



Transmitted via e-mail

January 13, 2015

Mr. George C. Halvorson, Chair  
California Children and Families Commission  
2389 Gateway Oaks Drive, Suite 260  
Sacramento, CA 95833

Dear Mr. Halvorson:

**Final Report—California Children and Families Commission, 2014 Financial Statement Audit of the Children and Families Trust Fund and Related Accounts**

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the California Children and Families Trust Fund and related accounts for the fiscal year ended June 30, 2014.

The enclosed report is for your information and use. The financial statements were fairly presented in accordance with generally accepted accounting principles. This report will be placed on our website.

We appreciate the assistance and cooperation of the California Children and Families Commission, Department of General Services, and State Board of Equalization. If you have any questions regarding this report, please contact Jon Chapple, Manager, or Rebecca McAllister, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Camille Maben, Executive Director, California Children and Families Commission  
Ms. Jennifer Clark, Director, Administrative Services Division, California Children and Families Commission  
Ms. Cynthia Bridges, Executive Director, State Board of Equalization  
Ms. Lynn Bartolo, Chief, Special Taxes and Fees Division, State Board of Equalization  
Ms. Ester Cabrera-Diaz, Acting Chief Accounting Officer, Accounting Branch, State Board of Equalization  
Mr. Brock Wimberley, Chief, Internal Audit Division, State Board of Equalization  
Ms. Sandy Wong-Guan, Accounting Administrator II, Contracted Fiscal Services, Department of General Services  
State Controller's Office, Division of Audits, First 5 Oversight Unit

A F INANCIAL S TATEMENT A UDIT

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California Children and  
Families Trust Fund  
and Related Accounts  
For the Fiscal Year Ended  
June 30, 2014

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

## **MEMBERS OF THE TEAM**

Jon G. Chapple, CPA  
Manager

Rebecca McAllister, CPA  
Supervisor

### Staff

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

You can contact our office at:

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# TABLE OF CONTENTS

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Executive Summary .....	iv
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Balance Sheet.....	22
Statement of Revenue, Expenditures and Changes in Fund Balance .....	23
Notes to Financial Statements .....	24
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	31

# EXECUTIVE SUMMARY

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The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with an interagency agreement with the California Children and Families Commission (First 5 California). The objectives of our audit were to:

- Express an opinion on the *Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balance* of the California Children and Families Trust Fund (Trust Fund) and related accounts for the fiscal year ended June 30, 2014.
- 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 operations of the Trust Fund and related accounts.

## **Audit Results**

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2014.
- The audit did not identify any reportable instances of noncompliance or other matters. However, we noted a significant deficiency in internal control over financial reporting which we have included in our report dated January 2, 2015 on our consideration of the First 5 California's internal control over financial reporting and compliance and other matters.

This report is intended solely for the information and use of the Trust Fund's management, those charged with governance, 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.



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## INDEPENDENT AUDITOR'S REPORT

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Mr. George C. Halvorson, Chair  
California Children and Families Commission  
2389 Gateway Oaks Drive, Suite 260  
Sacramento, CA 95833

We have audited the accompanying financial statements of the governmental activities of the California Children and Families Trust Fund (Trust Fund) and related accounts for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Department of Finance (Finance) and the audited entity are both 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. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Trust Fund and related accounts as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Trust Fund and related accounts are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of the State of California that is attributable to the transactions of the Trust Fund and related accounts. They do not purport to, and do not, present fairly the financial position of the State of California as of June 30, 2014, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 21 be presented to supplement the basic financial statements. Accounting principles also require budgetary comparison information; however, since the Trust Fund is continuously appropriated, the comparison was omitted. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2015, on our consideration of California Children and Families Commission's (First 5 California) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First 5 California's internal control over financial reporting and compliance.

This report is intended solely for the information and use of Trust Fund 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:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

January 2, 2015





## MANAGEMENT'S DISCUSSION AND ANALYSIS

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To demonstrate Californians' belief that children are a top priority, voters passed Proposition 10 in 1998, adding a 50-cent tax to each pack of cigarettes sold to create First 5 California, also known as the California Children and Families Commission. First 5 California is dedicated to improving the lives of California's young children and their families through a comprehensive system of education, health services, childcare, and other crucial programs. Since its creation 16 years ago, First 5 California has brought these critical services to millions of parents, caregivers and children ages 0 to 5, and strives to reach thousands more every day.

First 5 California distributes funds to local communities through California's 58 individual counties, all of which have created their own local First 5 County Commissions. Eighty percent of the annual revenue is allocated to the 58 county commissions based upon the number of births in each county, while the remaining 20 percent funds the state's overall programs and administrative costs.

### **Our Mission**

First 5 California's mission is to convene, partner in, support, and help lead the movement to create and implement a comprehensive, integrated, and coordinated system for California's children prenatal through five and their families. The agency also promotes, supports, and optimizes early childhood development.

### **Our Vision**

The vision of First 5 California is for California's children to receive the best possible start in life and thrive.

### **Overview of the Financial Statements**

First 5 California presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments*. Financial statements have been prepared for eight special revenue funds administered by First 5 California to account for the cigarette and tobacco tax revenue received as a result of the passage of Proposition 10.

This discussion and analysis of First 5 California's financial performance provides an overview of its financial activities for the fiscal year ending June 30, 2014. It should be read in conjunction with First 5 California's financial statements.

## **Financial Highlights**

- For the fiscal year ending June 30, 2014, First 5 California recorded disbursements totaling \$40,928,109 (actual and accrued) for its CARES Plus and Child Signature Program (CSP).
- Total fund balance (all First 5 California funds) was \$154,545,168 as of June 30, 2014, which is an increase of \$19,031,649 from the previous year.
- Revenue recorded in all funds for the fiscal year ending June 30, 2014, was \$461,922,868, which is \$20,587,957, or 4.3 percent, less than the previous year due to a decrease in tobacco tax revenue.
- Expenditures recorded in all funds for the fiscal year ending June 30, 2014, were \$432,935,610, which is \$10,648,825 less than the expenditures reported during the previous fiscal year.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. First 5 California uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Comparisons of current year and prior year financial activities for each of the eight funds administered by First 5 California are displayed on subsequent pages.

