



Transmitted via e-mail

March 11, 2016

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, 2015 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, 2015.

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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Camille Maben, Executive Director, California Children and Families Commission
Mr. Michael Fuller, Interim Director, Fiscal Services Office, California Children and Families Commission
Ms. Cynthia Bridges, Executive Director, State Board of Equalization
Mr. David Gau, Chief Deputy Director, State Board of Equalization
Ms. Edna B. Murphy, Deputy Director, Administration Department, State Board of Equalization
Ms. Lynn Bartolo, Chief, Special Taxes and Fees Division, State Board of Equalization
Ms. Liz Peralta, Chief Accounting Officer, Accounting Section, 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}

California Children and
Families Trust Fund
and Related Accounts
For the Fiscal Year Ended
June 30, 2015

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

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

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EXECUTIVE SUMMARY

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, 2015.
- 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, 2015.
- The audit did not identify any reportable instances of noncompliance or other matters.

We noted a matter that we reported to First 5 California management in a separate letter dated March 11, 2016.

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.

INDEPENDENT AUDITOR'S REPORT

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, 2015, 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, 2015, 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, 2015, 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 March 4, 2016, 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:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

March 4, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the California Children and Families Commission, also known as First 5 California. 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 17 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 are allocated to First 5 California for 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, 2015. It should be read in conjunction with First 5 California's financial statements.

Financial Highlights

- For the fiscal year ending June 30, 2015, First 5 California recorded disbursements totaling \$42,335,321 (actual and accrued) for its CARES Plus and Child Signature Program (CSP).
- Total fund balance (all First 5 California funds) was \$172,272,578 as of June 30, 2015, which is an increase of \$17,727,410 from the previous year.
- Revenue recorded in all funds for the fiscal year ending June 30, 2015, was \$462,787,094 which is \$864,226, or .2 percent, more than the previous year due to a leveling out of cigarette and tobacco tax revenue.
- Expenditures recorded in all funds for the fiscal year ending June 30, 2015, were \$430,359,684, which is \$2,575,926 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, including the California Children and Families Act of 1998 (Health and Safety Code sections 130100 through 130158). 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	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 2,267,713	\$ 37,926,451	\$ (35,658,738)	(94.0%)
Investments	67,798,000	1,401,000	66,397,000	4,739.3%
Receivables	36,958,865	34,501,480	2,457,385	7.1%
Due From Other Funds	1,485,374	1,223,351	262,023	21.4%
Total Assets	\$108,509,952	\$ 75,052,282	\$ 33,457,670	44.6%
Liabilities				
Due To Other Funds	\$108,505,680	\$ 75,048,010	\$ 33,457,670	44.6%
Total Liabilities	108,505,680	75,048,010	33,457,670	44.6%
Fund Balance				
Restricted	4,272	4,272	-	0.0%
Total Fund Balance	4,272	4,272	-	0.0%
Total Liabilities and Fund Balance	\$108,509,952	\$ 75,052,282	\$ 33,457,670	44.6%

Explanation of Significant Variances

Cash and Investments varied significantly between 2014-15 and 2013-14 due to the timing of the monthly transfer of funds by the State Board of Equalization. In 2014-15, 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, 2015. This resulted in Cash being significantly lower and Investments significantly higher than reported in the previous year.

The Due to Other Funds account increased over 2013-14 due to the accrual of cigarette and tobacco tax revenue (three months) by the State Board of Equalization. The funds were due to the Counties Children and Families Account and the accounts of First 5 California, but were transferred subsequent to June 30, 2015.

**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	
	2015	2014	Dollar	Percentage
Revenue				
Cigarette Tax Revenue	\$ 460,968,549	\$460,634,451	\$ 334,098	0.1%
Interest Revenue	84,862	73,574	11,288	15.3%
Other Revenue	-	200,000	(200,000)	(100.0%)
Total Revenue	<u>461,053,411</u>	<u>460,908,025</u>	<u>145,386</u>	<u>0.0%</u>
Expenditures	<u>16,213,951</u>	<u>16,588,489</u>	<u>(374,538)</u>	<u>(2.3%)</u>
Excess (Deficiency of Revenue) Over (Under) Expenditures	444,839,460	444,319,536	519,924	0.1%
Other Financing Sources & Uses				
Operating Transfers Out	<u>444,839,460</u>	<u>444,319,536</u>	<u>519,924</u>	<u>0.1%</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning	<u>4,272</u>	<u>4,272</u>	<u>-</u>	<u>0.0%</u>
Fund Balance, Ending	<u>\$ 4,272</u>	<u>\$ 4,272</u>	<u>\$ -</u>	<u>0.0%</u>

