A Financial Statement Audit

California Children and Families Commission
Children and Families Trust Fund
and Related Accounts
For the Fiscal Year Ended
June 30, 2006

Prepared By
Office of State Audits and Evaluations
Department of Finance

074250015DFR

October 2006

DEPARTMENT OF FINANCE
ARNOLD SCHWARZENEGGER, GOVERNOR
915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

January 3, 2007

Ms. Kris Perry, Executive Director
California Children and Families Commission
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

Dear Ms. Perry:

Final Audit Report on the Children and Families Trust Fund and Related Accounts

Enclosed is the final report on our financial audit of the Children and Families Trust Fund and related accounts, for the fiscal year ended June 30, 2006. Our audit was performed under interagency agreement number CCFC-7023, between the California Children and Families Commission (Commission) and the California Department of Finance.

The financial statements were fairly presented in accordance with generally accepted accounting principles. Because there were no audit findings or issues requiring a response, we are issuing the report as final.

We appreciate the cooperation and assistance of Commission staff and management during our audit. If you have any questions regarding this report, please contact Kim Tarvin, Manager, or Kiran Rai, Supervisor, at (916) 322-2985.

Sincerely,

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Ms. Terry Miller, Chief, Administrative Division, California Children and Families Commission

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PREFACE

The Department of Finance, Office of State Audits and Evaluations (Finance), performed this audit in accordance with interagency agreement number CCFC-7023 between the California Children and Families Commission (Commission) and Finance. The audit includes an opinion on the *Balance Sheet* and *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund and related accounts (Fund), for the fiscal year ended June 30, 2006.

The financial audit objectives were to:

- Express an opinion on the financial statements based on our audit, conducted in accordance with standards applicable to financial audits contained in *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States.
- Verify that the financial statements were prepared in conformity with generally accepted accounting principles for governmental funds.
- As necessary, report on internal control over financial reporting weaknesses as well as noncompliance with applicable laws and regulations, and provide recommendations for improving controls over the Fund's operations.

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

STAFF:

Kim Tarvin, CPA
Manager

Kiran Rai, CPA
Supervisor

Agnieszka Yeager
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DEPARTMENT OF FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

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INDEPENDENT AUDITOR'S REPORT

Ms. Kris Perry, Executive Director
California Children and Families Commission
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

We have audited the accompanying *Balance Sheet* as of June 30, 2006, and the related *Statement of Revenues, Expenditures, and Changes in Fund Balance* of the Children and Families Trust Fund and related accounts (Fund) for the fiscal year then ended. These financial statements are the responsibility of the California Children and Families Commission's (Commission) management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In connection with our audit, there are certain disclosures required by GAGAS Statement Number 3. Both the audited entity and the Department of Finance, of which the Office of State Audits and Evaluations is a unit, are part of the State of California's Executive Branch, which GAGAS considers an impairment of independence. Also, as required by various statutes within the California Government Code, the Department of Finance's other units are mandated to perform certain management and accounting functions. These activities impair independence. Although the Department of Finance is statutorily obligated to perform these specific activities, we believe that sufficient safeguards and divisions of responsibility exist that would enable the reader of this report to rely on the information contained herein.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2006, and the results of operations and changes in fund balance thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Generally Accepted Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide assurance on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control and its operation that we consider to be a material weakness.

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

Richard R. Sierra, CPA
Audit Manager, Office of State Audits and Evaluations
(916) 322-2985

October 18, 2006

California Children and Families Commission
Balance Sheet
At June 30, 2006

	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	$ 34,679,575	$ 276	$ 397	$ 615	$ 594	$ 122	$ 43,926	$ 406
Deposits in SMIF	19,387,000	42,514,000	40,615,000	122,651,000	69,305,000	74,900,000	22,560,000	26,438,000
Receivables	40,020,490	0	0	0	0	0	216	0
Due from Other Funds[1]	493,264	75,861,837	6,132,217	6,074,878	3,602,187	3,677,232	1,208,765	14,475,307
Due from Other Governments	0	0	0	0	0	0	0	0
Advances and Loans Receivable	0	0	0	0	0	0	1,000	0
Prepaid Expense	0	0	0	0	0	0	43,000	0
Total Assets	$ 94,580,329	$ 118,376,113	$ 46,747,614	$128,726,493	$ 72,907,781	$ 78,577,354	$ 23,856,907	$ 40,913,713
Liabilities								
Accounts Payable	$ 0	$ 40,686,638	$ 1,599,426	$ 1,205,210	$ 3,858,629	$ 1,552,485	$ 340,370	$ 13,347,046
Due to Other Funds[1]	94,580,329	0	2,091,818	4,284,146	2,928,545	3,631,301	154,744	640,968
Due to Other Governments	0	77,689,475	0	798,385	504,264	220,335	45,193	267,737
Total Liabilities	94,580,329	118,376,113	3,691,244	6,287,741	7,291,438	5,404,121	540,307	14,255,751
Fund Balance								
Reserved for Encumbrances	0	0	10,995,671	21,991,343	15,393,940	16,126,985	0	8,796,537
Reserved for Unencumbered Balances of Continuing Appropriations	0	0	32,060,699	100,447,409	50,222,403	57,046,248	23,316,600	17,861,425
Total Fund Balance	0	0	43,056,370	122,438,752	65,616,343	73,173,233	23,316,600	26,657,962
Total Liabilities and Fund Balance	$ 94,580,329	$ 118,376,113	$ 46,747,614	$128,726,493	$ 72,907,781	$ 78,577,354	$ 23,856,907	$ 40,913,713

The accompanying notes are an integral part of the financial statements

[1] - See Note 2.