## **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in fund financial statements. The notes to the financial statements can be found on the pages listed in the Table of Contents of this report.

**Fund 0623 – California Children and Families Trust Fund  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 37,926,451	\$ 3,211,657	\$ 34,714,794	1080.9%
Investments	1,401,000	37,866,000	(36,465,000)	(96.3%)
Receivables	34,501,480	39,113,618	(4,612,138)	(11.8%)
Due From Other Funds	1,223,351	1,349,071	(125,720)	(9.3%)
<b>Total Assets</b>	<b>\$ 75,052,282</b>	<b>\$ 81,540,346</b>	<b>\$ (6,488,064)</b>	<b>(8.0%)</b>
<b>Liabilities</b>				
Due To Other Funds	\$ 75,048,010	\$ 81,536,074	\$ (6,488,064)	(8.0%)
<b>Total Liabilities</b>	<b>75,048,010</b>	<b>81,536,074</b>	<b>(6,488,064)</b>	<b>(8.0%)</b>
<b>Fund Balance</b>				
Restricted	4,272	4,272	-	0.0%
<b>Total Fund Balance</b>	<b>4,272</b>	<b>4,272</b>	<b>-</b>	<b>0.0%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 75,052,282</b>	<b>\$ 81,540,346</b>	<b>\$ (6,488,064)</b>	<b>(8.0%)</b>

**Explanation of Significant Variances**

Cash and Investments varied significantly between 2014 and 2013 due to the timing of the monthly transfer of funds by the Board of Equalization. In 2014, resources were moved from Investments to Cash in order to transfer funds to applicable entities; however, the transfer did not take place by June 30, 2014. This resulted in Cash being significantly higher and Investments significantly lower than reported the previous year.

**Fund 0623 – California Children and Families Trust Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Cigarette Tax Revenue	\$ 460,634,451	\$ 481,237,784	\$(20,603,333)	(4.3%)
Interest Revenue	73,574	93,648	(20,074)	(21.4%)
Other Revenue	200,000	-	200,000	-
<b>Total Revenue</b>	460,908,025	481,331,432	(20,423,407)	(4.2%)
<b>Expenditures</b>	16,588,489	15,830,475	758,014	4.8%
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	444,319,536	465,500,957	(21,181,421)	(4.6%)
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers Out	444,319,536	465,500,957	(21,181,421)	(4.6%)
<b>Net Change in Fund Balance</b>	-	-	-	-
<b>Fund Balance, Beginning</b>	4,272	4,272	-	0.0%
<b>Fund Balance, Ending</b>	\$ 4,272	\$ 4,272	\$ -	0.0%

**Explanation of Significant Variances**

No significant variances exist between fiscal years.

**Fund 0585 – Counties Children and Families Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 918	\$ 139	\$ 779	560.4%
Investments	31,365,000	31,621,000	(256,000)	(0.8%)
Due From Other Funds	60,048,243	65,240,410	(5,192,167)	(8.0%)
<b>Total Assets</b>	<b>\$ 91,414,161</b>	<b>\$ 96,861,549</b>	<b>\$ (5,447,388)</b>	<b>(5.6%)</b>
<b>Liabilities</b>				
Due To Other Governments	\$ 91,414,161	\$ 96,861,549	\$ (5,447,388)	(5.6%)
<b>Total Liabilities</b>	<b>91,414,161</b>	<b>96,861,549</b>	<b>(5,447,388)</b>	<b>(5.6%)</b>
<b>Fund Balance</b>				
Restricted	-	-	-	-
<b>Total Fund Balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 91,414,161</b>	<b>\$ 96,861,549</b>	<b>\$ (5,447,388)</b>	<b>(5.6%)</b>

**Explanation of Significant Variances**

No significant variances exist between fiscal years.

**Fund 0585 – Counties Children and Families Account  
Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 34,315	\$ 52,954	\$ (18,639)	(35.2%)
<b>Total Revenue</b>	34,315	52,954	(18,639)	(35.2%)
<b>Expenditures</b>	344,449,944	360,453,719	(16,003,775)	(4.4%)
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(344,415,629)	(360,400,765)	15,985,136	(4.4%)
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	344,415,629	360,400,765	(15,985,136)	(4.4%)
<b>Net Change in Fund Balance</b>	-	-	-	-
<b>Fund Balance, Beginning</b>	-	-	-	-
<b>Fund Balance, Ending</b>	\$ -	\$ -	\$ -	0.0%

**Explanation of Significant Variances**

No significant variances exist between fiscal years.

**Fund 0631 – Mass Media Communications Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 981	\$ 319	\$ 662	207.5%
Investments	28,781,000	32,405,000	(3,624,000)	(11.2%)
Due From Other Funds	4,606,271	5,081,027	(474,756)	(9.3%)
<b>Total Assets</b>	<b>\$33,388,252</b>	<b>\$ 37,486,346</b>	<b>\$ (4,098,094)</b>	<b>(10.9%)</b>
<b>Liabilities</b>				
Accounts Payable	\$ 6,579,656	\$ 2,553,503	\$ 4,026,153	157.7%
Due To Other Funds	6,222,248	14,712,764	(8,490,516)	(57.7%)
<b>Total Liabilities</b>	<b>12,801,904</b>	<b>17,266,267</b>	<b>(4,464,363)</b>	<b>(25.9%)</b>
<b>Fund Balance</b>				
Restricted	20,586,348	20,220,079	366,269	1.8%
<b>Total Fund Balance</b>	<b>20,586,348</b>	<b>20,220,079</b>	<b>366,269</b>	<b>1.8%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$33,388,252</b>	<b>\$ 37,486,346</b>	<b>\$ (4,098,094)</b>	<b>(10.9%)</b>

**Explanation of Significant Variances**

The Accounts Payable account was higher in 2014 than 2013 due to the timing of contract payments. Because several large contract invoices had not been received as of June 30, 2014, the amounts were accrued at year-end but not yet paid. For the prior year, similar contract invoices were received and paid prior to the year-end.