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	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 775	\$ 918	\$ (143)	(15.6%)
Investments	76,000	31,365,000	(31,289,000)	(99.8%)
Due From Other Funds	<u>86,816,381</u>	<u>60,048,243</u>	<u>26,768,138</u>	<u>44.6%</u>
Total Assets	\$ 86,893,156	\$ 91,414,161	\$ (4,521,005)	(4.9%)
Liabilities				
Due To Other Governments	<u>\$ 86,893,156</u>	<u>\$ 91,414,161</u>	<u>\$ (4,521,005)</u>	<u>(4.9%)</u>
Total Liabilities	86,893,156	91,414,161	(4,521,005)	(4.9%)
Fund Balance				
Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	-	-	-	-
Total Liabilities and Fund Balance	<u>\$ 86,893,156</u>	<u>\$ 91,414,161</u>	<u>\$ (4,521,005)</u>	<u>(4.9%)</u>

Explanation of Significant Variances

No significant variances in assets and fund balance exist between fiscal years. Differences in the balances for Investments and Due From Other Funds was due to the timing of accruals and transfers of cigarette and tobacco tax revenue by the State Board of Equalization as of June 30, 2015.

**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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 38,732	\$ 34,315	\$ 4,417	12.9%
Total Revenue	38,732	34,315	4,417	12.9%
Expenditures	344,150,300	344,449,944	(299,644)	(0.1%)
Excess (Deficiency of Revenue) Over (Under) Expenditures	(344,111,568)	(344,415,629)	304,061	(0.1%)
Other Financing Sources & Uses				
Operating Transfers In	344,111,568	344,415,629	(304,061)	(0.1%)
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning	-	-	-	-
Fund Balance, Ending	\$ -	\$ -	\$ -	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	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 86,480	\$ 981	\$ 85,499	8715.5%
Investments	25,178,000	28,781,000	(3,603,000)	(12.5%)
Due From Other Funds	6,917,414	4,606,271	2,311,143	50.2%
Total Assets	\$32,181,894	\$ 33,388,252	\$ (1,206,358)	(3.6%)
Liabilities				
Accounts Payable	\$ 1,504,625	\$ 6,579,656	\$ (5,075,031)	(77.1%)
Due To Other Funds	6,506,925	6,222,248	284,677	4.6%
Total Liabilities	8,011,550	12,801,904	(4,790,354)	(37.4%)
Fund Balance				
Restricted	24,170,344	20,586,348	3,583,996	17.4%
Total Fund Balance	24,170,344	20,586,348	3,583,996	17.4%
Total Liabilities and Fund Balance	\$32,181,894	\$ 33,388,252	\$ (1,206,358)	(3.6%)

Explanation of Significant Variances

The change in Cash and Investments balances is reflective of the timing of automatic transfers initiated by the State Treasurer's Office to maximize investment interest in the State's bank accounts through the use of the Surplus Money Investment Fund.

Due From Other Funds was higher in 2015 than 2014 due to increased accruals and the timing of the transfers of cigarette and tobacco tax revenue from the State Board of Equalization as of June 30, 2015.

The Accounts Payable account was lower in 2015 than 2014 due to the timing of contract payments. Because several large contract invoices had been received and paid as of June 30, 2015, the effect is lowered amounts of payables at year-end. For the prior year, similar contract invoices were received, but not paid prior to the year-end.

The change in Fund Balance is primarily reflective of lower expenditures in 2015 resulting from the end of First 5's largest contract, for media advertising and outreach, in 2014. A new media contract was not executed until June 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 64,230	\$ 61,309	\$ 2,921	4.8%
Other Revenue	597,489	578,751	18,738	3.2%
Total Revenue	661,719	640,060	21,659	3.4%
Expenditures	22,886,090	26,960,954	(4,074,864)	(15.1%)
Excess (Deficiency of Revenue) Over (Under) Expenditures	(22,224,371)	(26,320,894)	4,096,523	(15.6%)
Other Financing Sources & Uses				
Operating Transfers In	25,808,367	26,031,172	(222,805)	(0.9%)
PY Expenditure Refund	-	655,991	(655,991)	(100.0%)
Net Change in Fund Balance	3,583,996	366,269	3,217,727	878.5%
Fund Balance, Beginning	20,586,348	20,220,079	366,269	1.8%
Fund Balance, Ending	<u>\$ 24,170,344</u>	<u>\$ 20,586,348</u>	<u>\$ 3,583,996</u>	<u>17.4%</u>

Explanation of Significant Variances

As explained for the Balance Sheet in Fund 0631, the overall decrease in expenditures and increase in the ending Fund Balance, was primarily reflective of lowered expenditures resulting from the end of First 5's largest contract, for media advertising and outreach, in 2014. A new media contract was executed in June 2015.

