the California Pollution Control Financing Authority. This audit was conducted under the authority vested in the Auditor General by Sections 10527 and 10528 of the Government Code.

The California Pollution Control Financing Authority is authorized by the California Pollution Control Financing Authority Act which commences with Section 44500 of the Health and Safety Code. This authority program issues tax exempt revenue bonds for pollution control. These bonds enable industrial firms, public utilities, and agricultural producers to acquire, construct, or install pollution control facilities to meet the air and water quality standards mandated by federal, state, and local governments.

The authority is allowed to incur indebtedness and issue securities. The California Pollution Control Financing Authority Act specifically provides that any incurred indebtedness shall not be secured by the taxing power of the State or any of its political subdivisions. The authority acts

as a trustee and neither receives state revenues nor expends any state appropriations. The authority is supported through fees charged the companies for services.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the California Pollution Control Financing Authority and the statement of revenues, expenditures, and changes in fund balance for the year ended June 30, 1979 listed in the foregoing Table of Contents. 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.

In our opinion, the aforementioned financial statements present fairly the financial position of the California Pollution Control Financing Authority 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

WESLEY E. VOSS
Assistant Auditor General

Date: September 30, 1980

Staff: Curt Davis, CPA
Romero Zamora
Geraldine Parks

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

COMBINED BALANCE SHEET
FIDUCIARY FUND TYPES

JUNE 30, 1979

ASSETS

	<u>Trust and Agency</u>
Cash	\$ 47,591
Investments, at cost (Note 2)	3,394,000
Receivables	10,231
Due from other funds	176,988
Equipment	<u>5,961</u>
Total Assets	<u>\$3,634,771</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	\$ 56,142
Other	10,231
Due to depositors	<u>46,537</u>
Total Liabilities	<u>112,910</u>
Fund Equity:	
Investments in general fixed assets	5,961
Fund balance:	
Reserved for loans (Note 3)	<u>3,515,900</u>
Total Fund Equity	<u>3,521,861</u>
Total Liabilities and Fund Equity	<u>\$3,634,771</u>

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

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
EXPENDABLE TRUST

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

Revenues:	
Licenses and fees	\$ 599,687
Interest income	390,104
Miscellaneous income	<u>1,684</u>
Total Revenues	<u>991,475</u>
Expenditures:	
Personal services	71,228
Interest expense	243,930
Material and supplies	<u>16,028</u>
Total Expenditures	<u>331,186</u>
Other Financing Sources (Uses):	
Proceeds from the sale of bonds	3,358,730
Receipts on commitments	961,429
Pollution control project financing (Note 3)	(4,344,972)
Redemption of serial bonds	<u>(130,000)</u>
Total Other Financing Sources (Uses)	<u>(154,813)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>505,476</u>
Fund Balance - July 1	3,010,424
Fund Balance - June 30	<u><u>\$ 3,515,900</u></u>

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

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY

STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
AGENCY FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1979

ASSETS	Balance June 30, 1978	Additions	Deductions	Balance June 30, 1979
Cash	<u>\$61</u>	<u>\$2,203,907</u>	<u>\$2,157,431</u>	<u>\$46,537</u>
Total Assets	<u>\$61</u>	<u>\$2,203,907</u>	<u>\$2,157,431</u>	<u>\$46,537</u>
LIABILITIES				
Due to depositors	<u>\$61</u>	<u>\$2,203,907</u>	<u>\$2,157,431</u>	<u>\$46,537</u>
Total Liabilities	<u>\$61</u>	<u>\$2,203,907</u>	<u>\$2,157,431</u>	<u>\$46,537</u>

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
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 California Pollution Control Financing Authority. 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 accompanying financial statements are structured into a Fiduciary Fund Type. Fiduciary Fund Types are used to account for assets held by a governmental unit as a trustee or as an agent for individuals or private organizations. The State Controller maintains the central accounts for all state funds and publishes fund statements annually.

These funds are included in the Fiduciary Fund Type:

Expendable Trust Funds

These are funds whose resources, including both principal and earnings, may be expended. The authority maintains the trust account to hold for the proceeds of tax exempt revenue bonds for pollution control. These bonds enable industrial firms to acquire, contract, or install pollution control facilities to meet air and water quality standards mandated by federal, state, and local governments.

Agency Funds

Agency Funds are used to account for resources received and held as an agent for others. The authority accounts for this fund through an account in the Special Deposit Fund. This account holds deposits equaling three percent of bond issues. These deposits are held to pay the debt servicing of pollution control bonds of small businesses in case of insufficient revenues. When bonds are redeemed, indentures satisfied, and all fees and charges paid, any remaining monies on deposit are returned to the depositors.

The Fiduciary Fund Type is maintained on the modified accrual basis of accounting. These are some of its more significant elements:

Income

Throughout the fiscal year all income, except for certain reimbursements which are accounted for when billed, 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, all valid expenditure commitments are accrued as expenditures.

Liabilities

Retirement Plan - Regular employees of the authority are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the authority and its employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. The authority's share of contributions for the fiscal year was \$9,656.

Vacation and Sick Leave - Costs of vacation and sick leave are charged when these benefits are used rather than when they are earned.

2. INVESTMENTS AT COST

This account shows the amount of the authority's money in the Surplus Money Investment Fund, which is used to account for the monies that have been transferred for investment purposes. All earnings derived from investments of the fund are apportioned to the contributing funds.

3. POLLUTION CONTROL PROJECT FINANCING

An initial statutory authorization of \$200 million was augmented in June 1977 by \$200 million for air and water projects. An amount of \$200 million designated for solid waste resource recovery projects was also authorized in June 1977. The authority also has a program of financing pollution control facilities for electrical generating facilities in California. Up to \$160 million of bonds were authorized for this purpose in March 1978. As of December 31, 1978, a total of \$200,407,000 of bonds had been sold by the authority. Of the net authorization balance, \$111,380,000 for air and water projects was reserved for small business.

For small businesses the authority employs 100 percent guarantees of their credit by the U.S. Small Business Administration to assure that long-term tax-exempt financing is available on an equivalent basis.

The California Pollution Control Financing Authority Act specifically provides that any incurred indebtedness shall not be secured by the taxing power of the State or any of its political subdivisions. Thus, the authority is allowed to incur indebtedness only if it repays the debts from its project revenues or other monies received by the authority. This is a trust activity and involves no state revenues or expenditures.

OTHER INFORMATION

As an integral part of our examination, we reviewed the accounting procedures and related system of internal accounting control at the Department of General Services (which maintains the system's accounting records) to the extent we considered necessary to properly form an opinion concerning the fairness with which the California Pollution Control Financing Authority's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied.

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