



AGENDA ITEM: 11
DATE OF MEETING: January 23, 2014
ACTION: _____
INFORMATION: X

FINANCIAL UPDATE

SUMMARY

First 5 California staff will provide the Department of Finance (DOF) January cigarette and tobacco products tax revenue projections and an update of First 5 California's Financial Plan for Fiscal Year (FY) 2013-14 through FY 2016-17, based on existing authorizations and contractual obligations.

REVENUE

The following table represents the actual tax revenues transferred from the California Children and Families Trust Fund ("Fund") to First 5 California state accounts beginning with FY 2007-08 through FY 2012-13, and projected revenue for FY 2013-14 through 2016-17.

TABLE 1
Actual and Projected Revenue through FY 2016-17

Fiscal Year	Tax Revenue Amount
2007-2008	\$109,726,760
2008-2009	\$105,060,597
2009-2010	\$95,830,895
2010-2011	\$94,050,327
2011-2012	\$93,381,688
2012-2013	\$90,100,191
Fiscal Year	Projected Tax Revenue Amount
2013-2014	\$86,938,800
2014-2015	\$83,982,600
2015-2016	\$81,782,600
2016-2017	\$79,782,600

Revenue Adjustments

The Board of Equalization (BOE) collects Proposition 10 revenue and administers the Fund, which includes determining the amount of adjustments to the Fund prior to the transfer of moneys to the designated State Commission and County Fund. These adjustments include the annual backfill to the Proposition 99 Fund and Breast Cancer Fund (“backfill”), as well as the monthly BOE operational costs for tax collection and enforcement programs.

Backfill

Pursuant to Health and Safety Code (HSC) Section 130105, the Fund was created in the State Treasury and consists of tobacco tax revenue collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code. BOE administers the Fund and determines the amount to be transferred to specific (non-Proposition 10) programs to offset the revenue decrease directly resulting from the additional taxes imposed by Proposition 10. The backfill amount is deducted annually from the tax revenue prior to the BOE’s transfer of funds to First 5 California’s state accounts and the County Fund.

At BOE’s Board meeting on January 16, 2014, the Board approved the staff recommendation to adjust the Fund by \$13.6 million for backfill. Attachment A – Effects of Proposition 10 on Cigarette and Tobacco Products Consumption – January 2014 Board Meeting explains the backfill determination in detail. The adjustment will occur in January or February of 2014.

BOE Administration

Pursuant to Revenue and Tax Code Section 30131.3, the BOE will be reimbursed up to \$17.8 million in FY 2013-14 and \$17.6 million in FY 2014-15 for operational costs incurred for tax collection and enforcement activities. Historically, actual expenditures are under the estimates by approximately \$1 million.

Revenue Projections

DOF projections have historically demonstrated tobacco tax revenue is declining. The rate of decline is caused by both intended and unintended factors, which include federal legislation, state initiatives, First 5 California’s parent education and outreach efforts, and comprehensive smoking cessation programs to reduce tobacco use. The condition of the state’s economy also has an impact on the tobacco tax revenue.

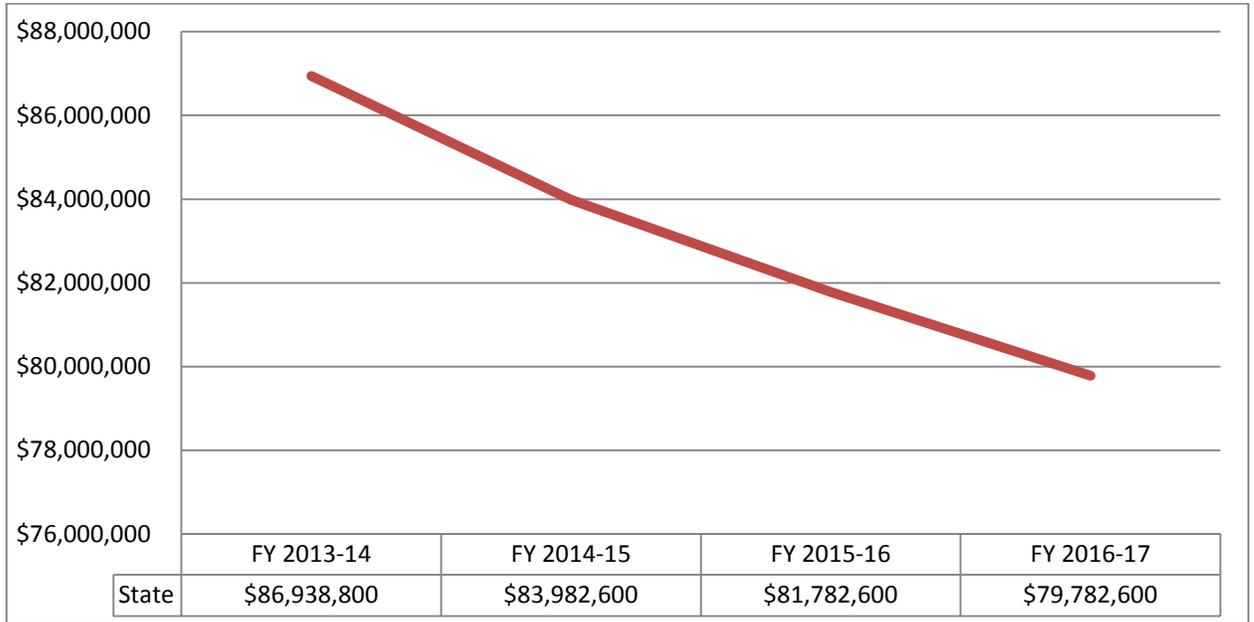
Based on DOF revenue projections updated on January 9, 2014, the DOF total cigarette and tobacco products tax projections for FY 2014-15 are 3.2 percent less than the projections for FY 2013-14, with a steady decline of less than 3 percent in the out years. Tables 2 and 3 show the projected tax revenues for First 5 California state accounts for FY 2013-14 through FY 2016-17.

TABLE 2
First 5 California Projected Revenue

	GOVERNOR'S FY 14/15 BUDGET		DOF PROJECTIONS	
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
TOTAL REVENUE (1)	\$466,000,000	\$451,000,000	\$440,000,000	\$430,000,000
OTHER COSTS AND BACKFILL				
Prior Year Adjustments				
Administration (2)	(\$17,797,000)	(\$17,578,000)	(\$17,278,000)	(\$17,578,000)
0623 SMIF (3)	\$91,000	\$91,000	\$91,000	\$91,000
BACKFILL (4)	(\$13,600,000)	(\$13,600,000)	(\$13,600,000)	(\$13,600,000)
Other				
TOTAL OTHER COSTS	(\$31,306,000)	(\$31,087,000)	(\$31,087,000)	(\$31,087,000)
AVAILABLE TO TRANSFER	\$434,694,000	\$419,913,000	\$408,913,000	\$398,913,000
FUNDS TRANSFERRED TO:				
Counties	\$347,755,200	\$335,930,400	\$327,130,400	\$319,130,400
First 5 California	\$86,938,800	\$83,982,600	\$81,782,600	\$79,782,600
30% Media - 0631	\$26,081,640	\$25,194,780	\$24,534,780	\$23,934,780
25% Education - 0634	\$21,734,700	\$20,995,650	\$20,445,650	\$19,945,650
15% Child Care - 0636	\$13,040,820	\$12,597,390	\$12,267,390	\$11,967,390
15% Research - 0637	\$13,040,820	\$12,597,390	\$12,267,390	\$11,967,390
5% Administration - 0638	\$4,346,940	\$4,199,130	\$4,089,130	\$3,989,130
10% Unallocated - 0639	\$8,693,880	\$8,398,260	\$8,178,260	\$7,978,260
100% Total:	\$434,694,000	\$419,913,000	\$408,913,000	\$398,913,000

- (1) Total revenue as forecast by DOF for FYs 2013-14 through 2016-17.
(2) Administration costs per Governor's Budget released on January 9, 2014.
(3) Same as prior year projections.
(4) Backfill - BOE memo dated October 15, 2013. Used same amount for all future years.