The Prior Year (PY) Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during 2014 attributable to prior years' activity resulting from the closure of the School Readiness Program.

**Fund 0634 – Education Account
Balance Sheet**

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

	June 30,		Change	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 488	\$ 843	\$ (355)	(42.1%)
Investments	54,398,000	50,500,000	3,898,000	7.7%
Due From Other Funds	5,463,389	3,779,566	1,683,823	44.6%
Total Assets	\$ 59,861,877	\$ 54,280,409	\$ 5,581,468	10.3%
Liabilities				
Account Payable	14,999	-	14,999	-
Due To Other Funds	\$ 11,586,216	\$ 11,815,536	\$ (229,320)	(1.9%)
Due To Other Governments	794	-	794	-
Total Liabilities	11,602,009	11,815,536	(213,527)	(1.8%)
Fund Balance				
Restricted	48,259,868	42,464,873	5,794,995	13.6%
Total Fund Balance	48,259,868	42,464,873	5,794,995	13.6%
Total Liabilities and Fund Balance	\$ 59,861,877	\$ 54,280,409	\$ 5,581,468	10.3%

Explanation of Significant Variances

Due From Other Funds was higher in 2015 than 2014 due to increased accruals and the timing of the transfers of cigarette and tobacco tax revenue from the State Board of Equalization as of June 30, 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 128,330	\$ 98,976	\$ 29,354	29.7%
Other Revenue	163,265	-	163,265	-
Total Revenue	291,595	98,976	192,619	194.6%
Expenditures	16,003,573	14,566,836	1,436,737	9.9%
Excess (Deficiency of Revenue) Over (Under) Expenditures	(15,711,978)	(14,467,860)	(1,244,118)	8.6%
Other Financing Sources & Uses				
Operating Transfers In	21,506,973	21,525,977	(19,004)	(0.1%)
PY Expenditure Refund	-	1,457,756	(1,457,756)	(100.0%)
Net Change in Fund Balance	5,794,995	8,515,873	(2,720,878)	(32.0%)
Fund Balance, Beginning	42,464,873	33,949,000	8,515,873	25.1%
Fund Balance, Ending	\$48,259,868	\$ 42,464,873	\$ 5,794,995	13.6%

Explanation of Significant Variances

The Prior Year (PY) Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during 2014 attributable to prior years' activity resulting from the closure of the School Readiness Program.

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

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

	June 30,		Change	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 240	\$ 90	\$ 150	166.7%
Investments	35,702,000	34,617,000	1,085,000	3.1%
Due From Other Funds	3,280,184	2,270,197	1,009,987	44.5%
Total Assets	\$ 38,982,424	\$ 36,887,287	\$ 2,095,137	5.7%
Liabilities				
Accounts Payable	\$ 156,672	\$ 58,863	\$ 97,809	166.2%
Due To Other Funds	2,886,284	2,949,723	(63,439)	(2.2%)
Due To Other Governments	3,712,208	4,093,111	(380,903)	(9.3%)
Total Liabilities	6,755,164	7,101,697	(346,533)	(4.9%)
Fund Balance				
Restricted	32,227,260	29,785,590	2,441,670	8.2%
Total Fund Balance	32,227,260	29,785,590	2,441,670	8.2%
Total Liabilities and Fund Balance	\$ 38,982,424	\$ 36,887,287	\$ 2,095,137	5.7%