The Due To Other Funds account was significantly less in 2014 than 2013 as a result of a contract ending June 30, 2013, between First 5 California and the Department of Developmental Services. An accrual in the amount of \$10,000,000 was recorded in 2013 to account for this fund's portion of the final contract payment. This decrease was offset by increased CSP accruals, which were higher in 2014 than 2013 due to increased activities reported by Lead Agencies<sup>1</sup> during the last billing cycle of the fiscal year, \$23,795,540 versus \$16,573,732, respectively.

<sup>1</sup> Lead Agencies are entities that participate in First 5 California's signature programs.

**Fund 0631 – Mass Media Communications Account  
Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 61,309	\$ 67,788	\$ (6,479)	(9.6%)
Other Revenue	578,751	711,165	(132,414)	(18.6%)
<b>Total Revenue</b>	640,060	778,953	(138,893)	(17.8%)
<b>Expenditures</b>	26,960,954	27,319,986	(359,032)	(1.3%)
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(26,320,894)	(26,541,033)	220,139	(0.8%)
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	26,031,172	27,030,057	(998,885)	(3.7%)
PY Expenditure Refund	655,991	-	655,991	-
<b>Net Change in Fund Balance</b>	366,269	489,024	(122,755)	(25.1%)
<b>Fund Balance, Beginning</b>	20,220,079	19,731,055	489,024	2.5%
<b>Fund Balance, Ending</b>	\$ 20,586,348	\$ 20,220,079	\$ 366,269	1.8%

**Explanation of Significant Variances**

Other Revenue consists of matching federal funds received from the Department of Health Care Services to produce and distribute the Kit for New Parents to Medi-Cal beneficiaries who have become new parents. The decrease of \$132,414 in 2014 was due to fewer kits being distributed compared to the previous year.

The Prior Year (PY) Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during the fiscal year. Detailed information is provided in Note 4 of the Notes to Financial Statements section of this report.



**Fund 0634 – Education Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 843	\$ 556	\$ 287	51.6%
Investments	50,500,000	39,492,000	11,008,000	27.9%
Due From Other Funds	3,779,566	4,099,073	(319,507)	(7.8%)
<b>Total Assets</b>	<b>\$ 54,280,409</b>	<b>\$ 43,591,629</b>	<b>\$ 10,688,780</b>	<b>24.5%</b>
<b>Liabilities</b>				
Due To Other Funds	\$ 11,815,536	\$ 9,564,568	\$ 2,250,968	23.5%
Due To Other Governments	-	78,061	(78,061)	(100.0%)
<b>Total Liabilities</b>	<b>11,815,536</b>	<b>9,642,629</b>	<b>2,172,907</b>	<b>22.5%</b>
<b>Fund Balance</b>				
Restricted	42,464,873	33,949,000	8,515,873	25.1%
<b>Total Fund Balance</b>	<b>42,464,873</b>	<b>33,949,000</b>	<b>8,515,873</b>	<b>25.1%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 54,280,409</b>	<b>\$ 43,591,629</b>	<b>\$ 10,688,780</b>	<b>24.5%</b>

**Explanation of Significant Variances**

Due To Other Funds was higher in 2014 than 2013 due to increased CSP accruals. Accruals for this program were higher in 2014 than 2013 due to increased activities reported by Lead Agencies during the last billing cycle of the fiscal year, \$23,795,540 versus \$16,573,732, respectively.

**Fund 0634 – Education Account**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 98,976	\$ 113,365	\$ (14,389)	(12.7%)
<b>Total Revenue</b>	98,976	113,365	(14,389)	(12.7%)
<b>Expenditures</b>	14,566,836	9,926,388	4,640,448	46.7%
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(14,467,860)	(9,813,023)	(4,654,837)	47.4%
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	21,525,977	22,525,048	(999,071)	(4.4%)
PY Expenditure Refund	1,457,756	-	1,457,756	-
<b>Net Change in Fund Balance</b>	8,515,873	12,712,025	(4,196,152)	(33.0%)
<b>Fund Balance, Beginning</b>	33,949,000	21,236,975	12,712,025	59.9%
<b>Fund Balance, Ending</b>	\$42,464,873	\$ 33,949,000	\$ 8,515,873	25.1%

**Explanation of Significant Variances**

Expenditures were higher in 2014 due to the increased amount of reimbursement claims submitted by Lead Agencies participating in CSP, as well as contract payments related to this program. The increase in CSP activity is partially due to the implementation of CSP 3, which started July 1, 2013, as well as increased services provided by the Lead Agencies.

The PY Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during the fiscal year. Detailed information is provided in Note 4 of the Notes to Financial Statements section of this report.

**Fund 0636 – Child Care Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 90	\$ 358	\$ (268)	(74.9%)
Investments	34,617,000	31,768,000	2,849,000	9.0%
Due From Other Funds	2,270,197	2,464,730	(194,533)	(7.9%)
<b>Total Assets</b>	<b>\$ 36,887,287</b>	<b>\$ 34,233,088</b>	<b>\$ 2,654,199</b>	<b>7.8%</b>
<b>Liabilities</b>				
Accounts Payable	\$ 58,863	\$ 262,068	\$ (203,205)	(77.5%)
Due To Other Funds	2,949,723	2,354,978	594,745	25.3%
Due To Other Governments	4,093,111	3,828,506	264,605	6.9%
<b>Total Liabilities</b>	<b>7,101,697</b>	<b>6,445,552</b>	<b>656,145</b>	<b>10.2%</b>
<b>Fund Balance</b>				
Restricted	29,785,590	27,787,536	1,998,054	7.2%
<b>Total Fund Balance</b>	<b>29,785,590</b>	<b>27,787,536</b>	<b>1,998,054</b>	<b>7.2%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 36,887,287</b>	<b>\$ 34,233,088</b>	<b>\$ 2,654,199</b>	<b>7.8%</b>

**Explanation of Significant Variances**

The Accounts Payable account was higher in 2014 than 2013 due to the timing of contract payments. Because several large contract invoices had not been received as of June 30, 2014, the amounts were accrued at year-end but not yet paid. For the prior year, similar contract invoices were received and paid prior to the year-end.

