FINANCIAL AUDIT REPORT
FRANCHISE TAX BOARD
YEAR ENDED JUNE 30, 1978

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE
CALIFORNIA LEGISLATURE

REPORT F-453
REPORT OF THE
OFFICE OF THE AUDITOR GENERAL
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE

453
FINANCIAL AUDIT REPORT
FRANCHISE TAX BOARD
YEAR ENDED JUNE 30, 1978

AUGUST 1979
August 27, 1979

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 Franchise Tax

The auditors are Robert Hamric, CPA; George Fracchia;
Del Pelagio, CPA; Ulrich Pelz; Kenneth Pierce; and Robyn Graves.

Respectfully submitted,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>AUDITOR'S OPINION</td>
<td>3</td>
</tr>
<tr>
<td>FINANCIAL STATEMENTS</td>
<td></td>
</tr>
<tr>
<td>COMBINED BALANCE SHEET</td>
<td>4</td>
</tr>
<tr>
<td>GENERAL FUND</td>
<td></td>
</tr>
<tr>
<td>PERSONAL INCOME TAX FUND</td>
<td></td>
</tr>
<tr>
<td>BANK AND CORPORATION TAX FUND</td>
<td></td>
</tr>
<tr>
<td>TRUST ACCOUNTS</td>
<td></td>
</tr>
<tr>
<td>GENERAL FIXED ASSETS</td>
<td></td>
</tr>
<tr>
<td>GENERAL LONG TERM DEBT</td>
<td></td>
</tr>
<tr>
<td>COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN OPERATING</td>
<td>5</td>
</tr>
<tr>
<td>CLEARING AND FUND BALANCE</td>
<td></td>
</tr>
<tr>
<td>GENERAL FUND</td>
<td></td>
</tr>
<tr>
<td>PERSONAL INCOME TAX FUND</td>
<td></td>
</tr>
<tr>
<td>BANK AND CORPORATION TAX FUND</td>
<td></td>
</tr>
<tr>
<td>TRUST ACCOUNTS</td>
<td></td>
</tr>
<tr>
<td>STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN OPERATING CLEARING</td>
<td>6</td>
</tr>
<tr>
<td>- BUDGET AND ACTUAL</td>
<td></td>
</tr>
<tr>
<td>GENERAL FUND</td>
<td></td>
</tr>
<tr>
<td>NOTES TO FINANCIAL STATEMENTS</td>
<td>7</td>
</tr>
<tr>
<td>OTHER INFORMATION</td>
<td>14</td>
</tr>
</tbody>
</table>
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 a financial audit of the Franchise Tax Board (FTB). This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code.

The Franchise Tax Board is responsible for the administration of the Personal Income Tax Law and the Bank and Corporation Tax Law, Senior Citizens and Property Tax Assistance Law, and the Political Reform Act of 1974. The board is composed of the State Controller, the Director of Finance, and the Chairman of the State Board of Equalization. The Executive Officer is the chief administrative official.

The Franchise Tax Board has these objectives:

- To increase public confidence, promote accurate self-assessments, and encourage maximum voluntary compliance by consistent and equitable administration of the Personal Income Tax Law and the Bank and Corporation Tax Law;

- To encourage voluntary and timely remittance of taxes which are held in trust by employers through the personal income tax withholding program;
- To supervise payment of financial assistance to low income California renters and to homeowners who are at least 62 years old and who meet specified income limitations;

- To audit statements and reports of lobbyists, candidates, and campaign committees filed with the Secretary of State;

- To administer Renters' Tax Relief to qualified renters through a personal income tax program in which renters' credit is claimed as a refundable tax credit.

The programs of the Franchise Tax Board are funded by appropriations from the State General Fund and by reimbursements for electronic data processing (EDP) services from state agencies and others.
AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature:

We have examined the combined balance sheet of the Franchise Tax Board as of June 30, 1978, and the related statements of revenues, expenditures, and changes in operating clearing and 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.