TABLE 3
Line Chart of First 5 California Projected Revenue



FIRST 5 CALIFORNIA ANNUAL AUDIT

First 5 California contracts with the Office of State Audits and Evaluations (OSAE) section within DOF to perform professional services to assist First 5 California in carrying out its mandate to conduct an annual financial audit of First 5 California and the Fund as required by HSC Section 130150.

On November 14, 2013, OSAE issued the final report (Attachment B) related to the annual audit for the fiscal year ending June 30, 2013. The audit report stated the financial statements were fairly presented and there were no reportable internal control or compliance weaknesses identified.

FINANCIAL PLAN

First 5 California tracks actual and projected revenues and expenditures for First 5 California programs and operations by fiscal year for the following six Proposition 10 accounts for use by the State Commission: Mass Media Communications, Education, Child Care, Research and Development, Administration, and Unallocated. Attachment C displays the Financial Plan for FYs 2013-14 through 2016-17. This plan includes projected revenue and expenditures by account, current year encumbrances and obligations, and three budget years of revenue and expenditure information.

ATTACHMENTS

- A. Effects of Proposition 10 on Cigarette and Tobacco Products Consumption-
January 2014 Board Meeting
- B. A Financial Statement Audit – First 5 California Children and Families Trust Fund
and Related Accounts For the Fiscal Year Ended June 30, 2013
- C. First 5 California Financial Plan FY 2013-14 through FY 2016-17

Memorandum

To: Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret.), Second District
Honorable John Chiang, State Controller

Date: October 15, 2013

From: Joe Fitz, Chief
Research and Statistics Section

Subject: **EFFECTS OF PROPOSITION 10 ON CIGARETTE AND TOBACCO PRODUCTS
CONSUMPTION**

JANUARY 2014 BOARD MEETING

Background. Prior to 1989, California had a \$0.10 per pack excise tax on cigarettes. Proposition 99 increased the cigarette tax by \$0.25 per pack, effective January 1, 1989. A tax of \$0.02 per pack was added to fund breast cancer research and education programs in 1994, bringing the total tax to \$0.37 per pack. Proposition 10 increased the cigarette tax from \$0.37 per pack to \$0.87 per pack, effective January 1, 1999.

California tax-paid cigarette distributions have decreased dramatically over the past 30 years, both before and after Proposition 10. As a result, revenues for all funds supported by cigarette taxes have declined as well. Based on outcomes from similar tax increases, there is strong evidence that the Proposition 10 tax increase results in greater declines in annual cigarette and tobacco sales than would have been the case had the Proposition not passed.

Section 130105(c) of the Health and Safety Code, as added by Proposition 10, requires the Board to determine the effect of Proposition 10 on the consumption of cigarettes and tobacco products and directs that a transfer of funds to Proposition 99 and Breast Cancer programs be made to backfill for revenue losses to those programs resulting from consumption changes triggered by Proposition 10. The intent of the backfill is to keep the funding levels of certain Proposition 99 and breast cancer programs from declining any more than they would have decreased without the Proposition 10 tax increase.

These determinations do not affect the amount of taxes paid by taxpayers. The Proposition 10 backfill determination is strictly an issue of the magnitude of funds allocation from one set of funds to another. The determination increases funds specified by statute to be spent on health education, health research, breast cancer education, and breast cancer research and decreases funds that would have gone to the California Children and Families First Trust Fund without the determination. (See Attachment 1 for a detailed breakout of the cigarette taxes.)

Recommended Determination. We recommend that a backfill determination of \$13.6 million for fiscal year 2012-13 be approved by the Board as an item at the January 2014 Board Meeting. The transfer would be made from revenues received in fiscal year 2013-14 to backfill funds affected by changes in consumption during fiscal year 2012-13.

Last year, the Board approved, on consent, a total backfill figure of \$15.0 million for fiscal year 2011-12. This year's proposed backfill figure of \$13.6 million for fiscal year 2012-13 is \$1.4 million less. The difference between this year's proposed backfill determination and last year's is typical when compared to historical year-to-year differences.

Yearly variation is to be expected because determinations are not simply linear trends. As discussed in Attachment 2, backfill determinations are the results of multiple calculations involving population, tax-paid distributions, cigarette prices, federal and state excise taxes, and the California consumer price index.

The \$13.6 million total backfill figure is approximately 3.0 percent of the \$449.5 million in total 2012-13 California Children and Families First Commission spending.

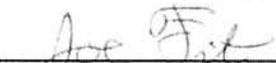
Table 1 of Attachment 2 summarizes the calculations necessary to derive the proposed backfill figure. Breaking down this \$13.6 million quantity, the proposed transfer to breast cancer programs is \$3.0 million, and the proposed transfer to targeted Proposition 99 programs is \$10.6 million.

JF:jm

Attachments

- cc. Mr. Michael Cohen, Director, Department of Finance
- Mr. Peter Ng, Department of Finance
- Ms. Cynthia Bridges, Executive Director
- Mr. Randy Ferris, Chief Counsel
- Mr. Robert Lambert
- Ms. Michele Pielsticker
- Ms. Joann Richmond

Recommendation by:



 Joe Fitz, Chief
 Research and Statistics Section
 Legislative and Research Division

Approved:



 Ms. Cynthia Bridges
 Executive Director

BOARD APPROVED

at the _____ Board Meeting

 Joann Richmond, Chief
 Board Proceedings Division

Breakdown of Cigarette Taxes								
Tax of 87 Cents on a 20-Count Pack of Cigarettes								
Pack 87¢	Initial Fund	Target Fund or Agency		Account		Program		Purpose
10¢	Cigarette Tax Fund	100%	General Fund					
2¢	Cigarette Tax Fund	100%	Breast Cancer Fund	50%	Breast Cancer Research Account 1/	10%	Cancer Surveillance Section	Conduct epidemiological research on the rate of breast cancer occurrence in the population.
						90%	Breast Cancer Research Program	Research the cause, cure, treatment, and earlier detection of breast cancer.
				50%	Breast Cancer Control Account 1/			Provide screening, referral, advocacy, outreach, and education services for uninsured and underinsured women.
25¢	Cigarette and Tobacco Products Surtax Fund	100%	Cigarette and Tobacco Products Surtax Fund	20%	Health Education Account 1/		School and community health education programs	Prevent and reduce tobacco use, primarily among children.
				35%	Hospital Services Account			Treat people who cannot afford to pay for hospital services and are not covered by insurance or a federal program.
				10%	Physician Services Account			Treat people who cannot afford to pay physician services and are not covered by insurance or a federal program.
				5%	Research Account 1/			Research tobacco-related diseases.
				5%	Public Resources Account	50%		Restore, protect, enhance, or maintain fish, waterfowl, and wildlife habitat.
						50%		Enhance state and local park and recreation resources.
				25%	Unallocated			Provide monies for any of the purposes to which money is allocated from the surtax fund.