Due To Other Funds was higher in 2014 than 2013 due to increased CSP accruals. Accruals for this program were higher in 2014 than 2013 due to increased activities reported by Lead Agencies during the last billing cycle of the fiscal year, \$23,795,540 versus \$16,573,732, respectively.

**Fund 0636 – Child Care Account**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 75,135	\$ 83,929	\$ (8,794)	(10.5%)
<b>Total Revenue</b>	75,135	83,929	(8,794)	(10.5%)
<b>Expenditures</b>	11,612,213	10,310,850	1,301,363	12.6%
<b>Excess (Deficiency of Revenue)</b>				
<b>Over (Under) Expenditures</b>	(11,537,078)	(10,226,921)	(1,310,157)	12.8%
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	12,915,586	13,515,029	(599,443)	(4.4%)
PY Expenditure Refund	619,546	-	619,546	-
<b>Net Change in Fund Balance</b>	1,998,054	3,288,108	(1,290,054)	(39.2%)
<b>Fund Balance, Beginning</b>	27,787,536	24,499,428	3,288,108	13.4%
<b>Fund Balance, Ending</b>	\$ 29,785,590	\$ 27,787,536	\$ 1,998,054	7.2%

**Explanation of Significant Variances**

The PY Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during the fiscal year. Detailed information is provided in Note 4 of the Notes to Financial Statements section of this report.

**Fund 0637 – Research and Development Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 850	\$ 800	\$ 50	6.3%
Investments	27,003,000	22,787,000	4,216,000	18.5%
Due From Other Funds	2,265,649	2,458,923	(193,274)	(7.9%)
<b>Total Assets</b>	<b>\$ 29,269,499</b>	<b>\$ 25,246,723</b>	<b>\$ 4,022,776</b>	<b>15.9%</b>
<b>Liabilities</b>				
Accounts Payable	\$ 40,654	\$ 100,117	\$ (59,463)	(59.4%)
Due To Other Funds	2,952,381	7,355,695	(4,403,314)	(59.9%)
Due To Other Governments	375,000	418,998	(43,998)	(10.5%)
<b>Total Liabilities</b>	<b>3,368,035</b>	<b>7,874,810</b>	<b>(4,506,775)</b>	<b>(57.2%)</b>
<b>Fund Balance</b>				
Restricted	25,901,464	17,371,913	8,529,551	49.1%
<b>Total Fund Balance</b>	<b>25,901,464</b>	<b>17,371,913</b>	<b>8,529,551</b>	<b>49.1%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 29,269,499</b>	<b>\$ 25,246,723</b>	<b>\$ 4,022,776</b>	<b>15.9%</b>

**Explanation of Significant Variances**

The Due To Other Funds account was significantly less in 2014 than 2013 as a result of a contract ending June 30, 2013, between First 5 California and the Department of Developmental Services. An accrual in the amount of \$5,000,000 was recorded in 2013 to this account for this fund's portion of the contract payment. This decrease was offset by increased CSP accruals, which were higher in 2014 than 2013 due to increased activities reported by Lead Agencies during the last billing cycle of the fiscal year, \$23,795,540 versus \$16,573,732, respectively.

**Fund 0637 – Research and Development Account  
Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 53,192	\$ 47,690	\$ 5,502	11.5%
<b>Total Revenue</b>	53,192	47,690	5,502	11.5%
<b>Expenditures</b>	5,350,325	8,575,133	(3,224,808)	(37.6%)
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(5,297,133)	(8,527,443)	3,230,310	(37.9%)
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	12,915,586	13,515,029	(599,443)	(4.4%)
PY Expenditure Refund	911,098	-	911,098	-
<b>Net Change in Fund Balance</b>	8,529,551	4,987,586	3,541,965	71.0%
<b>Fund Balance, Beginning</b>	17,371,913	12,384,327	4,987,586	40.3%
<b>Fund Balance, Ending</b>	\$ 25,901,464	\$ 17,371,913	\$ 8,529,551	49.1%

**Explanation of Significant Variances**

Expenditures were lower in 2014 than 2013 due to the Department of Developmental Services contract payment in the amount of \$5,000,000. This decrease was offset by an increase of expenditures associated with CSP.

The PY Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during the fiscal year. Detailed information is provided in Note 4 of the Notes to Financial Statements section of this report.

**Fund 0638 – Administration Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 44,644	\$ 46,338	\$ (1,694)	(3.7%)
Investments	21,432,000	22,056,000	(624,000)	(2.8%)
Receivables	30,467	8,257	22,210	269.0%
Due From Other Funds	762,524	829,813	(67,289)	(8.1%)
Prepaid Expenses	60,767	56,181	4,586	8.2%
<b>Total Assets</b>	<b>\$ 22,330,402</b>	<b>\$ 22,996,589</b>	<b>\$ (666,187)</b>	<b>(2.9%)</b>
<b>Liabilities</b>				
Accounts Payable	\$ 50,102	\$ 32,069	\$ 18,033	56.2%
Due To Other Funds	839,737	125,139	714,598	571.0%
<b>Total Liabilities</b>	<b>889,839</b>	<b>157,208</b>	<b>732,631</b>	<b>466.0%</b>
<b>Fund Balance</b>				
Restricted	21,440,563	22,839,381	(1,398,818)	(6.1%)
<b>Total Fund Balance</b>	<b>21,440,563</b>	<b>22,839,381</b>	<b>(1,398,818)</b>	<b>(6.1%)</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 22,330,402</b>	<b>\$ 22,996,589</b>	<b>\$ (666,187)</b>	<b>(2.9%)</b>

**Explanation of Significant Variances**

The majority of the Due To Other Funds account represents funds due to First 5 California's Clearing Account. Effective July 1, 2013, payroll expenditures were initially disbursed from First 5 California's Clearing Account, located in Fund 0639, and then allocated to the Administration Account. The amount of Due to Other Funds representing payroll expenditures initially paid from Fund 0639 as of June 30, 2014, was \$725,179.