In our opinion, the accompanying financial statements present fairly the financial position of the Franchise Tax Board as of June 30, 1978, and the results of its operations and changes in operating clearing and fund balance accounts for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and combined statement of revenues, expenditures, and changes in operating clearing and fund balance for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination, we also (1) made a study and evaluation of the Franchise Tax Board's system of internal accounting control and (2) performed tests of compliance with the Revenue Sharing and Antirecession Fiscal Assistance Acts and regulations as required by the Office of Revenue Sharing, U. S. Department of the Treasury.

Based on these procedures, we noted no instance of noncompliance with the regulations. We communicated this report's findings and recommendations regarding the system of internal accounting control to the Franchise Tax Board.

WESLEY E. VOSS
Assistant Auditor General

Date: March 14, 1979

Staff: Robert Hamric, CPA Ulrich Pelz
       George Fracchia Kenneth Pierce
       Del Pelagio, CPA Robyn Graves
FRANCHISE TAX BOARD

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978

(With Unaudited Amounts for 1977)

<table>
<thead>
<tr>
<th>GOVERNMENTAL FUND TYPES</th>
<th>FIDUCIARY FUND TYPE</th>
<th>ACCOUNT GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General and Special Revenue</td>
<td>General</td>
</tr>
<tr>
<td></td>
<td>Personal Income</td>
<td>Bank and</td>
</tr>
<tr>
<td></td>
<td>Tax</td>
<td>Corporation Tax</td>
</tr>
<tr>
<td>ASSETS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>74,478</td>
<td>47,826</td>
</tr>
<tr>
<td>Cash in Revolving Fund</td>
<td>126,500</td>
<td>-</td>
</tr>
<tr>
<td>Cash on Hand in Agency</td>
<td>20,090</td>
<td>930,033</td>
</tr>
<tr>
<td>Cash in State Treasury</td>
<td>-</td>
<td>52,325,595</td>
</tr>
<tr>
<td>Cash in Transit to State Treasury</td>
<td>-</td>
<td>1,189,563</td>
</tr>
<tr>
<td>Accounts Receivable (Net of Allowance for Deferred Accounts--$115,876,794 in 1978 and $107,614,422 in 1977)</td>
<td>798,810</td>
<td>75,366,619</td>
</tr>
<tr>
<td>Accounts Receivable--Withholding (Net of Allowance for Deferred Accounts--$12,393,723 in 1978 and $16,066,327 in 1977)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Prepayments to Other Funds</td>
<td>51,743</td>
<td>-</td>
</tr>
<tr>
<td>Expense Advances to Employees</td>
<td>44,240</td>
<td>-</td>
</tr>
<tr>
<td>Due from Employment Development</td>
<td>-</td>
<td>964,946</td>
</tr>
<tr>
<td>Contingent Fund</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Securities and Other Property Held in Trust</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Due from General Fund (Controller's Accountability) (Note 9)</td>
<td>1,526,845</td>
<td>-</td>
</tr>
<tr>
<td>Due from Unemployment Compensation Disability Fund</td>
<td>665,027</td>
<td>2,275,551</td>
</tr>
<tr>
<td>Equipment (Note 5)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Advances to Architecture Revolving Fund</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$3,208,333</td>
<td>$191,020,131</td>
</tr>
</tbody>
</table>

LIABILITIES, ENCUMBRANCES, OUTSTANDING AND FUND EQUITY

Liabilities

- Accounts Payable (Note 4) | $4,492,055 | - | - | - | - | - | $4,492,055 | $2,365,777 |
- Refunds Payable | - | 4,408 | 2,468,055 | - | - | - | 4,408 | 2,468,055 |
- Liability for Installment Purchase Contract (Note 5) | - | - | - | - | 2,676,664 | - | 2,676,664 |
- Miscellaneous Credit Balances in Taxpayers' Accounts (Note 2) | - | 17,876,225 | 1,466,513 | - | - | - | 18,625,225 | 1,466,513 |
- Due to Unemployment Fund (Note 6) | - | 13,616,438 | - | - | - | - | 13,616,438 |
- Due to General Fund (Controller's Accountability) (Note 7) | - | 120,013,060 | 24,264,377 | - | - | - | 144,277,437 | 28,250,314 |
- Due to Personal Income Tax Fund | 42,617 | - | - | - | - | - | 42,617 |
- Uncollected Inclusions | 1,678 | - | - | - | - | - | 1,678 | 1,304 |
- TOTAL LIABILITIES | $4,657,250 | $191,020,131 | $28,198,245 | - | 2,675,185 | - | 186,341,651 | 102,502,437 |