1/ Programs to receive transfers from Proposition 10 funds.

Breakdown of Cigarette Taxes
Tax of 87 Cents on a 20-Count Pack of Cigarettes

Pack 87¢	Initial Fund	Target Fund or Agency		Account		Program	Purpose
50¢	California Children and Families First Trust Fund	20%	CC&FF State Commission	30%	Mass Media Communications Account		Communicate to general public on childhood development, child care, and health and social services; prevention of tobacco, alcohol, and drug use by pregnant women; detrimental effect of second-hand smoke on children.
				25%	Education Account		Develop educational materials; provide professional and parental education and training; provide technical support to CC&FF county commissions.
				15%	Child Care Account		Educate and train child care providers; develop educational materials and guidelines for childcare workers.
				15%	Research and Development Account		Determine best practices of and assess early childhood development programs and services.
				5%	Administration Account		Cover administrative expenditures of the CC&FF State Commission.
				10%	Unallocated Account		Provide monies for any of the purposes of the CC&FF Act except administrative expenditures.
		80%	CC&FF County Commissions				Provide, sponsor, or facilitate programs relating to early childhood development; measure outcomes; integrate childhood development programs, services, and projects into a consumer-oriented and easily accessible system.

Attachment 2

Proposition 10 Backfill Methodology and Documentation of Calculations

I. Methodology

Cigarette Consumption Impacts. We continue to estimate California cigarette consumption with an econometric equation that is similar to those used in other studies found in the literature. The model isolates California excise taxes from other relevant factors affecting consumption.¹ As in previous years, we updated the data and used our econometric model to estimate the cigarette consumption impacts of Proposition 10.²

Using the same methodology we used last year, we calculated the difference in consumption with and without Proposition 10 using model-generated estimates of actual consumption in both cases. The model is run twice, with two different tax rates, \$0.37 per pack before Proposition 10 and \$0.87 per pack after Proposition 10. Since the only difference in the model calculations is from the difference in the two tax rates, all other factors which affect tax-paid distributions in the model are the same, including federal taxes.

In the model percentage changes in cigarette consumption per capita are related to percentage changes in cigarette prices, federal excise taxes, and California excise taxes. All dollar figures are converted to constant dollars using the California consumer price index. Our model for estimating cigarette consumption is specified in terms of packs of cigarettes per capita. To calculate total consumption, we multiply the model-projected per capita consumption estimate by California civilian population.³

Tobacco Products Consumption Impacts. To estimate the impacts of Proposition 10 on tobacco products⁴, we assumed a typical relationship between price and consumption based on our review of studies of such relationships for cigarettes and tobacco products. Specifically, BOE staff assumed a price elasticity of demand of -0.50. We then applied this relationship to the increase in tax rates caused by Proposition 10 (as reflected in the price of the product to the consumer) to estimate the resulting decline in consumption of tobacco products. We assumed the entire tax increase was passed on to consumers in the form of higher prices, again based on our review of the literature.

The -0.5 price elasticity figure means that every 10 percent increase in the price of tobacco products would result in a 5 percent decline in quantity consumed or dollar volume sales. We have the data to calculate the percentage price increase resulting from additional taxes due to Proposition 10. Knowing this percentage price increase and

¹ Copies of the documentation of the model are available upon request from Joe Fitz, Chief, Research and Statistics Section, (916) 323-3802.

² As used throughout this discussion, the term "consumption" refers to tax paid distributions.

³ The model uses California civilian population, beginning fiscal year July 1, to scale mathematically total California tax-paid cigarette distributions. Including minors in these calculations has no significant effect on model results since model results are multiplied by the same scaling factor.

⁴ As defined in statute, "tobacco products" exclude cigarettes.

assuming a price elasticity figure enabled us to determine an expected sales decline through an algebraic solution. Then we applied the Proposition 99 tax rate to the predicted amount by which these dollar sales declined to estimate the Proposition 99 revenues that would have been expected without the Proposition 10 tax increase.

II. Documentation and Explanation of Backfill Calculations for Proposition 99 and Breast Cancer Programs

Cigarette Consumption Impacts

Sections 1 and 2 of Table 1 show the calculations necessary for estimating the backfill amount resulting from changes in cigarette consumption.

July 1, 2012 civilian population of California is estimated by the California Department of Finance to have been approximately 37.674 million people.⁵ The statistical model shows that per capita consumption of cigarettes would have been 28.7 packs per person without Proposition 10. Multiplying these two figures yields an estimate of 1,081.2 million packs of cigarettes (far right column of Section 1 of Table 1). The statistical model estimates per capita consumption of cigarettes of 24.7 packs per person using the current tax rate of \$0.87 per pack. When multiplied by civilian population, the model estimates tax paid distributions of 930.5 million packs. The difference in these two estimates is 150.7 million fewer packs of cigarettes sold with Proposition 10 in effect than without Proposition 10. Some of this decline in consumption may have been caused by increased cigarette tax evasion. However, based on previous studies, most of the decline probably results from reduced cigarette consumption.

Section 2 of Table 1 shows the calculations necessary to derive revenue losses associated with 150.7 million fewer packs of cigarettes incurred by backfill-targeted programs. The Breast Cancer programs are funded by a tax rate of two cents per pack. Multiplying \$0.02 by 150.7 million packs yields a result of approximately \$3.0 million. The tax rate funding all Proposition 99 programs is twenty-five cents per pack, of which 25 percent is to be backfilled. Therefore, the backfill amount for Proposition 99 programs is \$0.0625 per pack ($\$0.25 \times .25 = \0.0625). Multiplying \$0.0625 times 150.7 million packs yields a result of approximately \$9.4 million. The total backfill amount related to decreased cigarette sales for the Breast Cancer programs and the targeted Proposition 99 programs combined is \$12.4 million ($\$3.0 + \$9.4 = \12.4).

Tobacco Products Consumption Impacts

Section 3 of Table 1 summarizes the result of calculations made to derive estimates of revenues from sales of tobacco products that would have funded Proposition 99 programs in the absence of the Proposition 10 tax.⁶ Our backfill estimate for tobacco products is \$1.2 million. The calculations are shown in Table 2A.

Table 2A shows how we algebraically solved for the predicted sales change using the price elasticity of demand formula shown at the top of Table 2A. The table has four

⁵ The model is specified using July 1 California civilian population for the beginning day of the fiscal year. Therefore, to calculate total cigarette consumption for fiscal year 2012-13, we need to use July 1, 2012 California civilian population. The source of the July 1, 2012 population figure is from an e-mail from staff at the California Department of Finance Demographic Research Unit.

⁶ The Breast Cancer programs do not receive revenues from sales of tobacco products, only from sales of cigarettes.

components in addition to the formula, which are marked off by horizontal lines. The first column of the table shows the row letters of each line. Lines (a) through (e) show the steps involved in determining the percentage increase in price caused by Proposition 10. As shown in line (e) of the table, Proposition 10 increased the price of tobacco products in fiscal year 2012-13 by 18.73 percent. Lines (f) and (g) show the calculations made to determine the resulting decrease in sales of 9.36 percent. Lines (h) through (l) display calculations made to apply the tax to the decline in sales. BOE tax return data show fiscal year sales of \$254.65 million in 2012-13 (line h). Line (i) shows the \$279.66 million result of solving the price elasticity of demand formula (details shown in Table 2B). Line (j) shows that these figures imply a sales decline of \$25.01 million. Multiplying this figure by the Proposition 99 tax rate of 19.46 percent results in a total Proposition 99 revenue loss of \$4.87 million (line l). Multiplying this figure by 0.25 (since Proposition 99 programs to be backfilled receive 25 percent of Proposition 99 revenues collected) results in a figure of \$1.22 million (line m). Mathematically rounding off this figure produces a result of \$1.2 million less in revenues from sales of tobacco products that would have funded Proposition 99 programs, as shown in Table 1.