Statement of Revenues, Expenditures, and Changes in Fund Balance

California Children and Families Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2006

	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	$ 610,323,097	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
SMIF Interest Revenue	1,735,594	1,038,579	1,685,625	4,414,674	2,462,568	2,771,564	828,681	1,006,937
Other Revenue	0	0	0	0	0	0	254	0
Total Revenue	**612,058,691**	**1,038,579**	**1,685,625**	**4,414,674**	**2,462,568**	**2,771,564**	**828,935**	**1,006,937**
Expenditures								
Appropriation Expenditures	4,966,772	470,472,113	42,413,225	21,081,358	11,950,274	16,422,343	4,713,022	14,156,168
Excess (Deficiency) of Revenues Over(Under) Expenditures	607,091,919	(469,433,534)	(40,727,600)	(16,666,684)	(9,487,706)	(13,650,779)	(3,884,087)	(13,149,231)
Other Financing Sources & Uses								
Operating Transfers In[2]	0	469,433,534	35,207,515	29,339,596	17,603,758	17,603,758	5,867,919	11,735,839
Operating Transfers Out[2]	607,091,919							
Net Change in Fund Balance	0	0	(5,520,085)	12,672,912	8,116,052	3,952,979	1,983,832	(1,413,392)
Fund Balance July 1, 2005	0	0	48,576,455	109,765,840	57,500,291	69,220,254	21,332,768	28,071,354
Fund Balance June 30, 2006.	**$ 0**	**$ 0**	**$ 43,056,370**	**$ 122,438,752**	**$ 65,616,343**	**$ 73,173,233**	**$ 23,316,600**	**$ 26,657,962**

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

[2] - See Note 4

California Children and Families Commission
Children and Families Trust Fund and Related Accounts
For the Fiscal Year Ended June 30, 2006

NOTE 1 Summary of Significant Accounting Policies

A. Definition of Reporting Entity

The Children and Families Trust Fund (Fund) and its related accounts were created by the California Children and Families Act of 1998 (Act). Subsequent to the Act, legislation passed that provided for the Children and Families Commission (Commission) to be known as "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 programs authorized by this Act are administered by the Commission and by county children and families commissions.

Effective January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized the State Board of Equalization (Board) to collect 87 cents for each cigarette pack distributed and a surtax on other tobacco products. Of the 87 cents collected, 50 cents is allocated and deposited into the Fund. The remainder funds the Proposition 99 and Breast Cancer programs.

The Fund was established to provide funding for research and development, education, training, and other functions specified in the Act. It primarily functions as a pass-through account which transfers funds to the related accounts according to allocation percentages established by the Act. The county commissions receive 80 percent of the funding and the Commission receives 20 percent, which is allocated to 7 separate accounts which implement specific functions of the Act, as illustrated in the following table.

Account	Tax Revenue Allocation	Purpose
Counties Children and Families Account (0585)	80%	This account is established for 80 percent of the funds received in the California Children and Families Trust Fund (0623) to be allocated and appropriated to county commissions and expended for the purposes authorized in accordance with each county's strategic plan.
Mass Media Communications Account (0631)	6%	This account provides funding for communications to the general public utilizing television, radio, newspapers, and other mass media furthering the goals and purposes specified in the *California Children and Families Act of 1998.*
Education Account (0634)	5%	This account provides funding for education goals and purposes as specified in the *California Children and Families Act of 1998.*
Child Care Account (0636)	3%	This account provides funding for child care goals and purposes as specified in the *California Children and Families Act of 1998.*
Research and Development Account (0637)	3%	This account provides funding for research and development goals and purposes as specified in the *California Children and Families Act of 1998.*
Administration Account (0638)	1%	This account provides funding for administrative costs and other purposes as specified in the *California Children and Families Act of 1998.*
Unallocated Account (0639)	2%	This account provides funding for any other purposes of the *California Children and Families Act of 1998,* except for administrative costs.

Each county commission receives a portion of the funds equal to the percentage of the number of live births recorded in the relevant county for the most recent reporting period in proportion to the entire number of live births recorded in California for the same period. The live birth vital statistics are compiled by the Department of Health Services. All expenditures must be incurred in accordance with the provisions of the Health and Safety Code Section 130105 (d).