Encumbrances Outstanding (Note 8) | 427,420 | - | - | - | - | - | 427,420 |

Fund Equity:

- Investment in General Fixed Assets | - | - | - | - | - | - | 1,473,771 | 1,473,771 |
- Fund Balance: Designated for Construction | - | - | - | - | 102,000 | - | 102,000 |
- Designated for Special Purposes | - | - | - | - | 1,749,996 | - | 1,749,996 |
- Operating Clearing (Note 9) | (1,566,337) | - | - | - | - | - | (1,566,337) | (1,000,000) |
- TOTAL FUND EQUITY | (1,566,337) | - | - | - | 1,749,996 | 1,575,771 | - | 1,759,430 | 2,554,539 |

TOTAL LIABILITIES AND FUND EQUITY | $3,208,333 | $191,020,131 | $28,198,245 | $1,749,996 | $1,575,771 | $2,675,185 | $186,528,261 | $104,556,976 |

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

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN OPERATING CLEARIING AND FUND BALANCE

GOVERNMENTAL FUND TYPES AND TRUST ACCOUNTS

FOR THE FISCAL YEAR ENDED JUNE 30, 1978

(With Unaudited Amounts for 1977)

<table>
<thead>
<tr>
<th>Sources of Financial Resources</th>
<th>GOVERNMENTAL FUND TYPES</th>
<th>FINANCIAL FUND TYPE</th>
<th>TOTAL (Memorandum Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td>$ 4,652,783,645 $ 4,652,783,645</td>
<td>$ 4,652,783,645</td>
</tr>
<tr>
<td>Personal Income Tax (Note 7)</td>
<td>--</td>
<td>2,082,266,531</td>
<td>2,082,266,531</td>
</tr>
<tr>
<td>Bank and Corporation Tax (Note 1)</td>
<td>--</td>
<td>--</td>
<td>36,134</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>36,134</td>
<td>2,746,461 (4,679,668)</td>
<td>(1,933,187)</td>
</tr>
<tr>
<td>Prior Year Income Adjustments</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>36,134</td>
<td>4,655,530,126</td>
<td>2,077,586,063</td>
</tr>
<tr>
<td>Other Sources:</td>
<td></td>
<td>59,184,751</td>
<td>55,463,099</td>
</tr>
<tr>
<td>Support Appropriation (Note 11)</td>
<td>4,705,498</td>
<td>--</td>
<td>4,705,498</td>
</tr>
<tr>
<td>Reimbursements (Note 12)</td>
<td></td>
<td></td>
<td>59,184,751</td>
</tr>
<tr>
<td>Other Appropriations:</td>
<td></td>
<td>78,464,153</td>
<td>52,641,889</td>
</tr>
<tr>
<td>Senior Citizens Property Tax Assistance</td>
<td>--</td>
<td></td>
<td>78,464,153</td>
</tr>
<tr>
<td>Senior Citizens Renters' Tax Assistance</td>
<td>6,851,398</td>
<td>--</td>
<td>6,851,398</td>
</tr>
<tr>
<td>Prior Year Adjustments (Note 14)</td>
<td>230,533</td>
<td>--</td>
<td>230,533</td>
</tr>
<tr>
<td>Transfers from Other Funds (Note 13)</td>
<td>564,829,459</td>
<td>--</td>
<td>564,829,459</td>
</tr>
<tr>
<td>Receipts Depositors</td>
<td>--</td>
<td></td>
<td>1,830,250</td>
</tr>
<tr>
<td>Securities Received from Individuals</td>
<td>--</td>
<td></td>
<td>204,695</td>
</tr>
<tr>
<td>Total Sources of Financial Resources</td>
<td>713,961,056</td>
<td>4,655,530,126</td>
<td>2,077,586,063</td>
</tr>
<tr>
<td>Uses of Financial Resources:</td>
<td></td>
<td>7,449,133,790</td>
<td>5,627,847,134</td>
</tr>
<tr>
<td>Expenditures:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Support Appropriation</td>
<td>64,276,752</td>
<td>--</td>
<td>64,276,752</td>
</tr>
<tr>
<td>Financial Assistance</td>
<td>85,134,682</td>
<td>--</td>
<td>85,134,682</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>149,411,434</td>
<td>--</td>
<td>149,411,434</td>
</tr>
<tr>
<td>Transfers to General Fund (State Controller's Accountability) (Note 7)</td>
<td>4,655,530,126</td>
<td>2,077,586,063</td>
<td>6,733,116,989</td>
</tr>
<tr>
<td>Payments to and for Depositors</td>
<td>--</td>
<td>2,021,872</td>
<td>2,021,872</td>
</tr>
<tr>
<td>Securities Sold or Released to Individuals</td>
<td>--</td>
<td>158,363</td>
<td>158,363</td>
</tr>
<tr>
<td>Securities Issued</td>
<td>--</td>
<td>40,390</td>
<td>40,390</td>
</tr>
<tr>
<td>Other Uses - Refunds (Note 13)</td>
<td>564,936,700</td>
<td>--</td>
<td>564,936,700</td>
</tr>
<tr>
<td>Total Uses of Financial Resources</td>
<td>714,548,134</td>
<td>4,655,530,126</td>
<td>2,077,586,063</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Operating/Clearing Fund Balance</td>
<td>(566,278)</td>
<td>--</td>
<td>(185,370)</td>
</tr>
<tr>
<td>Operating/Clearing Fund Balance - July 1</td>
<td>(1,000,099)</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Operating/Clearing Fund Balance - June 30 (Note 9)</td>
<td>(1,566,337)</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
FRANCHISE TAX BOARD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN OPERATING CLEARING - BUDGET AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978
(With Unaudited Amounts for 1977)