Summary of Total Backfill Changes

Cigarette tax revenues comprise about 91 percent of the entire backfill estimate amount. (Of the \$13.6 million backfill total, \$12.4 million is related to cigarette consumption changes. The rest, \$1.2 million, is related to changes in tax paid consumption of tobacco products.) Section 4 of Table 1 summarizes the figures computed for the backfill amounts from Sections 1 through 3. The total backfill amount is \$13.6 million, with \$3.0 million going to Breast Cancer programs and \$10.6 million going to the specified Proposition 99 programs. Of the \$10.6 million going to Proposition 99 programs, \$8.5 million will go to the Health Education Account (which receives 20 percent of Proposition 99 revenues) and \$2.1 million will go to the Research Account (which receives 5 percent of Proposition 99 revenues).

Historical Consumption and Sales

Table 3 provides some additional background information on tax-paid cigarette and tobacco products consumption. The table shows tax-paid cigarette distributions from fiscal years 1987-88 through 2012-13 (preliminary data). It also shows tax-paid wholesale sales of tobacco products from fiscal years 1990-91 through 2012-13 (preliminary data).

Table 1
Summary of Backfill Calculations for Proposition 99 and Breast Cancer Programs
Fiscal Year 2012-13

(1) Change in California Cigarette Consumption a/

	Estimated July 1, 2012 Civilian California Population (Millions) b/	Estimated Per Capita Consumption (Packs/Person) c/	California Cigarette Consumption (Million Packs)
Model Estimated Cigarette Consumption:	37.674		
Without Proposition 10		28.7	1,081.2
With Proposition 10		24.7	930.5
Difference			-150.7

(2) Changes in Cigarette Revenue

	Backfill Tax Rate (Dollars Per Pack)	Estimated Change in Consumption (Million Packs) d/	Estimated Change in Revenue (\$ Millions)
Breast Cancer Programs	0.0200	-150.7	-\$3.0
Proposition 99 Programs e/	0.0625	-150.7	-\$9.4
Total	0.0825		-\$12.4

(3) Change in Tobacco Products Revenue
(See Tables 2A and 2B for Calculations)

	Estimated Change in Revenue (\$ Millions)
Proposition 99 Programs f/	-\$1.2

(4) Summary of Total Fund Backfill Changes

	Accounts (Millions of Dollars)	Programs (Millions of Dollars)
Breast Cancer Programs		-\$3.0
Proposition 99 Programs		-\$10.6
Health Education Account (20% of Proposition 99 Funds)	-\$8.49	
Research Account (5% of Proposition 99 Funds)	-\$2.12	
Total Backfill Amount, All Programs		-\$13.6

Note: All numbers are rounded off from original spreadsheet figures in order for them to sum to the specified totals.

a/ Consumption here and throughout the rest of this table refers to tax-paid consumption.

b/ Source: California Department of Finance.

c/ Source: BOE Research and Statistics Section econometric cigarette consumption estimation model.

d/ Source: Total change in consumption calculated above.

e/ As specified in Proposition 10, 25 percent of the Proposition 99 tax rate of \$0.25 per pack tax is to be backfilled. This percentage is \$0.0625 per pack (\$0.25 x 0.25).

f/ This figure is 25% of the revenue loss due to decreased sales caused by the Proposition 10 tax increase.

Table 2A Revenue Change in Tobacco Products, Proposition 10 Backfill Fiscal Year 2012-13		
Price Elasticity of Demand Formula: $e_p = (Q_1 - Q_2) / ((Q_1 + Q_2) / 2) / (P_1 - P_2) / ((P_1 + P_2) / 2)$ Where (generally): P = price, and Q = sales of tobacco products Alternatively stated, $e_p = \text{average \% change in sales} / \text{average \% change in price}$ Assume $e_p = -0.50$, based on review of the literature		
Line #	Data Description or Calculations	Result
Solving for the percentage change in tobacco products price:		A/
a	Average wholesale cost per pack of 20 cigarettes	\$4.47
b	Proposition 10 tobacco products equivalent per pack rate	\$1.00
c	Other per pack taxes	\$0.37
d	Estimated per pack cost, including taxes (line a + line b + line c)	\$5.84
e	Estimated change in per pack cost due to Proposition 10, % [(line b / ((line a + line c + line d) / 2))]	18.73%
Solving for the percentage change in tobacco products sales:		
f	Assumed price elasticity of demand = -0.50	-0.50
g	Estimated percent change in sales of tobacco products, % (line e x line f)	-9.36%
Applying Proposition 99-only portion of 2012-13 tax to predicted change in sales:		
h	California wholesale sales of tobacco products (excluding taxes), FY 2012-13, millions of dollars	B/ \$254.65
i	Estimated wholesale sales of tobacco products without Proposition 10, million \$ (Table 2B, line 5)	\$279.66
j	Estimated decline in wholesale sales of tobacco products due to Proposition 10, million \$ (line h - line i)	-\$25.01
k	Tobacco products tax rate, excluding Prop. 10, % [\$0.87 / wholesale cigarette cost (line a)]	C/ 19.46%
l	Estimated taxes lost due to the decline in sales caused by Proposition 10, million \$ (line j x line k)	-\$4.87
Applying proportion of Proposition 99 revenue loss to backfill Proposition 99 target accounts:		
m	Estimated 2012-13 backfill, million \$, line l * 0.25 (25% of all Proposition 99 programs are backfilled)	-\$1.22
<p>A/ Source of wholesale price (Line a): State Board of Equalization Meeting Agenda, Item N1, "2012/13 Tobacco Products Tax Rate," April 26, 2012. Additional note: Substituting the equivalent per-pack rate of \$1.00 for the tobacco products tax change caused by Proposition 10 and using the sum of wholesale cost per pack and total per-pack taxes to calculate change in price isolates the change in price of tobacco products caused by Proposition 10. This is because the tax rate on tobacco products is the sum of the combined rate of tax on cigarettes imposed by Proposition 99 and the rate of tax on cigarettes imposed by Proposition 10 divided by the wholesale price of cigarettes. The change in the numerator of the tobacco products tax rate formula brought about by Proposition 10 is \$1.00 per pack--50 cents from the Proposition 99 combined rate of tax on cigarettes and 50 cents from the Proposition 10 tax on cigarettes. An increase in cigarette taxes will increase the tobacco products tax rate if wholesale cost is held constant. Conversely, an increase in wholesale cost will decrease the tobacco products tax rate if cigarette taxes are held constant.</p> <p>B/ Source: Board of Equalization Excise Taxes Division, "Big Return Report Annual Summary," line number 7, run 9/6/13.</p> <p>C/ Note: The tobacco products tax rate excluding Proposition 10 is comprised of the original tobacco products rate (\$0.25), the general fund rate (\$0.10), the Breast Cancer rate (\$0.02) and the rate associated with Proposition 10 (\$0.50), for a total rate excluding Proposition 10 of \$0.87. There are no separate non-Proposition 99 rates on tobacco products. Tobacco products are only taxed by Propositions 99 and 10; general fund and Breast Cancer excise taxes only apply to cigarettes.</p>		

Source: BOE Research and Statistics Section, September 23, 2013.