Explanation of Significant Variances

Due From Other Funds was higher in 2015 than 2014 due to increased accruals and the timing of the transfers of cigarette and tobacco tax revenue from the State Board of Equalization as of June 30, 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 87,450	\$ 75,135	\$ 12,315	16.4%
Total Revenue	87,450	75,135	12,315	16.4%
Expenditures	10,549,964	11,612,213	(1,062,249)	(9.1%)
Excess (Deficiency of Revenue) Over (Under) Expenditures	(10,462,514)	(11,537,078)	1,074,564	(9.3%)
Other Financing Sources & Uses				
Operating Transfers In	12,904,184	12,915,586	(11,402)	(0.1%)
PY Expenditure Refund	-	619,546	(619,546)	(100.0%)
Net Change in Fund Balance	2,441,670	1,998,054	443,616	22.2%
Fund Balance, Beginning	29,785,590	27,787,536	1,998,054	7.2%
Fund Balance, Ending	\$ 32,227,260	\$ 29,785,590	\$ 2,441,670	8.2%

Explanation of Significant Variances

The Prior Year (PY) Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during 2014 attributable to prior years' activity resulting from the closure of the School Readiness Program.

**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	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ (11,223)	\$ 850	\$ (12,073)	(1,420.4%)
Investments	33,720,000	27,003,000	6,717,000	24.9%
Due From Other Funds	3,278,500	2,265,649	1,012,851	44.7%
Total Assets	\$ 36,987,277	\$ 29,269,499	\$ 7,717,778	26.4%
Liabilities				
Accounts Payable	\$ 217,523	\$ 40,654	\$ 176,869	435.1%
Due To Other Funds	2,888,886	2,952,381	(63,495)	(2.2%)
Due To Other Governments	375,000	375,000	-	0.0%
Total Liabilities	3,481,409	3,368,035	113,374	3.4%
Fund Balance				
Restricted	33,505,868	25,901,464	7,604,404	29.4%
Total Fund Balance	33,505,868	25,901,464	7,604,404	29.4%
Total Liabilities and Fund Balance	\$ 36,987,277	\$ 29,269,499	\$ 7,717,778	26.4%

Explanation of Significant Variances

The abnormal balance in Cash is the result of the timing of transfers to the Surplus Money Investment Fund by the State Treasurer's Office and remaining miscellaneous adjustments to the cash account made by the Department of General Services, Contracted Fiscal Services. The true cash position of the Research and Development Account is obtained by combining the Cash and Investments accounts for a total of \$33,708,777 as of June 30, 2015.

Due From Other Funds was higher in 2015 than 2014 due to increased accruals and the timing of the transfers of cigarette and tobacco tax revenue from the State Board of Equalization as of June 30, 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 77,087	\$ 53,192	\$ 23,895	44.9%
Total Revenue	77,087	53,192	23,895	44.9%
Expenditures	5,376,867	5,350,325	26,542	0.5%
Excess (Deficiency of Revenue) Over (Under) Expenditures	(5,299,780)	(5,297,133)	(2,647)	0.0%
Other Financing Sources & Uses				
Operating Transfers In	12,904,184	12,915,586	(11,402)	(0.1%)
PY Expenditure Refund	-	911,098	(911,098)	(100.0%)
Net Change in Fund Balance	7,604,404	8,529,551	(925,147)	(10.8%)
Fund Balance, Beginning	25,901,464	17,371,913	8,529,551	49.1%
Fund Balance, Ending	\$ 33,505,868	\$ 25,901,464	\$ 7,604,404	29.4%

Explanation of Significant Variances

The Prior Year (PY) Expenditure Refund displayed in 2014 represents this fund's portion of an abatement received during 2014 attributable to prior years' activity resulting from the closure of the School Readiness Program.

**Fund 0638 – Administration Account
Balance Sheet**

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

	June 30,		Change	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ (37,168)	\$ 44,644	\$ (81,812)	(183.3%)
Investments	18,902,000	21,432,000	(2,530,000)	(11.8%)
Receivables	7,493	30,467	(22,974)	(75.4%)
Due From Other Funds	1,337,536	762,524	575,012	75.4%
Prepaid Expenses	68,263	60,767	7,496	12.3%
Total Assets	\$ 20,278,124	\$ 22,330,402	\$ (2,052,278)	(9.2%)
Liabilities				
Accounts Payable	\$ 28,099	\$ 50,102	\$ (22,003)	(43.9%)
Due To Other Funds	604,470	839,737	(235,267)	(28.0%)
Due to Other Governments	2,276	-	2,276	-
Total Liabilities	634,845	889,839	(254,994)	(28.7%)
Fund Balance				
Restricted	19,643,279	21,440,563	(1,797,284)	(8.4%)
Total Fund Balance	19,643,279	21,440,563	(1,797,284)	(8.4%)
Total Liabilities and Fund Balance	\$ 20,278,124	\$ 22,330,402	\$ (2,052,278)	(9.2%)

Explanation of Significant Variances

The abnormal balance in Cash is the result of the timing of transfers to the Surplus Money Investment Fund by the State Treasurer's Office and remaining miscellaneous adjustments to the cash account made by the Department of General Services, Contracted Fiscal Services. The true cash position of the Administration Account is obtained by combining the Cash and Investments accounts for a total of \$18,864,832 as of June 30, 2015.