<table>
<thead>
<tr>
<th>Sources of Financial Resources</th>
<th>1978 Budget As Adjusted</th>
<th>Actual</th>
<th>1977 Over (Under) Budget</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support Appropriation (Note 11)</td>
<td>$59,808,302</td>
<td>$59,184,751</td>
<td>($623,551)</td>
<td>$55,453,009</td>
</tr>
<tr>
<td>Reimbursements (Note 12)</td>
<td>4,812,481</td>
<td>4,765,408</td>
<td>(47,073)</td>
<td>3,962,389</td>
</tr>
<tr>
<td>Other Appropriations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Citizens Property Tax Assistance</td>
<td>79,500,000</td>
<td>78,464,153</td>
<td>(1,035,847)</td>
<td>52,541,899</td>
</tr>
<tr>
<td>Senior Citizens Renters' Tax Assistance</td>
<td>20,000,000</td>
<td>6,851,398</td>
<td>(13,148,602)</td>
<td>50,246</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>36,134</td>
<td>30,234</td>
<td>36,134</td>
<td>(120,024)</td>
</tr>
<tr>
<td>Prior Year Adjustments (Note 14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sources of Financial Resources - As Budgeted</td>
<td>$164,120,783</td>
<td>149,552,397</td>
<td>($11,568,386)</td>
<td>111,887,472</td>
</tr>
<tr>
<td>Transfers from Other Funds (Note 13)</td>
<td>564,429,459</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Sources of Financial Resources</td>
<td>713,981,856</td>
<td></td>
<td></td>
<td>111,887,472</td>
</tr>
</tbody>
</table>