**Fund 0638 – Administration Account**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 52,749	\$ 66,620	\$ (13,871)	(20.8%)
<b>Total Revenue</b>	52,749	66,620	(13,871)	(20.8%)
<b>Expenditures</b>	5,756,762	4,821,671	935,091	19.4%
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(5,704,013)	(4,755,051)	(948,962)	20.0%
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	4,305,195	4,505,010	(199,815)	(4.4%)
<b>Net Change in Fund Balance</b>	(1,398,818)	(250,041)	(1,148,777)	459.4%
<b>Fund Balance, Beginning</b>	22,839,381	23,089,422	(250,041)	(1.1%)
<b>Fund Balance, Ending</b>	\$ 21,440,563	\$ 22,839,381	\$ (1,398,818)	(6.1%)

**Explanation of Significant Variances**

No significant variances exist between fiscal years.



**Fund 0639 – Unallocated Account  
Balance Sheet**

The following is a summary comparison of prior year to current year balance sheet:

	June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Assets</b>				
Cash	\$ 40	\$ 195	\$ (155)	(79.5%)
Investments	13,329,000	14,365,000	(1,036,000)	(7.2%)
Receivables	1,171	-	1,171	-
Due From Other Funds	28,800,817	37,845,083	(9,044,266)	(23.9%)
<b>Total Assets</b>	<b>\$ 42,131,028</b>	<b>\$ 52,210,278</b>	<b>\$ (10,079,250)</b>	<b>(19.3%)</b>
<b>Liabilities</b>				
Accounts Payable	\$ 694,805	\$ 46,402	\$ 648,403	1397.4%
Due To Other Funds	2,949,779	17,585,410	(14,635,631)	(83.2%)
Due To Other Governments	24,124,386	21,237,128	2,887,258	13.6%
<b>Total Liabilities</b>	<b>27,768,970</b>	<b>38,868,940</b>	<b>(11,099,970)</b>	<b>(28.6%)</b>
<b>Fund Balance</b>				
Restricted	14,362,058	13,341,338	1,020,720	7.7%
<b>Total Fund Balance</b>	<b>14,362,058</b>	<b>13,341,338</b>	<b>1,020,720</b>	<b>7.7%</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 42,131,028</b>	<b>\$ 52,210,278</b>	<b>\$ (10,079,250)</b>	<b>(19.3%)</b>

**Explanation of Significant Variances**

The Due From Other Funds account was significantly less in 2014 than 2013 as a result of a contract ending June 30, 2013, between First 5 California and the Department of Developmental Services. An accrual in the amount of \$15,000,000 was initially recorded in the Clearing Account, residing in Fund 0639, and allocated to funds 0631 and 0637. The amounts due from funds 0631 and 0637 were represented in this account in 2013.

The Accounts Payable account was higher in 2014 than 2013 due to the timing of contract payments. Because several large contract invoices had not been received as of June 30, 2014, the amounts were accrued at year-end but not yet paid. For the prior year, similar contract invoices were received and paid prior to the year-end.

In conjunction with the Due From Other Funds explanation, the Due To Other Funds account was significantly less in 2014 than 2013 as a result of the \$15,000,000 accrual representing the payment to the Department of Developmental Services.

**Fund 0639 – Unallocated Account**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**

The following is a summary comparison of prior year to current year Statement of Revenues, Expenditures and Changes in Fund Balance:

	For the year ended June 30,		Change	
	2014	2013	Dollar	Percentage
<b>Revenue</b>				
Interest Revenue	\$ 60,416	\$ 35,882	\$ 24,534	68.4%
<b>Total Revenue</b>	60,416	35,882	24,534	68.4%
<b>Expenditures</b>	7,650,087	6,346,213	1,303,874	20.5%
<b>Excess (Deficiency of Revenue) Over (Under) Expenditures</b>	(7,589,671)	(6,310,331)	(1,279,340)	20.3%
<b>Other Financing Sources &amp; Uses</b>				
Operating Transfers In	8,610,391	9,010,019	(399,628)	(4.4%)
<b>Net Change in Fund Balance</b>	1,020,720	2,699,688	(1,678,968)	(62.2%)
<b>Fund Balance, Beginning</b>	13,341,338	10,641,650	2,699,688	25.4%
<b>Fund Balance, Ending</b>	\$ 14,362,058	\$ 13,341,338	\$ 1,020,720	7.7%

**Explanation of Significant Variances**

No significant variances exist between fiscal years.

**Requests for Information**

This financial report is designed to provide a general overview of First 5 California's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

First 5 California  
 Attn: Administrative Services Division  
 2389 Gateway Oaks Drive, Suite 260  
 Sacramento, CA 95833

# BALANCE SHEET

## California Children and Families Commission California Children and Families Trust Fund and Related Accounts As of June 30, 2014

	California Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
<b>Assets</b>								
Cash	\$ 37,926,451	\$ 918	\$ 981	\$ 843	\$ 90	\$ 850	\$ 44,644	\$ 40
Investments	1,401,000	31,365,000	28,781,000	50,500,000	34,617,000	27,003,000	21,432,000	13,329,000
Receivables	34,501,480						30,467	1,171
Due from Other Funds <sup>1</sup>	1,223,351	60,048,243	4,606,271	3,779,566	2,270,197	2,265,649	762,524	28,800,817
Prepaid Expenses							60,767	
<b>Total Assets</b>	<b>\$ 75,052,282</b>	<b>\$ 91,414,161</b>	<b>\$ 33,388,252</b>	<b>\$ 54,280,409</b>	<b>\$ 36,887,287</b>	<b>\$ 29,269,499</b>	<b>\$ 22,330,402</b>	<b>\$ 42,131,028</b>
<b>Liabilities</b>								
Accounts Payable			\$ 6,579,656		\$ 58,863	\$ 40,654	\$ 50,102	\$ 694,805
Due to Other Funds <sup>2</sup>	\$ 75,048,010		6,222,248	\$ 11,815,536	2,949,723	2,952,381	839,737	2,949,779
Due to Other Governments		\$ 91,414,161			4,093,111	375,000		24,124,386
<b>Total Liabilities</b>	<b>75,048,010</b>	<b>91,141,161</b>	<b>12,801,904</b>	<b>11,815,536</b>	<b>7,101,697</b>	<b>3,368,035</b>	<b>889,839</b>	<b>27,768,970</b>
<b>Fund Balance</b>								
Restricted	4,272	0	20,586,348	42,464,873	29,785,590	25,901,464	21,440,563	14,362,058
<b>Total Fund Balance</b>	<b>4,272</b>	<b>0</b>	<b>20,586,348</b>	<b>42,464,873</b>	<b>29,785,590</b>	<b>25,901,464</b>	<b>21,440,563</b>	<b>14,362,058</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 75,052,282</b>	<b>\$ 91,414,161</b>	<b>\$ 33,388,252</b>	<b>\$ 54,280,409</b>	<b>\$ 36,887,287</b>	<b>\$ 29,269,499</b>	<b>\$ 22,330,402</b>	<b>\$ 42,131,028</b>