Due From Other Funds was higher in 2015 than 2014 due to increased accruals and the timing of the transfers of cigarette and tobacco tax revenue from the State Board of Equalization as of June 30, 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 51,312	\$ 52,749	\$ (1,437)	(2.7%)
Other Revenue	479,962	-	479,962	-
Total Revenue	531,274	52,749	478,525	907.2%
Expenditures	6,629,953	5,756,762	873,191	15.2%
Excess (Deficiency of Revenue) Over (Under) Expenditures	(6,098,679)	(5,704,013)	(394,666)	6.9%
Other Financing Sources & Uses				
Operating Transfers In	4,301,395	4,305,195	(3,800)	(0.1%)
Net Change in Fund Balance	(1,797,284)	(1,398,818)	(398,466)	28.5%
Fund Balance, Beginning	21,440,563	22,839,381	(1,398,818)	(6.1%)
Fund Balance, Ending	\$ 19,643,279	\$ 21,440,563	\$ (1,797,284)	(8.4%)

Explanation of Significant Variances

Other Revenue consists of a contract with the California Department of Education to reimburse the cost of four staff to work on the federal Race to the Top-Early Learning Challenge grant activities to enhance the quality of early learning systems for young children.

**Fund 0639 – Unallocated Account
Balance Sheet**

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

	June 30,		Change	
	2015	2014	Dollar	Percentage
Assets				
Cash	\$ 20	\$ 40	\$ (20)	(50.0%)
Investments	15,990,000	13,329,000	2,661,000	20.0%
Receivables	3,188	1,171	2,017	172.2%
Due From Other Funds	28,651,212	28,800,817	(149,605)	(0.5%)
Total Assets	\$ 44,644,420	\$ 42,131,028	\$ 2,513,392	6.0%
Liabilities				
Accounts Payable	\$ 907,918	\$ 694,805	\$ 213,113	30.7%
Due To Other Funds	2,951,754	2,949,779	1,975	0.1%
Due To Other Governments	26,323,061	24,124,386	2,198,675	9.1%
Total Liabilities	30,182,733	27,768,970	2,413,763	8.7%
Fund Balance				
Restricted	14,461,687	14,362,058	99,629	0.7%
Total Fund Balance	14,461,687	14,362,058	99,629	0.7%
Total Liabilities and Fund Balance	\$ 44,644,420	\$ 42,131,028	\$ 2,513,392	6.0%

Explanation of Significant Variances

The Due to Other Governments account reflects the annual activity of counties claiming funds for First 5 California-sponsored programs. Program funds are initially paid through a Clearing Account in the Unallocated Account and then are distributed to the ultimate fund sources, including the Mass Media Communications Account, the Education Account, the Child Care Account, and the Research and Development Account.

The Investments account as of June 30, 2015 is increased over 2014 and reflects a higher cash balance which has been deposited in the State Surplus Money Investment Fund until needed to pay claims. Most of those claims are included in the account Due To Other Governments which has a balance also higher than 2014, reflecting increased activity in First 5 programs and the accrual of estimated obligations at June 30, 2015.

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	
	2015	2014	Dollar	Percentage
Revenue				
Interest Revenue	\$ 45,629	\$ 60,416	\$ (14,787)	(24.5%)
Other Revenue	197	-	197	-
Total Revenue	45,826	60,416	(14,590)	(24.1%)
Expenditures	8,548,986	7,650,087	898,899	11.8%
Excess (Deficiency of Revenue) Over (Under) Expenditures	(8,503,160)	(7,589,671)	(913,489)	12.0%
Other Financing Sources & Uses				
Operating Transfers In	8,602,789	8,610,391	(7,602)	(0.1%)
Net Change in Fund Balance	99,629	1,020,720	(921,091)	(90.2%)
Fund Balance, Beginning	14,362,058	13,341,338	1,020,720	7.7%
Fund Balance, Ending	\$ 14,461,687	\$ 14,362,058	\$ 99,629	0.7%

