



February 15, 2011

Ms. Melissa Jones, Executive Director  
Energy Resources Conservation and  
Development Commission  
1516 Ninth Street, MS-39  
Sacramento, CA 95814-5512

Dear Ms. Jones:

**Final Report—Energy Resources Conservation and Development Commission,  
Renewable Resource Trust Fund Audit**

The Department of Finance, Office of State Audits and Evaluations (Finance), has completed its financial audit of the Energy Resources Conservation and Development Commission's (Commission) Renewable Resource Trust Fund for the fiscal year ended June 30, 2010.

The enclosed report is for your information and use. Because there were no audit findings or issues requiring a response, we are issuing the report as final.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of the Commission. If you have any questions regarding this report, please contact Kimberly Tarvin, Manager, or Jennifer Arbis, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Mark Hutchison, Deputy Director, Administrative Services Division, Energy Resources Conservation and Development Commission  
Mr. Kyle Emigh, Budget Officer, Financial Services Branch, Energy Resources Conservation and Development Commission  
Mr. Tony Goncalves, Manager, Renewable Energy Office, Energy Resources Conservation and Development Commission  
Mr. Mark Jones, Accounting Administrator, Energy Resources Conservation and Development Commission  
Ms. Sherri Guzman, Associate Management Auditor, Energy Resources Conservation and Development Commission

A F<sub>INANCIAL</sub> S<sub>TATEMENT</sub> A<sub>UDIT</sub>

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Energy Resources Conservation and  
Development Commission  
Renewable Resource Trust Fund  
For the Fiscal Year Ended  
June 30, 2010

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE TEAM**

Kimberly Tarvin, CPA  
Manager

Jennifer Arbis  
Supervisor

Staff  
Alan Garrett  
Jason Craft  
Dennis Williams

This report is also available on our website at <http://www.dof.ca.gov>.

You can contact our office at:

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Sacramento, CA 95814  
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# EXECUTIVE SUMMARY

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The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit in accordance with an interagency agreement with the Energy Resources Conservation and Development Commission. The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year ended June 30, 2010.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- Report on internal control and compliance weaknesses, and provide recommendations for improving controls over Fund operations.

## **Audit Results**

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2010.
- The audit did not identify any reportable internal control or compliance weaknesses.

This report is intended solely for the information and use of the Commission and the Legislature, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

## INDEPENDENT AUDITOR'S REPORT

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Ms. Melissa Jones, Executive Director  
Energy Resources Conservation and  
Development Commission  
1516 Ninth Street, MS-39  
Sacramento, CA 95814-5512

We have audited the accompanying *Balance Sheet* as of June 30, 2010, and the related *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Renewable Resource Trust Fund (Fund) for the fiscal year then ended. These financial statements are the responsibility of the Energy Resources Conservation and Development Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In connection with our audit, there are certain disclosures required by *Government Auditing Standards*. The Department of Finance (Finance) is not independent of the Commission, as both are part of the State of California's Executive Branch. As required by various statutes within the California Government Code, Finance performs certain management and accounting functions. These activities impair independence. However, sufficient safeguards exist for readers of this report to rely on the information contained herein.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2010, and the results of operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over financial reporting and its operation that we have reported to Commission management in a separate letter dated February 15, 2011.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Commission's management, those charged with governance, and the Legislature, and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

January 19, 2011

# BALANCE SHEET

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**Energy Resources Conservation and Development Commission  
Renewable Resource Trust Fund  
Balance Sheet  
As of June 30, 2010**

**Assets**

Cash and Pooled Investments (Note 1)	\$ 185,218,149
Due From Other Funds or Appropriations (Note 2)	<u>13,140,485</u>
<b>Total Assets</b>	<b><u>\$ 198,358,634</u></b>

**Liabilities and Fund Balance**

**Liabilities**

Accounts Payable	\$ 6,906,072
Due To Other Funds or Appropriations (Note 2)	<u>895,029</u>

<b>Total Liabilities</b>	7,801,101
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**Fund Balance (Note 3)**

Reserved For Encumbrances	50,285,113
Reserved for Unencumbered Balances of Continuing Appropriations	<u>140,272,420</u>

Total Fund Balance	<u>190,557,533</u>
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<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 198,358,634</u></b>
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The accompanying notes are an integral part of the financial statements.



STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE

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**Energy Resources Conservation and Development Commission  
Renewable Resource Trust Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance  
For the Year Ended June 30, 2010**

**Revenues** (Note 1)

Existing Technologies	\$ 14,575,319
Emerging Technologies	57,572,511
Consumer Side Incentives	728,766
SMIF Interest Income	1,140,559
Voluntary Contributions	<u>59,336</u>

**Total Revenues** 74,076,491

**Expenditures** (Note 1)

Existing Technologies	16,372,722
New Technologies	270,833
Emerging Technologies	14,361,428
Consumer Education	2,427,888
Administration Support	6,952,773

**Total Expenditures** 40,385,644

**Other Financing Sources**

Operating Transfers Out	<u>45,000,000</u>
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**Net Change in Fund Balance** (11,309,153)

**Fund Balance, July 1, 2009** 201,866,686

**Fund Balance, June 30, 2010** \$ 190,557,533

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The accompanying notes are an integral part of the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

**Energy Resources Conservation and Development Commission  
Renewable Resource Trust Fund  
For the Year Ended June 30, 2010**

**NOTE 1 Summary of Significant Accounting Policies**

A. Definition of Reporting Entity

The Renewable Resource Trust Fund (Fund) was created in the State Treasury by Senate Bill (SB) 90 (Sher), Chapter 905, Statutes of 1997, to account for the sources and uses of the \$540 million Fund. Assembly Bill (AB) 1890 (Brulte), Chapter 854, Statutes of 1996, required California's three major investor-owned utilities (IOUs) to collect \$540 million from their ratepayers over a four-year period to support the purposes of AB 1890. These IOUs included Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E). The California Public Utilities Commission (CPUC) Resolution E-3556 also authorized a fourth IOU, Golden State Water Company, doing business as Bear Valley Electric Service (BVES), to collect funds from its ratepayers to support the purposes of AB 1890. The ratepayer funds collected by these four IOUs pursuant to AB 1890 and CPUC Resolution E-3556 were deposited in the Fund in accordance with SB 90. The Energy Resources Conservation and Development Commission (Commission) is responsible for the administration and distribution of these moneys.

The Fund maintains accountability for the following four distinct renewable energy programs.

<b>Program</b>	<b>Target Award Beneficiaries</b>
Existing Renewable Facilities	Existing solid fuel biomass, solar thermal, and wind renewable electricity generation facilities.
New Renewable Facilities	New renewable electricity generation facilities using wind, landfill gas, geothermal, small hydro, and biomass. As of July 1, 2008 this program's Fund account has been discontinued.
Emerging Renewables	Customers who install small wind systems (rated output of 50 kW or less) or fuel cells (using a renewable fuel).  New residential construction installations of high-performing solar systems under the New Solar Homes Partnership, which is a component of the Emerging Renewables Program.
Consumer Education and Market Support	Consumer information, education, outreach, and public awareness campaigns.

SB 1994 (Sher), Chapter 1050 and AB 995 (Wright), Statutes of 2000, extended the collection of funds for the period commencing January 1, 2002 and ending January 1, 2012. Specifically, SB 1994 and AB 95 require California's three major IOU's to collect \$135 million annually from ratepayers for the ten-year period.

In 2006, SB 1250, Chapter 512, authorized the Commission to use funds collected from January 1, 2007 through January 1, 2012 for the continued administration and support of the Renewable Energy Program.

However, in 2007, SB 1036 (Perata), Chapter 685, terminated production incentives awarded prior to January 1, 2002 from the New Renewable Resources Account (New Renewable Facilities), except for funds encumbered for renewable energy projects that began generating electricity by January 1, 2007. The law further required the Commission to transfer the remaining unencumbered funds in the New Renewable Resources Account to the electrical corporations (serving customers subject to the renewable energy public goods charge) by March 1, 2008.

The Commission administers the Fund which is shared between the Commission and the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). The Legislature authorized Senate Bill 77, (Chapter 15, Statutes of 2010), which appropriated up to \$50 million from the Fund for the Property Assessed Clean Energy bond until January 1, 2015. Per the Public Resources Code section 26140 the moneys appropriated shall remain in the Fund until the funds are needed by CAEATFA. All repayments of moneys disbursed pursuant to this section shall be deposited into the Renewable Resource Trust Fund.

The financial statements present information on the financial activities of the Fund only, and do not represent all of the financial activities of the Commission, CAEATFA, or of the State of California.

#### B. Basis of Presentation—Fund Accounting

The Fund is classified as a *Governmental Cost Fund* for State of California financial reporting purposes. *Governmental Cost Funds* are special revenue funds used to account for revenues restricted by law for specified purposes. The financial statements are presented in accordance with generally accepted accounting principles.

#### C. Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future such as cash and near-cash items. Accordingly, non-current or long-term assets and liabilities are not presented in the accompanying financial statements; instead, these items are presented in the notes. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available

to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

The accounting policies of the Commission conform to the State Administrative Manual based on the State's budgetary provisions. Program funds are continuously appropriated without regard to fiscal year. Management is responsible for exercising budgetary control to ensure appropriations are not overspent at the fund level. The State Controller's Office is responsible for statewide appropriation control and does not allow expenditures in excess of authorized appropriations.

E. Cash and Pooled Investments

Cash in excess of current needs is deposited in the state's centralized treasury system, which combines the balances of state agencies into a single bank account to simplify cash management. The Surplus Money Investment Fund (SMIF) is managed by the Pooled Money Investment Board (PMIB). State statutes, bond resolutions, and investment policy resolutions allow the PMIB to invest in United States government securities, Canadian government securities, state and municipal securities, certificates of deposit, banker's acceptances, commercial paper, corporate bonds, mortgage loans and notes, other debt securities, repurchase agreements, equity securities, real estate, investment agreements, mutual funds, and other investments.