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

<sup>2</sup> See Note 3

STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE

**California Children and Families Commission  
California Children and Families Trust Fund and Related Accounts  
For the Fiscal Year Ended June 30, 2014**

	California Children and Families Trust Fund (0623)	Counties Children and Families Account (0585)	Mass Media Communications Account (0631)	Education Account (0634)	Child Care Account (0636)	Research and Development Account (0637)	Administration Account (0638)	Unallocated Account (0639)
<b>Revenue</b>								
Cigarette Tax Revenue	\$ 460,634,451							
Interest Revenue	73,574	\$ 34,315	\$ 61,309	\$ 98,976	\$ 75,135	\$ 53,192	\$ 52,749	\$ 60,416
Other Revenue	200,000		578,751					
<b>Total Revenue</b>	<b>460,908,025</b>	<b>34,315</b>	<b>640,060</b>	<b>98,976</b>	<b>75,135</b>	<b>53,192</b>	<b>52,749</b>	<b>60,416</b>
<b>Expenditures</b>	16,588,489	344,449,944	26,960,954	14,566,836	11,612,213	5,350,325	5,756,762	7,650,087
<b>Excess (Deficiency) of Revenues Over(Under) Expenditures</b>	<b>444,319,536</b>	<b>(344,415,629)</b>	<b>(26,320,894)</b>	<b>(14,467,860)</b>	<b>(11,537,078)</b>	<b>(5,297,133)</b>	<b>(5,704,013)</b>	<b>(7,589,671)</b>
<b>Other Financing Sources &amp; Uses</b>								
Operating Transfers In <sup>1</sup>		344,415,629	26,031,172	21,525,977	12,915,586	12,915,586	4,305,195	8,610,391
Operating Transfers Out <sup>1</sup>	444,319,536							
PY Expenditure Refund <sup>2</sup>			655,991	1,457,756	619,546	911,098		
<b>Net Change in Fund Balance</b>	<b>0</b>	<b>0</b>	<b>366,269</b>	<b>8,515,873</b>	<b>1,998,054</b>	<b>8,529,551</b>	<b>(1,398,818)</b>	<b>1,020,720</b>
<b>Fund Balance July 1, 2013</b>	<b>4,272</b>	<b>0</b>	<b>20,220,079</b>	<b>33,949,000</b>	<b>27,787,536</b>	<b>17,371,913</b>	<b>22,839,381</b>	<b>13,341,338</b>
<b>Fund Balance June 30, 2014</b>	<b>\$ 4,272</b>	<b>\$ 0</b>	<b>\$ 20,586,348</b>	<b>\$ 42,464,873</b>	<b>\$ 29,785,590</b>	<b>\$ 25,901,464</b>	<b>\$ 21,440,563</b>	<b>\$ 14,362,058</b>

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

<sup>1</sup> See Note 3

<sup>2</sup> See Note 4

# NOTES TO FINANCIAL STATEMENTS

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## California Children and Families Commission California Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2014

### NOTE 1 Reporting Entity and Summary of Significant Accounting Policies

#### A. Definition of Reporting Entity

The California Children and Families Trust Fund (Trust Fund) and its related accounts were created by the *California Children and Families Act of 1998 (Act)*. Programmatic and fiscal oversight for the Act was placed with the California Children and Families Commission (First 5 California). The Act is intended to promote, support, and improve the early development of children from the prenatal stage to five years of age. The Trust Fund and its related accounts are included as a special revenue fund in the State of California's financial statements.

The programs authorized by this Act are administered by First 5 California and by county children and families commissions. The First 5 California Commission is comprised of seven members.

Prior to January 1, 1999, the State Board of Equalization (BOE) was authorized to collect 37 cents for each cigarette pack distributed. On January 1, 1999, section 30131.2 of the Revenue and Taxation Code authorized BOE to collect an additional 50 cents for each cigarette pack distributed, for a total of 87 cents per cigarette pack, as well as a surtax on other tobacco products. Of the 87 cents collected, 50 cents is allocated and deposited into the Trust Fund. The remainder funds Proposition 99 and Breast Cancer programs.

While First 5 California has full responsibility for the program and financial statements, BOE receives, accounts for, and deposits the cigarette and tobacco product tax revenue into the Trust Fund. Further, the Department of General Services performs accounting services for First 5 California.

The Trust Fund was established to provide funding for promoting, supporting, and improving the early development of children from the prenatal stage to five years of age, with emphasis on community awareness, education, nurturing, child care, social services, health care, and research. It primarily functions as a pass-through account which transfers funds to the seven related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and First 5 California receives 20 percent, which is allocated to six separate accounts that implement specific functions of the Act, as illustrated in Table 1.