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, 2015

	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)
Assets								
Cash	\$ 2,267,713	\$ 775	\$ 86,480	\$ 488	\$ 240	\$ (11,223)	\$ (37,168)	\$ 20
Investments	67,798,000	76,000	25,178,000	54,398,000	35,702,000	33,720,000	18,902,000	15,990,000
Receivables	36,958,865						7,493	3,188
Due from Other Funds ¹	1,485,374	86,816,381	6,917,414	5,463,389	3,280,184	3,278,500	1,337,536	28,651,212
Prepaid Expenses							68,263	
Total Assets	\$108,509,952	\$ 86,893,156	\$ 32,181,894	\$ 59,861,877	\$ 38,982,424	\$ 36,987,277	\$ 20,278,124	\$ 44,644,420
Liabilities								
Accounts Payable			\$ 1,504,625	\$ 14,999	\$ 156,672	\$ 217,523	\$ 28,099	\$ 907,918
Due to Other Funds ¹	\$108,505,680		6,506,925	11,586,216	2,886,284	2,888,886	604,470	2,951,754
Due to Other Governments		\$ 86,893,156		794	3,712,208	375,000	2,276	26,323,061
Total Liabilities	108,505,680	86,893,156	8,011,550	11,602,009	6,755,164	3,481,409	634,845	30,182,733
Fund Balance								
Restricted	4,272	0	24,170,344	48,259,868	32,227,260	33,505,868	19,643,279	14,461,687
Total Fund Balance	4,272	0	24,170,344	48,259,868	32,227,260	33,505,868	19,643,279	14,461,687
Total Liabilities and Fund Balance	\$108,509,952	\$ 86,893,156	\$ 32,181,894	\$ 59,861,877	\$ 38,982,424	\$ 36,987,277	\$ 20,278,124	\$ 44,644,420

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

¹ 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, 2015

	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)
Revenue								
Cigarette Tax Revenue	\$ 460,968,549							
Interest Revenue	84,862	\$ 38,732	\$ 64,230	\$ 128,330	\$ 87,450	\$ 77,087	\$ 51,312	\$ 45,629
Other Revenue			597,489	163,265			479,962	197
Total Revenue	461,053,411	38,732	661,719	291,595	87,450	77,087	531,274	45,826
Expenditures	16,213,951	344,150,300	22,886,090	16,003,573	10,549,964	5,376,867	6,629,953	8,548,986
Excess (Deficiency) of Revenues Over(Under) Expenditures	444,839,460	(344,111,568)	(22,224,371)	(15,711,978)	(10,462,514)	(5,299,780)	(6,098,679)	(8,503,160)
Other Financing Sources & Uses								
Operating Transfers In ¹		344,111,568	25,808,367	21,506,973	12,904,184	12,904,184	4,301,395	8,602,789
Operating Transfers Out ¹	444,839,460							
Net Change in Fund Balance	0	0	3,583,996	5,794,995	2,441,670	7,604,404	(1,797,284)	99,629
Fund Balance July 1, 2014	4,272	0	20,586,348	42,464,873	29,785,590	25,901,464	21,440,563	14,362,058
Fund Balance June 30, 2015	\$ 4,272	\$ 0	\$ 24,170,344	\$ 48,259,868	\$ 32,227,260	\$ 33,505,868	\$ 19,643,279	\$ 14,461,687

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

¹ See Note 3

NOTES TO FINANCIAL STATEMENTS

California Children and Families Commission California Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2015

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 ¹ 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.

¹ 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 2014-15 allocations, the 2012 birth vital statistics compiled by the California Department of Finance 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, 2015. 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, unclaimed checks escheated to the issuing fund, and program and conference revenues. Program revenues include funds received from the California Department of Education through its federal Race to the Top-Early Learning Challenge grant.