Each fund whose monies are deposited in this pooled investment account has an equity share in the balance, with investment income allocated to participants based on relative equity at month-end.

F. Revenue

Revenues consist of special levies or collections from the three primary California IOUs, (PG&E, SCE, and SDG&E), interest income earned on funds deposited in SMIF, and voluntary contributions from utility consumers. Miscellaneous revenues may also include receipts consisting primarily of unclaimed checks escheated to the Fund.

The specified amounts paid to the Commission are required to be adjusted annually by March 31 of each year based on a rate equal to the lesser of the annual growth in electric commodity sales or inflation, as defined by the gross domestic product deflator.

For the period July 1, 2009 through June 30, 2010, the allocation is as follows:

Southern California Edison Company	\$ 29,924,000
Pacific Gas and Electric Company	36,452,597
San Diego Gas and Electric Company	<u>6,500,000</u>
Total	<u>\$ 72,876,597</u>

## G. Compensated Absences

Liability for vested and unpaid vacation and annual leave is reported as a long-term liability on the government-wide financial statements. It is anticipated that compensated absences will generally not be used in excess of a normal year's accumulation. Unused sick leave balances are not included in compensated absences because they do not vest to employees. For further information, refer to the *State of California Comprehensive Annual Financial Report*.

## H. Retirement Plan

Regular employees of the Commission are members of the California Public Employees' Retirement System (CalPERS), which is a defined benefit contributory retirement plan. Retirement contributions by employees are set by statute as a percentage of payroll (Tier I employees), or are zero (Tier II employees). Retirement contributions are actuarially determined under a program where total contributions plus CalPERS' investment earnings will provide the necessary funds to pay retirement benefits when incurred. The employer contributions are included in the cost of personal services. For further information, refer to the State of California Comprehensive Annual Financial Report, and to the CalPERS' Comprehensive Annual Financial Report.

### **NOTE 2 Due To/From Other Funds or Appropriations**

Due To Other Funds or Appropriations and Due From Other Funds or Appropriations represent short-term interfund payables and receivables. Specifically, the Due To Other Funds and Appropriations consists of amounts due to the clearing account in Fund 0465 (interfund reimbursements).

### **NOTE 3 Fund Balance**

The term *fund balance* is defined as the excess of the assets of a fund over its liabilities. Part or all of the total fund balance may be reserved as a result of law or generally accepted accounting principles. Reserves represent those portions of the fund balance that are legally segregated for specific uses.

*Reserved for Encumbrances* represents goods and services that are ordered, but not received, by the end of the fiscal year.

*Reserved for Unencumbered Balances of Continuing Appropriations* represents the unencumbered balances of all appropriations for which the period of availability extends beyond the period covered by this report. These appropriations are legally segregated for a specific future use.

### **NOTE 4 Operating Transfers Out**

Operating Transfers Out represents two loans totaling \$45 million as follows:

- The Budget Act of 2009 (Item 3360-011-0382) authorized a loan of \$35 million to the General Fund. The Budget Act of 2010 (Item 3360-401) extended the repayment of the loan to June 30, 2012.

- Senate Bill X8 34 (Padilla, Chapter 9, Statutes of 2010) authorized a \$10 million loan to the Renewable Energy Resources Development Fee Trust Fund and states the loan shall be repaid from the fund to the Renewable Resources Trust Fund no later than December 31, 2012. The Budget Act of 2010 (Item 3360-012-0382) extended the repayment of the loan to June 30, 2013.

**NOTE 5 Non-Current Asset**

In fiscal year 2008-09 the Fund loaned \$10.9 million to the General Fund with the provision that repayment be made so as to ensure the programs supported by the Fund are not adversely affected by the loan, but no later than June 30, 2013 (Budget Act of 2008, Item 3360-011-0382). In accordance with Governmental Accounting Standards Board Statement Number 34 the loan was presented in the prior year financial statements as an operating transfer out. As of June 30, 2010 no loan repayments had been made nor was the loan expected to be repaid within a reasonable period of time (i.e. by June 30, 2011). The loan is thus considered a non-current asset and omitted from the accompanying financial statements in conformity with the current financial resources focus of the Fund's presentation (see Note 1).

**NOTE 6 Contingent Receivable**

In September 2002 the Renewable Resource Trust Fund loaned \$150 million to the General Fund. As of June 2008, the General Fund had repaid \$131.8 million of the \$150 million outstanding loan plus \$15.7 million in accrued interest. The unpaid balance of the loan is \$18.2 million; however, because a specific repayment date has not been established there is no assurance that the loan will be repaid within a reasonable period of time. In accordance with Governmental Accounting Standards Board Statement Number 34, the funds will be reclassified as operating transfers-in when the loan is repaid.