Table 2B**Arc Elasticity Calculations, Tobacco Products, Solving for Q₂ With Known P₁, P₂, Q₁ and Elasticity**

		Line Number	
P ₁	[Retail price per pack equivalent (includes excise taxes) Current Law, Table 2A, line d]	1	\$5.84
P ₂	[Retail price per pack equivalent (Without Proposition 10), line 1 - Table 2A, line b]	2	\$4.84
Q ₁	[Wholesale Sales (Million Dollars, Current Law), Table 2A, line h]	3	\$254.65
Elasticity	[Table 2A, line f]	4	-0.50
Q ₂	[Estimated Wholesale Sales Without Proposition 10 (Million Dollars), see equation below]	5	\$279.66
<p><i>Arc elasticity of demand formula, solving for Q₂:</i></p> $Q_2 = ((-P_1 * Q_1) - (Q_1 * P_2) - (E * P_2 * Q_1) + (E * P_1 * Q_1)) / ((E * P_2) - P_2 - (E * P_1) - P_1)$ <p><i>Where:</i></p> <ul style="list-style-type: none"> <i>E = price elasticity of demand;</i> <i>Q₁ is quantity demanded in time period 1;</i> <i>Q₂ is quantity demanded in time period 2;</i> <i>P₁ is the price in time period 1;</i> <i>P₂ is the price in time period 2.</i> 			

Source: BOE Research and Statistics Section, September 23, 2013.

Table 3
Historical California Tax-Paid Cigarette Distributions and Sales of Tobacco Products

Fiscal Year	Tax Paid Cigarette Distributions (Millions of Packs) a/	Percent Change	Wholesale Sales of Tobacco Products (Millions of Dollars) b/	Percent Change
1987-88	2,570	-1.0%	n.a.	n.a.
1988-89	2,353	-8.4%	n.a.	n.a.
1989-90	2,219	-5.7%	n.a.	n.a.
1990-91	2,102	-5.3%	67.9	n.a.
1991-92	2,050	-2.5%	74.0	9.0%
1992-93	1,923	-6.2%	77.0	4.1%
1993-94	1,824	-5.1%	83.9	9.0%
1994-95	1,791	-1.8%	92.4	10.1%
1995-96	1,742	-2.7%	109.4	18.3%
1996-97	1,716	-1.5%	178.0	62.7%
1997-98 c/	1,668	-2.8%	130.7	-26.5%
1998-99	1,523	-8.7%	113.9	-12.9%
1999-00	1,353	-11.2%	95.9	-15.8%
2000-01	1,288	-4.8%	90.9	-5.2%
2001-02	1,237	-4.0%	77.1	-15.2%
2002-03	1,196	-3.3%	80.8	4.8%
2003-04	1,184	-1.0%	94.7	17.3%
2004-05	1,187	0.3%	114.8	21.2%
2005-06	1,190	0.3%	123.6	7.7%
2006-07	1,158	-2.7%	151.4	22.5%
2007-08	1,107	-4.4%	162.6	7.4%
2008-09	1,058	-4.4%	174.5	7.4%
2009-10	972	-8.1%	194.0	11.2%
2010-11	961	-1.2%	212.2	9.4%
2011-12	951	-1.0%	225.5	6.3%
2012-13	907 d/	-4.7%	254.6	12.9%

a/ Source: 2011-12 Board of Equalization Annual Report

b/ Source: Board of Equalization Excise Taxes Division. Represents wholesale sales of tobacco products as reported by distributors.

c/ Fiscal year 1997-98 was the last year unaffected by Proposition 10, which became law on January 1, 1999.

d/ Preliminary data. Source: Board of Equalization Excise Taxes Division.

n.a. not applicable

Source: BOE Research and Statistics Section, September 23, 2013.

A F INANCIAL S TATEMENT A UDIT

First 5 California
Children and Families Trust Fund
and Related Accounts
For the Fiscal Year Ended
June 30, 2013

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

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TABLE OF CONTENTS

Executive Summary	iv
Independent Auditor's Report.....	1
Balance Sheet.....	4
Statement of Revenue, Expenditures and Changes in Fund Balance	5
Notes to Financial Statements	6

EXECUTIVE SUMMARY

The Department of Finance, Office of State Audits and Evaluations, performed this audit in accordance with an interagency agreement with First 5 California Children and Families Commission. 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 Children and Families Trust Fund (Fund) and related accounts for the fiscal year ended June 30, 2013.
- 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 Fund and related accounts.

Audit Results

- The aforementioned financial statements are fairly presented for the fiscal year ended June 30, 2013.
- The audit did not identify any reportable internal control or compliance weaknesses.

This report is intended solely for the information and use of the 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
First 5 California Children and Families Commission
2389 Gateway Oaks Drive, Room 260
Sacramento, CA 95833

We have audited the accompanying financial statements of the governmental activities of the First 5 California Children and Families Trust Fund (Fund) and related accounts for the year ended June 30, 2013, 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.

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

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

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 Fund and related accounts as of June 30, 2013, 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 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 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, 2013, 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 Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of the Fund and related accounts as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the 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 the Fund and related accounts' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. 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 the Fund and related accounts' financial statements are free of material misstatement, we performed tests of 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of 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.



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

October 29, 2013

BALANCE SHEET

First 5 California Children and Families Commission Children and Families Trust Fund and Related Accounts As of June 30, 2013

	Children and Families Trust Fund (0623)	Counties 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	\$ 3,211,657	\$ 139	\$ 319	\$ 556	\$ 358	\$ 800	\$ 46,338	\$ 195
Investments	37,866,000	31,621,000	32,405,000	39,492,000	31,768,000	22,787,000	22,056,000	14,365,000
Receivables	39,113,618						8,257	
Due from Other Funds ¹	1,349,071	65,240,410	5,081,027	4,099,073	2,464,730	2,458,923	829,813	37,845,083
Prepaid Expenses							56,181	
Total Assets	\$ 81,540,346	\$ 96,861,549	\$ 37,486,346	\$ 43,591,629	\$ 34,233,088	\$ 25,246,723	\$ 22,996,589	\$ 52,210,278
Liabilities								
Accounts Payable			\$ 2,553,503		\$ 262,068	\$ 100,117	\$ 32,069	\$ 46,402
Due to Other Funds ¹	\$ 81,536,074		14,712,764	\$ 9,564,568	2,354,978	7,355,695	125,139	17,585,410
Due to Other Governments		\$ 96,861,549		78,061	3,828,506	418,998		21,237,128
Total Liabilities	81,536,074	96,861,549	17,266,267	9,642,629	6,445,552	7,874,810	157,208	38,868,940
Fund Balance								
Restricted	4,272	0	20,220,079	33,949,000	27,787,536	17,371,913	22,839,381	13,341,338
Total Fund Balance	4,272	0	20,220,079	33,949,000	27,787,536	17,371,913	22,839,381	13,341,338
Total Liabilities and Fund Balance	\$ 81,540,346	\$ 96,861,549	\$ 37,486,346	\$ 43,591,629	\$ 34,233,088	\$ 25,246,723	\$ 22,996,589	\$ 52,210,278