Uses of Financial Resources

| Expenditures: Current Support Appropriations: | | | |
|-----------------------------------------------|-------------------|---------|
| Personal Services | $43,732,674 | $43,700,143 | ($32,531) | 40,435,584 |
| Communications | 1,400,507 | 1,400,507 | - | 836,708 |
| Contractual Services - Employers | 8,542,136 | 8,429,709 | (112,427) | 7,453,346 |
| Withholding | 249,137 | 244,325 | (4,812) | 211,886 |
| EDP Equipment | 2,108,853 | 2,107,877 | (976) | 2,321,738 |
| Employee Development | 169,299 | 169,299 | - | 137,184 |
| Employee Relocation | 117,450 | 117,450 | - | 61,535 |
| Equipment | 479,825 | 456,178 | (23,647) | 284,834 |
| Faculties Expense | 2,271,419 | 2,271,419 | - | 2,227,206 |
| General Expense | 650,310 | 606,862 | (43,448) | 700,167 |
| Minor Equipment | 231,342 | 231,342 | - | 181,335 |
| Multi-State Tax Commission Dues | 42,839 | 42,839 | - | 38,214 |
| Postage | 1,836,403 | 1,836,403 | - | 1,713,855 |
| Printing | 1,546,367 | 1,496,896 | (49,471) | 1,605,800 |
| Travel-in-State | 651,722 | 596,477 | (55,245) | 496,438 |
| Travel-out-of-State | 276,100 | 274,406 | (1,694) | 249,647 |
| Minor Capital Outlay | 143,200 | 94,220 | (48,980) | - |
| Political Reform Act | | | | |
| Total Current Support Appropriations | 64,620,783 | 64,276,752 | ($344,031) | 59,314,009 |

Financial Assistance:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Citizens Property Tax Assistance</td>
<td>79,500,000</td>
<td>78,485,166</td>
</tr>
<tr>
<td>Senior Citizens Renters' Tax Assistance</td>
<td>20,000,000</td>
<td>6,849,516</td>
</tr>
<tr>
<td>Total Financial Assistance</td>
<td>99,500,000</td>
<td>85,334,682</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$164,120,783</td>
<td>149,611,434</td>
</tr>
</tbody>
</table>

Other Uses - Refunds (Note 13) | 564,936,700 | | | |
| Total Uses of Financial Resources | 714,548,134 | | | 111,887,494 |

Net Increase (Decrease) in Operating Clearing During the Year | (566,278) | | | 44,478 |

Operating Clearing - July 1 (1,000,059) | (1,044,537) |

Operating Clearing - June 30 (Note 9) ($1,666,337) | ($1,000,059) |

a/ Transfers from other funds are not included in the legislative budget act.

The notes to the financial statements are an integral part of this statement.
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preceding financial statements reflect the financial position and the results of operations of the Franchise Tax Board. The accounts are maintained in the General Fund, in the Personal Income Tax Fund, in the Bank and Corporation Tax Fund, and in trust accounts.

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 the National Council on Governmental Accounting.

General Fund

The Franchise Tax Board maintains a separate set of accounting records for support appropriation, Senior Citizens Property Tax Assistance, Senior Citizens Renter's Assistance and Tax Relief and Refund Account. The board accounts for only its portion of the State's General Fund. The State Controller maintains central accounts for the General Fund and publishes consolidated General Fund statements.

Income

Throughout the fiscal year, income is accounted on a cash basis except appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables which are fully reserved when estimated not to be collectible within one year.

Expenditures

During the year, appropriation expenditures are generally recorded at the time claims for payment are filed with the State Controller. At June 30, all valid expenditure commitments are accrued as expenditures. An exception to this procedure occurs when transfers of
money for capital outlay to the Architecture Revolving Fund are recorded as expended at the time of transfer even though the actual expenditures from the Architecture Revolving Fund may not occur until a later date.

Liabilities

Retirement Plan - Regular employees of the Franchise Tax Board are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and the 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 board's share of retirement contributions for the year was $5,175,019.

Vacation and Sick Leave - The Franchise Tax Board does not record the costs of vacation and sick leave at the time these benefits are accumulated. However, when they are used, the expenditures-personal services account is charged.

Personal Income Tax Fund and Bank and Corporation Tax Fund

The Personal Income Tax Fund is a depository for personal income taxes which are collected, while the Bank and Corporation Tax Fund is a depository for collection of franchise and corporate income taxes. The personal income tax is imposed upon the entire taxable income of California residents and upon nonresidents' income derived from sources within California. Corporations, banks, and financial corporations are subject to franchise taxes for the privilege of exercising the corporate franchise in California. Corporate income tax is levied upon corporations not doing business in California but deriving income from California sources.