**Table 1: California Children and Families Trust Fund (0623)  
Cigarette Tax Revenue Allocation**

Account	Account Title	Percent Allocation	Account Purpose
0585	Counties Children and Families Account	80%	For allocation to county commissions <sup>1</sup> for the purposes authorized in the Act and in accordance with each county's strategic plan. All county commission expenditures must be incurred in accordance with the provisions of the Health and Safety Code section 130105 (d)(2).
0631	Mass Media Communications Account	6%	For funding communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the Act.
0634	Education Account	5%	For funding education goals and purposes as specified in the Act.
0636	Child Care Account	3%	For funding child care goals and purposes as specified in the Act.
0637	Research and Development Account	3%	For funding research and development goals and purposes as specified in the Act.
0638	Administration Account	1%	For funding administrative costs and other purposes as specified in the Act.
0639	Unallocated Account	2%	For funding any other purposes of the Act, except for administrative costs.

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

The Trust Fund and related accounts are classified as *Other Governmental Cost Funds* for State of California financial reporting purposes. *Other 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 governmental fund financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, First 5 California records revenues when they are measurable and available within the ensuing 12 months. Expenditures are recorded when the related liability is incurred.

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<sup>1</sup> Each First 5 county commission is allocated funds from Account 0585 based on the number of live births recorded in each county in proportion to the entire number of live births recorded statewide. For the fiscal year 2013-14 allocations, the 2011 birth vital statistics compiled by the California Department of Public Health were used as this was the most recent reporting period available.

D. Budget and Budgetary Control

Under Revenue and Taxation Code section 30131.3, the moneys deposited into the Trust Fund are continuously appropriated for the exclusive purpose of the California Children and Families Program.

E. Investment Basis and Allocation of Investment Income

Investments consist of cash in excess of current needs on deposit in the Surplus Money Investment Fund (SMIF). The Trust Fund and related accounts participate in the State of California's Pooled Money Investment Program, whereby cash on deposit in the State Treasury determined to be in excess of immediate needs is transferred to the SMIF for investment purposes. All earnings from investments are apportioned to the contributing fund as provided in the Government Code. The participant's shares are valued on an amortized cost basis, which approximates fair value. Because the difference between the amortized cost and fair value is not material, no adjustment has been made in the financial statements.

F. Accounts Receivable

Accounts receivable consists of unbilled earned revenues and revenues collected by BOE but not yet transferred to the Trust Fund as of June 30, 2014. Accounts receivable is recorded net of estimated uncollectible amounts.

G. Revenue

Revenue consists of the taxes collected on the sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the SMIF, and unclaimed checks escheated to the issuing fund.

H. Fund Balance

First 5 California's fund balance classification is restricted according to Governmental Accounting Standard Board (GASB) Statement Number 54. Restricted fund balances include resources that are subject to constraints that are externally enforceable legal restrictions such as the Act's enabling legislation.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE 2 Investments**

For disclosures related to investment policy and related investment risk categories, see the State of California Comprehensive Annual Financial Report.

**NOTE 3 Interfund Transactions**

*Interfund Balances*

These balances result from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments are made between funds. The Due From Other Funds general ledger account consists of revenue recorded in the originating fund that is pending transfer to another fund for disbursement purposes. The Unallocated Account (0639) includes the clearing account and related reimbursement accruals for expenditures incurred on behalf of the other accounts.

**Table 2: Due From Other Funds**

<b>Fund/Account</b>	<b>Due From Fund/Account</b>	<b>Amount</b>
Fund 0623: Trust Fund		
	BOE General Fund (0001)	\$ 1,208,798
	Surplus Money Investment Fund (0681)	<u>14,553</u>
	<b>Total Due From Other Funds</b>	<b>\$ 1,223,351</b>
Account 0585: Counties Children and Families Account		
	Trust Fund (0623)	\$ 60,038,408
	Surplus Money Investment Fund (0681)	<u>9,835</u>
	<b>Total Due From Other Funds</b>	<b>\$ 60,048,243</b>
Account 0631: Mass Media Communications Account		
	Trust Fund (0623)	\$ 4,502,881
	Health Care Deposit Fund (0912)	88,324
	Surplus Money Investment Fund (0681)	<u>15,066</u>
	<b>Total Due From Other Funds</b>	<b>\$ 4,606,271</b>
Account 0634: Education Account		
	Trust Fund (0623)	\$ 3,752,401
	Mass Media Communications Account (0634)	20
	Child Care Account (0636)	27
	Research and Development Account (0637)	29
	Unallocated Account (0639)	16
	Surplus Money Investment Fund (0681)	<u>27,073</u>
	<b>Total Due From Other Funds</b>	<b>\$ 3,779,566</b>
Account 0636: Child Care Account		
	Trust Fund (0623)	\$ 2,251,440
	Surplus Money Investment Fund (0681)	<u>18,757</u>
	<b>Total Due From Other Funds</b>	<b>\$ 2,270,197</b>
Account 0637: Research and Development Account		
	Trust Fund (0623)	\$ 2,251,440
	Surplus Money Investment Fund (0681)	<u>14,209</u>
	<b>Total Due From Other Funds</b>	<b>\$ 2,265,649</b>
Account 0638: Administration Account		
	Trust Fund (0623)	\$ 750,480
	Surplus Money Investment Fund (0681)	<u>12,044</u>
	<b>Total Due From Other Funds</b>	<b>\$ 762,524</b>



<b>Fund/Account</b>	<b>Due From Fund/Account</b>	<b>Amount</b>
Account 0639: Unallocated Account		
	Trust Fund (0623)	\$ 1,500,960
	Mass Media Communications Account (0631)	5,899,391
	Education Account (0634)	11,815,536
	Child Care Account (0636)	2,949,696
	Research and Development Account (0637)	2,952,352
	Administration Account (0638)	725,179
	Unallocated Account (0639)	2,949,696
	Surplus Money Investment Fund (0681)	<u>8,007</u>
	Total Due From Other Funds	\$ 28,800,817

The Due To Other Funds general ledger account represents revenue accrued for transfer to the related accounts as of year-end, and reimbursements to the Unallocated Account (0639) at year-end.