B. Basis of Presentation—Fund Accounting

The Children and Families Trust Fund (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 accompanying financial statements have been prepared using a current financial resources measurement focus and the modified accrual basis of accounting. This measurement focus concentrates on transactions that increase or decrease resources available for spending in the near future. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to finance expenditures of the current period. Expenditures are recorded when the related liability is incurred.

D. Budget and Budgetary Control

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

E. Cash and Pooled Investments

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

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

F. Revenue

Revenues consist of the cigarette taxes collected on sales of cigarette packs and other tobacco products, interest income earned on funds deposited in the Surplus Money Investment Fund (SMIF), refunds from reverted appropriations, and unclaimed checks escheated to the issuing fund.

G. Compensated Absences

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

H. Retirement Plan

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

NOTE 2 Due To/From Other Funds

The Due to Other Funds account for the Fund represents the cigarette tax revenues due to the other seven related accounts as described in Note 1. Additionally, the Due to Other Funds for 6 of the 7 other accounts[3] represents primarily the allocations due to the Unallocated Account 0639 for the School Readiness Program administered by the Commission. Under this Program, the Commission distributes funds to eligible counties, in addition to the required 80 percent allocation of cigarette taxes as provided in Note 1, to assist with the development of children ages 0 through 5 to ready them for school.

The balances of the Due To Other Funds category for each of the accounts are as follows:

Account 623:	
Counties, Children, and Families Account	$75,656,381
Mass Media Communications Account	5,674,229
Education Account	4,728,523
Child Care Account	2,837,114
Research and Development Account	2,837,114
Administration Account	955,558
Unallocated Account	1,891,410
Total Due To Other Funds	$94,580,329
Unallocated Account	$ 2,091,818
Account 634:	
General Fund	$ 100,511
Unallocated Account	4,183,635
Total Due To Other Funds	$ 4,284,146

[3] The Counties, Children, and Families Account (0585) does not have any amounts due to other funds.

Account 636:	
Unallocated Account	$ 2,928,545
Account 637:	
General Fund	$ 563,302
Unallocated Account	3,067,999
Total Due To Other Funds	$ 3,631,301
Account 638:	
General Fund	$ 116,073
State Compensation Insurance Fund	400
Service Revolving Fund	36,855
Department of Technology Services	600
Children and Families Trust Fund	816
Total Due To Other Funds	$ 154,744
Account 639:	
General Fund	$ 640,968

The Due from Other Funds account represents the amounts due from the Fund for the cigarette tax revenue allocations and SMIF interest. The balances of Due From Other Funds for each of the accounts are as follows:

Account 623:	
Surplus Money Investment Fund	$ 492,448
Administration Account	816
Total Due From Other Funds	$ 493,264
Account 585:	
Children and Families Trust Fund	$75,656,381
Surplus Money Investment Fund	205,456
Total Due From Other Funds	$75,861,837
Account 631:	
Children and Families Trust Fund	$ 5,674,229
Surplus Money Investment Fund	457,988
Total Due From Other Funds	$ 6,132,217
Account 634:	
Children and Families Trust Fund	$ 4,728,523
Surplus Money Investment Fund	1,346,355
Total Due From Other Funds	$ 6,074,878

Account 636:	
Children and Families Trust Fund	$ 2,837,114
Surplus Money Investment Fund	765,073
Total Due From Other Funds	$ 3,602,187
Account 637:	
Children and Families Trust Fund	$ 2,837,114
Surplus Money Investment Fund	840,118
Total Due From Other Funds	$ 3,677,232
Account 638:	
Children and Families Trust Fund	$ 955,558
Surplus Money Investment Fund	251,385
Major Risk Medical Insurance Fund	1,822
Total Due From Other Funds	$ 1,208,765
Account 639:	
Children and Families Trust Fund	$ 1,891,410
Mass Media Communications Account	2,091,818
Education Account	4,183,635
Child Care Account	2,928,545
Research and Development Account	3,067,999
Surplus Money Investment Fund	311,900
Total Due From Other Funds	$14,475,307

NOTE 3 Fund Balance

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

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

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

NOTE 4 Operating Transfers

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

"Operating Transfers Out" represents the sum of the "Operating Transfers In" and the statutorily required backfill of $20,300,000 for the Proposition 99 and Breast Cancer programs. The "Operating Transfers In" are calculated based on the applicable percentage of the Fund revenues, which include cigarette taxes and SMIF interest income. Balances are derived as follows:

Cigarette Tax Revenue	$610,323,097
Surplus Money Investment Fund Interest Revenue	1,735,594
Board of Equalization, State Operations	(4,815,965)
State Controller's Office, State Operations	(151,192)
Department of Personnel Administration, State Operations	385
Total Operating Transfers Out	607,091,919
Backfill	(20,300,000)
Total Operating Transfers In	$586,791,919

The Health and Safety Code Section 130105 requires the backfill of lost funding for certain Proposition 99 and Breast Cancer Fund programs. Specifically, the Code provides that the State Board of Equalization shall determine within one year of the passage of this act, the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) state health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. Such reimbursements shall occur, and at such times as determined necessary, to further the intent of this subdivision.