After refunds, all revenues of the funds become General Fund revenues and are available only for transfer to the General Fund. The State Controller maintains summary accounts of revenues, refunds, and transfers to the General Fund. All refunds are charged against current collections.
Income

Throughout the fiscal year, income is accounted on a cash basis. At June 30, the accounts are adjusted to a modified accrual basis. Earned but uncollected revenues are accrued, except revenue receivables estimated not to be collectible within one year which are reflected in the Allowance for Deferred Accounts.

The board receives prepayments of taxes through personal income tax withholding and/or declaration of estimated tax. The prepayment of taxes is recorded as revenue earned when cash is received. This accounting practice is acceptable under the National Council on Governmental Accounting guidelines. It is impractical to recognize such prepayments as revenues of the period to which they apply unless the taxpayers' liabilities have been clearly established.

Trust Accounts

The trust accounts maintained by the Franchise Tax Board comprise guaranty deposits in the form of cash, certificates of deposit, stocks, deeds of trust, promissory notes, personal property, and surety bonds. These guaranty deposits are required to assure compliance with provisions of the Personal Income Tax Law and the Bank and Corporation Tax Law.

Trust account transactions consist of receipt and return or application of the guaranty deposits.

General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. Generally, assets valued at $150 or more with a useful life of two years or more are accounted at the original cost or estimated cost. Donated fixed assets are recorded at their estimated fair value when they are acquired.

Litigation

The FTB is involved in a number of legal proceedings and refund claims. These cover a wide range of tax matters. In the opinion of both legal counsel and agency management, final settlement of these matters will have no material adverse effect on the board's financial statements. Any payments resulting from adverse decisions will be charged to revenues in the future.
2. **ACCOUNTS RECEIVABLE**

Accounts Receivable at June 30, 1978 consist of these categories:

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>Personal Income Tax</th>
<th>Bank &amp; Corp. Tax</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 3,032</td>
<td>$174,224,049</td>
<td>$36,403,606</td>
<td>$210,630,687</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>734,350</td>
<td>--</td>
<td>--</td>
<td>734,350</td>
</tr>
<tr>
<td>Other</td>
<td>63,699</td>
<td>--</td>
<td>--</td>
<td>63,699</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>801,081</td>
<td>174,224,049</td>
<td>36,403,606</td>
<td>211,428,736</td>
</tr>
<tr>
<td>Less: Allowance for</td>
<td>2,271</td>
<td>98,237,430</td>
<td>17,637,093</td>
<td>115,876,794</td>
</tr>
<tr>
<td>Deferred Accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>expected to be</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>collected during</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the next fiscal year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$798,810</td>
<td>$75,986,619</td>
<td>$18,766,511</td>
<td>$95,551,942</td>
</tr>
</tbody>
</table>

Accounts Receivable with credit balances are presented as Miscellaneous Credit Balances in Taxpayers' Accounts within the liability section.

3. **ACCOUNTS RECEIVABLE – WITHHOLDING**

The Personal Income Tax Withholding Program is administered by the Department of Benefit Payments under contract with the Franchise Tax Board. The contract covers the collection of personal income taxes withheld from employers, the auditing of employers, and other administrative functions. In administering this program, the Department of Benefit Payments is responsible for creating and collecting accounts receivable from the employers.

4. **ACCOUNTS PAYABLE**

Accounts payable include all unpaid liabilities for goods and services received as of June 30, 1978. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.
5. LIABILITY FOR INSTALLMENT PURCHASE CONTRACT

This account represents the unpaid principal balance of $2,675,185 at June 30, 1978 for the cost of acquiring EDP equipment through an installment purchase contract. The total liability is payable in 60 equal monthly installments with annual interest of 8.5 percent. Total payments to June 30, 1978 (including interest of $140,756) amounted to $425,024.

6. DUE TO UNEMPLOYMENT FUND

The balance of this account represents excess remittances made by the Department of Benefit Payments to the Personal Income Tax Fund.