**Table 3: Due To Other Funds**

<b>Fund/Account</b>	<b>Due To Fund/Account</b>	<b>Amount</b>
Fund 0623: Trust Fund		
	Counties Children and Families Account (0585)	\$ 60,038,408
	Mass Media Communications Account (0631)	4,502,881
	Education Account (0634)	3,752,401
	Child Care Account (0636)	2,251,440
	Research and Development Account (0637)	2,251,440
	Administration Account (0638)	750,480
	Unallocated Account (0639)	<u>1,500,960</u>
	Total Due To Other Funds	\$ 75,048,010
Account 0631: Mass Media Communications Account		
	Education Account (0634)	\$ 20
	Unallocated Account (0639)	5,899,391
	Various other funds	<u>322,837</u>
	Total Due To Other Funds	\$ 6,222,248
Account 0634: Education Account		
	Unallocated Account (0639)	\$ 11,815,536
Account 0636: Child Care Account		
	Education Account (0634)	\$ 27
	Unallocated Account (0639)	<u>2,949,696</u>
	Total Due To Other Funds	\$ 2,949,723
Account 0637: Research and Development Account		
	Education Account (0634)	\$ 29
	Unallocated Account (0639)	<u>2,952,352</u>
	Total Due To Other Funds	\$ 2,952,381
Account 0638: Administration Account		
	General Fund	\$ 49,751
	Unallocated Account (0639)	725,179
	Various other funds	<u>64,807</u>
	Total Due To Other Funds	\$ 839,737

<b>Fund/Account</b>	<b>Due To Fund/Account</b>	<b>Amount</b>
Account 0639: Unallocated Account		
	General Fund	\$ 67
	Education Account (0634)	16
	Unallocated Account (0639)	<u>2,949,696</u>
	Total Due To Other Funds	\$ 2,949,779

*Interfund Transfers*

Legally authorized transfers between state funds are reported on the *Statement of Revenue, Expenditures, and Changes in Fund Balance* as Transfers In or Transfers Out, and are accounted for as increases or decreases in residual equity.

The Transfers In for the seven related accounts are calculated based on the applicable allocation percentages specified in Note 1.

**Table 4: Transfers In**

Transfers in from Fund 0623 Trust Fund to:	
Account 0585: Counties Children and Families	\$ 344,415,629
Account 0631: Mass Media Communications	26,031,172
Account 0634: Education	21,525,977
Account 0636: Child Care	12,915,586
Account 0637: Research and Development	12,915,586
Account 0638: Administration	4,305,195
Account 0639: Unallocated	<u>8,610,391</u>
Total Operating Transfers in	\$ 430,719,536

**Table 5: Transfers Out**

Transfers out from Fund 0623 Trust Fund to:	
Related accounts	\$ 430,719,536
Backfill	<u>13,600,000</u>
Total Operating Transfers Out	\$ 444,319,536

The Trust Fund's Transfers Out represents the sum of the Transfers In to the seven related accounts and the statutorily required backfill of \$13.6 million for Proposition 99 and Breast Cancer programs. Section 130105 of the Health and Safety Code requires the Trust Fund, on an annual basis, to backfill the loss of funding for certain Proposition 99 (Tobacco Tax and Health Protection Act of 1988) and Breast Cancer Fund programs to offset the revenue loss from declining cigarette and tobacco product consumption resulting from the imposition of additional taxes on cigarettes and tobacco products by the Act. BOE makes the fiscal determination of the backfill amount and transfers the appropriate funds.

**NOTE 4 Prior Year Expenditure Refund**

In March 2014, First 5 Los Angeles returned \$3,545,619 in unspent advances and accrued interest of \$98,772 related to Cycle 2 of First 5 California's School Readiness Program. Remitted funds totaled \$3,644,391 and were allocated to Accounts 0631, 0634, 0636, and 0637, based on the initial funding.

**NOTE 5 Contingent Liabilities**

BOE is involved in legal proceedings that, if decided against BOE, may result in a loss of funds available for transfer to the various programs supported by tobacco taxes. Specifically, a distributor has filed claims for the periods January 2008 through October 2011, and is anticipated to continue filing claims as the statute of limitations periods approach for each reporting period. Claims filed to date total \$57,574,583. The claims are being scheduled for appeals conferences. At this time, it is not possible to predict the ultimate outcome concerning these claims or the amount of any future claims filed on this issue. Therefore, no provision for the potential liability has been made in the financial statements.

INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Mr. George C. Halvorson, Chair  
California Children and Families Commission  
2389 Gateway Oaks Drive, Suite 260  
Sacramento, CA 95833

We have audited, in accordance with the 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, the financial statements of the governmental activities of the California Children and Families Trust Fund and related accounts for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise California Children and Families Commission's (First 5 California) financial statements, and have issued our report thereon dated January 2, 2015.

The Department of Finance (Finance) and the audited entity are both 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. Under *Government Auditing Standards*, performance of these activities creates an organizational impairment with respect to independence. However, Finance has developed and implemented safeguards to mitigate the organizational impairment so reliance can be placed on the work performed.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered First 5 California's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First 5 California's internal control. Accordingly, we do not express an opinion on the effectiveness of First 5 California's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control relating to the uncleared reconciling items in the cash account, that we consider to be a significant deficiency.

#### FINDING 2014-01

Condition: Beginning with the September 2013 fund reconciliation, the Administration Account (0638) reconciliation prepared by the Department of General Services contained differences between the First 5 California's cash account (account 1140) balance and the State Controller's Office (SCO) cash account balance. The differences continued throughout the fiscal year and were not cleared until after the start of the audit.

Criteria: State Administrative Manual section 7901 requires monthly reconciliations of accounts to disclose errors, analyze differences and make corrections between First 5 California's and the SCO's records.

Cause: Transfers made by the SCO from the cash account were not posted in the First 5 California's accounting records. The preparer and reviewer of the cash reconciliation failed to identify and correct the discrepancy in a timely manner.

Recommendation: Ensure all reconciling differences are identified and corrected timely.

Response: The Department of General Services acknowledged the uncleared difference in the reconciliations of the Administration Account (0638) cash account and stated they will ensure all reconciling differences are identified and corrected in a timely manner.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether First 5 California's financial statements are free from 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*.

#### **Response to Finding**

The Department of General Services' response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by:

Richard R. Sierra, CPA  
Chief, Office of State Audits and Evaluations

January 2, 2015