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

Fund/Account	Due From Fund/Account	Amount
Fund 0623: Trust Fund		
	BOE General Fund (0001)	\$ 1,462,863
	Surplus Money Investment Fund (0681)	<u>22,511</u>
	Total Due From Other Funds	\$ 1,485,374
Account 0585: Counties Children and Families Account		
	Trust Fund (0623)	\$ 86,804,544
	Surplus Money Investment Fund (0681)	<u>11,837</u>
	Total Due From Other Funds	\$ 86,816,381
Account 0631: Mass Media Communications Account		
	Trust Fund (0623)	\$ 6,510,341
	Health Care Deposit Fund (0912)	17,700
	Surplus Money Investment Fund (0681)	<u>389,373</u>
	Total Due From Other Funds	\$ 6,917,414
Account 0634: Education Account		
	Trust Fund (0623)	\$ 5,425,284
	Surplus Money Investment Fund (0681)	<u>38,105</u>
	Total Due From Other Funds	\$ 5,463,389
Account 0636: Child Care Account		
	Trust Fund (0623)	\$ 3,255,170
	Surplus Money Investment Fund (0681)	<u>25,014</u>
	Total Due From Other Funds	\$ 3,280,184
Account 0637: Research and Development Account		
	Trust Fund (0623)	\$ 3,255,170
	Surplus Money Investment Fund (0681)	<u>23,330</u>
	Total Due From Other Funds	\$ 3,278,500
Account 0638: Administration Account		
	Trust Fund (0623)	\$ 1,085,057
	Surplus Money Investment Fund (0681)	13,514
	Federal Trust Fund (0890)	<u>238,965</u>
	Total Due From Other Funds	\$ 1,337,536

Fund/Account	Due From Fund/Account	Amount
Account 0639: Unallocated Account		
	Trust Fund (0623)	\$ 2,170,114
	Mass Media Communications Account (0631)	5,772,569
	Education Account (0634)	11,580,761
	Child Care Account (0636)	2,886,284
	Research and Development Account (0637)	2,888,886
	Administration Account (0638)	455,467
	Unallocated Account (0639)	2,886,284
	Surplus Money Investment Fund (0681)	<u>10,847</u>
	Total Due From Other Funds	\$ 28,651,212

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

Fund/Account	Due To Fund/Account	Amount
Fund 0623: Trust Fund		
	Counties Children and Families Account (0585)	\$ 86,804,544
	Mass Media Communications Account (0631)	6,510,341
	Education Account (0634)	5,425,284
	Child Care Account (0636)	3,255,170
	Research and Development Account (0637)	3,255,170
	Administration Account (0638)	1,085,057
	Unallocated Account (0639)	<u>2,170,114</u>
	Total Due To Other Funds	\$108,505,680
Account 0631: Mass Media Communications Account		
	Unallocated Account (0639)	5,772,569
	Various other funds	<u>734,356</u>
	Total Due To Other Funds	\$ 6,506,925
Account 0634: Education Account		
	General Fund	\$5,455
	Unallocated Account (0639)	<u>11,580,761</u>
	Total Due to Other Funds	\$11,586,216
Account 0636: Child Care Account		
	Unallocated Account (0639)	\$2,886,284
Account 0637: Research and Development Account		
	Unallocated Account (0639)	\$2,888,886
Account 0638: Administration Account		
	General Fund	\$ 41,515
	Unallocated Account (0639)	455,467
	Various other funds	<u>107,488</u>
	Total Due To Other Funds	\$ 604,470
Account 0639: Unallocated Account		
	General Fund	\$ 65,470
	Unallocated Account (0639)	<u>2,886,284</u>
	Total Due To Other Funds	2,951,754

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:	
Counties Children and Families (0585)	\$ 344,111,568
Mass Media Communications (0631)	25,808,367
Education (0634)	21,506,973
Child Care (0636)	12,904,184
Research and Development (0637)	12,904,184
Administration (0638)	4,301,395
Unallocated (0639)	<u>8,602,789</u>
Total Operating Transfers in	\$ 430,139,460

Table 5: Transfers Out

Transfers out from Fund 0623 Trust Fund to:	
Related accounts	\$ 430,139,460
Backfill	<u>14,700,000</u>
Total Operating Transfers Out	\$ 444,839,460

The Trust Fund's Transfers Out represents the sum of the Transfers In to the seven related accounts and the statutorily required backfill of \$14.7 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 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 \$101,281,249. The claims are currently in settlement. 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.

NOTE 5 Subsequent Event

Beginning July 1, 2016, First 5 California was part of the Wave 2 launch of the state's new financial management system, Financial Information System for California (FI\$Cal). FI\$Cal integrates budgeting, accounting, procurement and cash management processes into a single framework. With the implementation of the new system, First 5 California has been experiencing several migration challenges raising concerns that it will be unable to meet its January 31st statutory reporting deadline.

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

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, 2015, 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 March 4, 2016.

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.

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*.

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. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Cheryl L. McCormick, CPA
Assistant Chief, Office of State Audits and Evaluations

March 4, 2016