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

¹ See Note 3

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

First 5 California Children and Families Commission Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2013

	Children and Families Trust Fund (0623)	Counties 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	\$ 481,237,784							
Interest Revenue	93,648	\$ 52,954	\$ 67,788	\$ 113,365	\$ 83,929	\$ 47,690	\$ 66,620	\$ 35,882
Other Revenue			711,165					
Total Revenue	481,331,432	52,954	778,953	113,365	83,929	47,690	66,620	35,882
Expenditures	15,830,475	360,453,719	27,319,986	9,926,388	10,310,850	8,575,133	4,821,671	6,346,213
Excess (Deficiency) of Revenues Over(Under) Expenditures	465,500,957	(360,400,765)	(26,541,033)	(9,813,023)	(10,226,921)	(8,527,443)	(4,755,051)	(6,310,331)
Other Financing Sources & Uses								
Operating Transfers In ²		360,400,765	27,030,057	22,525,048	13,515,029	13,515,029	4,505,010	9,010,019
Operating Transfers Out ²	465,500,957							
Net Change in Fund Balance	0	0	489,024	12,712,025	3,288,108	4,987,586	(250,041)	2,699,688
Fund Balance July 1, 2012	4,272	0	19,731,055	21,236,975	24,499,428	12,384,327	23,089,422	10,641,650
Fund Balance June 30, 2013	\$ 4,272	\$ 0	\$ 20,220,079	\$ 33,949,000	\$ 27,787,536	\$ 17,371,913	\$ 22,839,381	\$ 13,341,338

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

² See Note 3

NOTES TO FINANCIAL STATEMENTS

First 5 California Children and Families Commission Children and Families Trust Fund and Related Accounts For the Fiscal Year Ended June 30, 2013

NOTE 1 Reporting Entity and 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). Programmatic and fiscal oversight for the Act was placed with the First 5 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 Fund and its related accounts are included as a special revenue fund in the State of California's financial statements.

The programs authorized by the Act are administered by First 5 California and by county children and families commissions. The First 5 California Commission is comprised of seven members. During fiscal year 2012-13, two seats were vacated and filled by new commissioners; one of these appointments was the Commission Chair.

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 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 Fund. Further, the Department of General Services performs accounting services for First 5 California.

The 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 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 2012-13 allocations, the 2010 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 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 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 are transferred to the SMIF for investment purposes. All earnings from investments are apportioned to the contributing fund as provided in 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 are 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 Fund as of June 30, 2013. 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 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	Fund/Account Due From	Amount
Fund 0623: Trust Fund		
	BOE General Fund (0001)	\$ 1,331,199
	Surplus Money Investment Fund (0681)	<u>17,872</u>
	Total Due From Other Funds	\$ 1,349,071
Account 0585: Counties		
	Children and Families Trust Fund (0623)	\$ 65,228,859
	Surplus Money Investment Fund (0681)	<u>11,551</u>
	Total Due From Other Funds	\$ 65,240,410
Account 0631: Mass Media		
	Children and Families Trust Fund (0623)	\$ 4,892,164
	Health Care Deposit Fund (0912)	170,974
	Surplus Money Investment Fund (0681)	<u>17,889</u>
	Total Due From Other Funds	\$ 5,081,027
Account 0634: Education		
	Children and Families Trust Fund (0623)	\$ 4,076,804
	Surplus Money Investment Fund (0681)	<u>22,269</u>
	Total Due From Other Funds	\$ 4,099,073
Account 0636: Child Care		
	Children and Families Trust Fund (0623)	\$ 2,446,082
	Surplus Money Investment Fund (0681)	<u>18,648</u>
	Total Due From Other Funds	\$ 2,464,730
Account 0637: Research and Development		
	Children and Families Trust Fund (0623)	\$ 2,446,082
	Surplus Money Investment Fund (0681)	<u>12,841</u>
	Total Due From Other Funds	\$ 2,458,923
Account 0638: Administration		
	Children and Families Trust Fund (0623)	\$ 815,361
	Prison Industries Revolving Fund (0675)	818
	Surplus Money Investment Fund (0681)	<u>13,634</u>
	Total Due From Other Funds	\$ 829,813

Fund/Account	Fund/Account Due From	Amount
Account 0639: Unallocated		
	Children and Families Trust Fund (0623)	\$ 1,630,721
	Mass Media Communications Account (0631)	14,712,764
	Education Account (0634)	9,424,826
	Child Care Account (0636)	2,354,978
	Research and Development Account (0637)	7,355,695
	Unallocated Account (0639)	2,357,962
	Surplus Money Investment Fund (0681)	<u>8,137</u>
	Total Due From Other Funds	\$ 37,845,083

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' Account (0585)	\$ 65,228,859
	Mass Media Communications Account (0631)	4,892,165
	Education Account (0634)	4,076,804
	Child Care Account (0636)	2,446,082
	Research and Development Account (0637)	2,446,082
	Administration Account (0638)	815,361
	Unallocated Account (0639)	<u>1,630,721</u>
	Total Due To Other Funds	\$ 81,536,074
Account 0631: Mass Media		
	Due To Unallocated Account (0639)	\$ 14,712,764
Account 0634: Education		
	General Fund	\$ 139,742
	Due To Unallocated Account (0639)	<u>9,424,826</u>
	Total Due To Other Funds	\$ 9,564,568
Account 0636: Child Care		
	Due To Unallocated Account (0639)	\$ 2,354,978
Account 0637: Research and Development		
	Due To Unallocated Account (0639)	\$ 7,355,695
Account 0638: Administration		
	General Fund	\$ 66,893
	Various other funds	<u>58,246</u>
	Total Due To Other Funds	\$ 125,139
Account 0639: Unallocated		
	General Fund	\$ 15,227,448
	Due to Unallocated Account (0639)	<u>2,357,962</u>
	Total Due To Other Funds	\$ 17,585,410

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	\$ 360,400,765
Account 0631: Mass Media	27,030,057
Account 0634: Education	22,525,048
Account 0636: Child Care	13,515,029
Account 0637: Research and Development	13,515,029
Account 0638: Administration	4,505,010
Account 0639: Unallocated	<u>9,010,019</u>
Total Operating Transfers In	\$ 450,500,957

Table 5: Transfers Out

Transfers Out from Fund 0623 Trust Fund to:	
Related Accounts	\$ 450,500,957
Backfill	<u>15,000,000</u>
Total Operating Transfers Out	\$ 465,500,957

The Fund's Transfers Out represents the sum of the Transfers In to the seven related accounts and the statutorily required backfill of \$15 million for Proposition 99 and Breast Cancer programs. Section 130105 of the Health and Safety Code requires the 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 Department of Developmental Services

On April 25, 2013, the First 5 California commissioners approved funding in the amount \$15 million (\$10 million from the Mass Media Account and \$5 million from the Research and Development Account) for the Department of Developmental Services to fund new Early Start services.

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 2010, and is anticipated to continue filing claims as the statute of limitations periods approach for each reporting period. Claims filed to date total \$36,529,671. The claims are being prepared 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.