7. DUE TO THE GENERAL FUND (CONTROLLER'S ACCOUNTABILITY)

These are amounts for transfers to the General Fund - Controller's Accountability as of June 30, 1978:

<table>
<thead>
<tr>
<th></th>
<th>Personal Income Tax Fund</th>
<th>Bank &amp; Corp. Tax Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues collected for the General Fund</td>
<td>$4,655,530,126</td>
<td>$2,077,586,863</td>
<td>$6,733,116,989</td>
</tr>
<tr>
<td>Less: Remitted to the General Fund</td>
<td>(4,535,474,449)</td>
<td>(2,053,322,486)</td>
<td>(6,588,796,935)</td>
</tr>
<tr>
<td>Due from General Fund</td>
<td>(42,617)</td>
<td>--</td>
<td>(42,617)</td>
</tr>
<tr>
<td>Due to the General Fund</td>
<td>$120,013,060</td>
<td>$24,264,377</td>
<td>$144,277,437</td>
</tr>
</tbody>
</table>

8. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services have been received by June 30.

9. OPERATING CLEARING

This account is the connecting link between the Franchise Tax Board's portion of the General Fund and the State Controller's central accounts of the General Fund. The amount of $1,526,845 represents receivable from the Special Account - Tax Relief and Refund Account in the General Fund at June 30, 1978, and is presented as due from the General Fund (Controller's Accountability).
10. RENTAL COMMITMENTS

These are the future minimum rental commitments for noncancelable operating leases for the year ended June 30, 1978:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>$2,063,701</td>
</tr>
<tr>
<td>1980</td>
<td>2,057,437</td>
</tr>
<tr>
<td>1981</td>
<td>2,012,997</td>
</tr>
<tr>
<td>1982</td>
<td>1,932,752</td>
</tr>
<tr>
<td>1983</td>
<td>1,910,172</td>
</tr>
<tr>
<td>through 1988</td>
<td>5,554,420</td>
</tr>
</tbody>
</table>

Total Minimum Lease Payments $15,531,479

Total rental expenses for all leases of premises amounted to $2,074,857 for fiscal year 1977-78 and $1,878,416 for 1976-77.

11. SUPPORT APPROPRIATION

This is the portion of the General Fund which the legislative budget act allocated to the Franchise Tax Board.

12. REIMBURSEMENTS

The Franchise Tax Board provides electronic data processing and other services to various other state agencies and entities. Costs of providing these services are recovered through reimbursements.

13. TRANSFERS FROM OTHER FUNDS

This account contains transfers of funds from Personal Income Tax Fund, Unemployment Compensation Disability Fund, and General Fund appropriation for renters' credits to cover refund claims the State Controller pays from the General Fund—Special Account, Tax Relief and Refund Account. The Controller's Special Account was established on March 24, 1978 to hold monies for personal income tax refunds, renters' credits, and excess disability insurance payments. These are total transfers and payments from March 24, 1978 to June 30, 1978:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax Refunds</td>
<td>$479,178,923</td>
</tr>
<tr>
<td>Renters' Credits Allowed</td>
<td>77,366,564</td>
</tr>
<tr>
<td>Excess Disability Insurance Payments</td>
<td>8,391,212</td>
</tr>
</tbody>
</table>

TOTAL                        | $564,936,700    |
14. PRIOR YEAR ADJUSTMENT

This account shows the difference between the net amount of expenditures, abatements, and reimbursements accrued as of the previous June 30 and the actual amount of expenditures made and abatements and reimbursements realized during the current fiscal year (including accruals) for prior year appropriations no longer available for encumbrance.
OTHER INFORMATION

As an integral part of our examination, we reviewed the board's accounting procedures and related system of internal accounting control to the extent we considered necessary to properly form an opinion concerning the fairness with which the board's financial statements present financial position and results of operations in accordance with generally accepted accounting principles consistently applied. Our review enabled us to suggest improvements which would result in better operating procedures and better operating controls. A management letter describing suggested operating improvements was issued to the board in conjunction with certain recommended adjusting entries necessary in order to achieve compliance with generally accepted accounting principles.

The board fully concurs with the suggested operating improvements and adjusting entries.
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