**First 5 California
Financial Plan
FY 2013-14 through FY 2016-17**

Account/Project	FY 13-14	FY 14-15	FY 15-16	FY 16-17
Mass Media Communications (0631)				
Beginning Balance	\$20,220,080	\$19,720,939	\$8,449,951	\$5,068,700
Projected expenditures and obligations	27,141,440	37,024,907	28,441,333	28,441,333
Projected Revenue	26,081,640	25,194,780	24,534,780	23,934,780
Projected Interest	60,660	59,139	25,302	15,134
Other Revenue (Federal Reimbursement for Kit)	500,000	500,000	500,000	500,000
Year-end Balance	\$19,720,939	\$8,449,951	\$5,068,700	\$1,077,281
Education (0634)				
Beginning Balance	\$33,949,000	\$29,543,869	\$22,683,215	\$40,388,867
Projected expenditures and obligations	26,241,678	27,944,912	2,808,000	2,008,000
Projected Revenue	21,734,700	20,995,650	20,445,650	19,945,650
Projected Interest	101,847	88,608	68,002	121,095
Year-end Balance	\$29,543,869	\$22,683,215	\$40,388,867	\$58,447,611
Child Care (0636)				
Beginning Balance	\$27,787,536	\$21,912,519	\$15,563,394	\$15,149,426
Projected expenditures and obligations	18,999,200	19,012,228	12,728,000	8,000
Projected Revenue	13,040,820	12,597,390	12,267,390	11,967,390
Projected Interest	83,363	65,714	46,642	45,376
Year End Balance	\$21,912,519	\$15,563,394	\$15,149,426	\$27,154,194
Research and Development (0637)				
Beginning Balance	\$17,371,913	\$21,858,223	\$26,293,279	\$36,451,501
Projected expenditures and obligations	8,606,626	8,227,884	2,188,000	1,158,000
Projected Revenue	13,040,820	12,597,390	12,267,390	11,967,390
Projected Interest	52,116	65,551	78,832	109,283
Year End Balance	\$21,858,223	\$26,293,279	\$36,451,501	\$47,370,174
Unallocated (0639)				
Beginning Balance	\$13,341,338	\$11,196,880	\$7,763,578	\$10,277,164
Projected expenditures and obligations	10,878,362	11,865,129	5,687,917	5,884,143
Projected Revenue	8,693,880	8,398,260	8,178,260	7,978,260
Projected Interest	40,024	33,567	23,243	30,759
Year-end Balance	\$11,196,880	\$7,763,578	\$10,277,164	\$12,402,040
Program Accounts 0631, 0634, 0636, 0637, 0639 Totals:				
Total cigarette and tobacco tax revenue	\$82,591,860	\$79,783,470	\$77,693,470	\$75,793,470
Total resources per year	\$196,099,736	\$184,828,478	\$159,188,908	\$183,950,776
Total expenditures per year	\$91,867,305	\$104,075,060	\$51,853,250	\$37,499,476
Total Over/Under:	\$104,232,431	\$80,753,418	\$107,335,658	\$146,451,300
Administration (0638)				
Beginning Balance	\$22,839,381	\$20,132,081	\$17,098,722	\$13,738,342
Projected expenditures and obligations	7,122,757	7,292,886	7,500,807	7,611,697
Projected Revenue	4,346,940	4,199,130	4,089,130	3,989,130
Projected Interest	68,518	60,396	51,296	41,215
Year End Balance	\$20,132,081	\$17,098,722	\$13,738,342	\$10,156,990
ALL FIRST 5 CALIFORNIA FUNDS				
Total cigarette and tobacco tax revenue	\$86,938,800	\$83,982,600	\$81,782,600	\$79,782,600
Total resources per year	\$223,354,575	\$209,220,086	\$180,428,056	\$201,719,463
Total expenditures per year	\$98,990,063	\$111,367,946	\$59,354,057	\$45,111,173
Total Over/Under:	\$124,364,512	\$97,852,140	\$121,074,000	\$156,608,290
Total 15% reserve	\$13,040,820	\$12,597,390	\$12,267,390	\$11,967,390
Net after reserve	\$111,323,692	\$85,254,750	\$108,806,610	\$144,640,900

**First 5 California
Financial Plan
FY 2013-14 through FY 2016-17**

	Account/Project	FY 13-14	FY 14-15	FY 15-16	FY 16-17	
1	Mass Media Communications (0631)					
	Beginning Balance	\$20,220,080	\$19,720,939	\$8,449,951	\$5,068,700	
	A	Parent Signature Program - Education and Outreach	11,362,023	7,681,784	0	
	B	Parent Signature Program - Education and Outreach	0	11,666,667	23,333,333	23,333,333
	C	Parent Signature Program - 1-800 Number	100,000	100,000	100,000	100,000
	D	Parent Signature Program - <i>Kit for New Parents</i>	3,039,060	5,000,000	5,000,000	5,000,000
	E	Child Signature Program	8,191,058	8,127,356	0	0
	F	Unallocated Authority	4,441,100	4,441,100	0	0
	G	Miscellaneous Media	200	0	0	0
	H	SCO/PRORATA/ADJUSTMENTS	8,000	8,000	8,000	8,000
		Total Budgeted Expenditures	27,141,440	37,024,907	28,441,333	28,441,333
		Prior Year Adjustments	0	0	0	0
		Adjusted Fund Balance Expenditures	27,141,440	37,024,907	28,441,333	28,441,333
		Subtotal	(\$6,921,361)	(\$17,303,967)	(\$19,991,382)	(\$23,372,633)
		Projected Revenue	26,081,640	25,194,780	24,534,780	23,934,780
		Projected Interest	60,660	59,139	25,302	15,134
		Other Revenue (Federal Reimbursement for Kit)	500,000	500,000	500,000	500,000
		Year-end Balance	\$19,720,939	\$8,449,951	\$5,068,700	\$1,077,281
		15% Reserve	3,912,246	3,779,217	3,680,217	3,590,217
		Net Year-end Balance	\$15,808,693	\$4,670,734	\$1,388,483	(\$2,512,936)
2	Education (0634)					
	Beginning Balance	\$33,949,000	\$29,543,869	\$22,683,215	\$40,388,867	
	A	Statewide Conference	150,000	150,000	150,000	150,000
	B	Co-Sponsorship Funding	150,000	150,000	150,000	150,000
	C	Child Signature Program - Educare	154,362	2,000,000	2,000,000	1,700,000
	D	Unallocated Authority	0	0	0	0
	E	Teacher Signature Program - CARES Plus	500,000	500,000	500,000	0
	F	Child Signature Program	16,382,115	16,254,712	0	0
	G	Unallocated Authority	8,882,200	8,882,200	0	0
	H	SCO/PRORATA/ADJUSTMENTS	8,000	8,000	8,000	8,000
		Total Budgeted Expenditures	26,226,678	27,944,912	2,808,000	2,008,000
		Prior Year Adjustments	15,000	0	0	0
		Adjusted Fund Balance Expenditures	26,241,678	27,944,912	2,808,000	2,008,000
		Subtotal	\$7,707,322	\$1,598,957	\$19,875,215	\$38,380,867
		Projected Revenue	21,734,700	20,995,650	20,445,650	19,945,650
		Projected Interest	101,847	88,608	68,002	121,095
		Year-end Balance	\$29,543,869	\$22,683,215	\$40,388,867	\$58,447,611
		15% Reserve	3,260,205	3,149,348	3,066,848	2,991,848
		Net Year-end Balance	\$26,283,664	\$19,533,867	\$37,322,019	\$55,455,764
		Purple: Amount pending Commission approval.				
	Royal Blue: Amount projected if Commission approves sustained level of effort.					
	Green: Subtotal amounts.					

**First 5 California
Financial Plan
FY 2013-14 through FY 2016-17**

	Account/Project	FY 13-14	FY 14-15	FY 15-16	FY 16-17
3	Child Care (0636)				
	Beginning Balance	\$27,787,536	\$21,912,519	\$15,563,394	\$15,149,426
A	Child Signature Program	4,095,529	4,063,678	0	0
B	Unallocated Authority	2,220,550	2,220,550	0	0
C	Teacher Signature Program - CARES Plus	10,013,664	10,059,703	10,058,744	0
D	Unallocated Authority	2,661,457	2,660,297	2,661,256	0
E	SCO/PRORATA/ADJUSTMENTS	8,000	8,000	8,000	8,000
	Total Budgeted Expenditures	18,999,200	19,012,228	12,728,000	8,000
	Prior Year Adjustments	0	0	0	0
	Adjusted Fund Balance Expenditures	18,999,200	19,012,228	12,728,000	8,000
	Subtotal	\$8,788,336	\$2,900,291	\$2,835,394	\$15,141,426
	Projected Revenue	13,040,820	12,597,390	12,267,390	11,967,390
	Projected Interest	83,363	65,714	46,642	45,376
	Year End Balance	\$21,912,519	\$15,563,394	\$15,149,426	\$27,154,194
	15% Reserve	1,956,123	1,889,609	1,840,109	1,795,109
	Net Year-end Balance	\$19,956,396	\$13,673,786	\$13,309,318	\$25,359,085
4	Research and Development (0637)				
	Beginning Balance	\$17,371,913	\$21,858,223	\$26,293,279	\$36,451,501
A	School Readiness, Cycle 2				
B	Annual Report	221,667	150,000	150,000	150,000
C	General Research Software				
D	CARES Plus Program Data Collection and Storage	780,000	780,000	780,000	0
E	California Health Interview Survey	1,000,000	500,000	750,000	750,000
F	IT Development				
G	Child Signature Program	4,099,215	4,067,336	0	0
H	Unallocated Authority	2,222,549	2,222,549	0	0
I	Transitional Kindergarten Study	250,000	500,000	500,000	250,000
J	Miscellaneous Research	25,195			
K	SCO/PRORATA/ADJUSTMENTS	8,000	8,000	8,000	8,000
	Total Budgeted Expenditures	8,606,626	8,227,884	2,188,000	1,158,000
	Prior Year Adjustments	0	0	0	0
	Adjusted Fund Balance Expenditures	8,606,626	8,227,884	2,188,000	1,158,000
	Subtotal	\$8,765,287	\$13,630,339	\$24,105,279	\$35,293,501
	Projected Revenue	13,040,820	12,597,390	12,267,390	11,967,390
	Projected Interest	52,116	65,551	78,832	109,283
	Year End Balance	\$21,858,223	\$26,293,279	\$36,451,501	\$47,370,174
	15% Reserve	1,956,123	1,889,609	1,840,109	1,795,109
	Net Year-end Balance	\$19,902,100	\$24,403,671	\$34,611,393	\$45,575,065
	Purple: Amount pending Commission approval.				
	Royal Blue: Amount projected if Commission approves sustained level of effort.				
	Green: Subtotal amounts.				

**First 5 California
Financial Plan
FY 2013-14 through FY 2016-17**

	Account/Project	FY 13-14	FY 14-15	FY 15-16	FY 16-17
5	Unallocated (0639)				
	Beginning Balance	\$13,341,338	\$11,196,880	\$7,763,578	\$10,277,164
A	Small County Augmentations	2,894,688	4,172,901	4,279,917	4,476,143
B	California Smoker's Helpline	1,518,967	1,400,000	1,400,000	1,400,000
C	Strategic Planning Consultant	95,664			
D	Strategic Planning Consultant Amendment	44,964			
E	Child Signature Program	4,095,529	4,063,678	0	0
F	Unallocated Authority	2,220,550	2,220,550		
G	SCO/PRORATA/ADJUSTMENTS	8,000	8,000	8,000	8,000
	Total Budgeted Expenditures	10,878,362	11,865,129	5,687,917	5,884,143
	Prior Year Adjustments	0	0	0	0
	Adjusted Fund Balance Expenditures	10,878,362	11,865,129	5,687,917	5,884,143
	Subtotal	\$2,462,976	(\$668,249)	\$2,075,661	\$4,393,021
	Projected Revenue	8,693,880	8,398,260	8,178,260	7,978,260
	Projected Interest	40,024	33,567	23,243	30,759
	Year-end Balance	\$11,196,880	\$7,763,578	\$10,277,164	\$12,402,040
	15% Reserve	1,304,082	1,259,739	1,226,739	1,196,739
	Net Year-end Balance	\$9,892,798	\$6,503,839	\$9,050,425	\$11,205,301
	Program Accounts 0631, 0634, 0636, 0637, 0639 Totals:				
	Total cigarette and tobacco tax revenue	\$82,591,860	\$79,783,470	\$77,693,470	\$75,793,470
	Total resources per year	\$196,099,736	\$184,828,478	\$159,188,908	\$183,950,776
	Total expenditures per year	\$91,867,305	\$104,075,060	\$51,853,250	\$37,499,476
	Total Over/Under:	\$104,232,431	\$80,753,418	\$107,335,658	\$146,451,300
	Total 15% Reserve	\$12,388,779	\$11,967,521	\$11,654,021	\$11,369,021
		\$91,843,652	\$68,785,897	\$95,681,637	\$135,082,279
6	Administration (0638)				
	Beginning Balance	\$22,839,381	\$20,132,081	\$17,098,722	\$13,738,342
A	Administrative Expense	6,898,191	7,018,593	7,120,807	7,231,697
B	SCO/PRORATA/ADJUSTMENTS	224,566	274,293	380,000	380,000
	Total Budgeted Expenditures	7,122,757	7,292,886	7,500,807	7,611,697
	Prior Year Adjustments	0	0	0	0
	Adjusted Fund Balance Expenditures	7,122,757	7,292,886	7,500,807	7,611,697
	Subtotal	\$15,716,623	\$12,839,196	\$9,597,915	\$6,126,645
	Projected Revenue	4,346,940	4,199,130	4,089,130	3,989,130
	Projected Interest	68,518	60,396	51,296	41,215
	Year End Balance	\$20,132,081	\$17,098,722	\$13,738,342	\$10,156,990
	15% reserve	652,041	629,870	613,370	598,370
	Net Year-end Balance	\$19,480,040	\$16,468,853	\$13,124,972	\$9,558,621
	ALL FIRST 5 CALIFORNIA FUNDS				
	Total cigarette and tobacco tax revenue	\$86,938,800	\$83,982,600	\$81,782,600	\$79,782,600
	Total resources per year	\$223,354,575	\$209,220,086	\$180,428,056	\$201,719,463
	Total expenditures per year	\$98,990,063	\$111,367,946	\$59,354,057	\$45,111,173
	Total Over/Under:	\$124,364,512	\$97,852,140	\$121,074,000	\$156,608,290
	Total 15% reserve	\$13,040,820	\$12,597,390	\$12,267,390	\$11,967,390
	Net after reserve	\$111,323,692	\$85,254,750	\$108,806,610	\$144,640,900
	Purple: Amount pending Commission approval.				
	Royal Blue: Amount projected if Commission approves sustained level of effort.				
	Green: Subtotal amounts.				