



AGENDA ITEM: 5

DATE OF MEETING: January 18, 2012

ACTION: _____

INFORMATION: X

FINANCIAL PLAN FISCAL YEAR 2011-12 AND 2011 FINANCIAL AUDIT REPORT

SUMMARY OF REQUEST

First 5 California staff will provide State Commissioners a report on the FY 2010-11 Financial Audit Report and provide an overview for First 5 California's FY 2011-12 Financial Plan.

AUDIT

The Department of Finance, Office of State Audits and Evaluations (DOF), performed First 5 California's FY 2010-11 financial audit. The report is titled, *A Financial Statement Audit, First 5 California Children and Families Trust Fund and Related Accounts for the Fiscal Year Ended June 30, 2011*. This report is available on First 5 California's Web site at <http://www.cffc.ca.gov/commission/fiscal.asp>.

DOF performed this audit in accordance with an interagency agreement with First 5 California. The objectives of the 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 ending June 30, 2011.
- 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 on the Fund and related accounts.

Audit Results:

- The aforementioned financial statements were fairly presented for the fiscal year ended June 30, 2011.
- The audit did not identify any reportable internal control or compliance weaknesses.

On November 8, 2011, the Department of Finance sent a Management Letter to Kris Perry, Executive Director, summarizing the auditor’s comments and suggestions regarding two matters that present an opportunity for strengthening internal controls over First 5 California’s fund. (Attachment B). The two issues related to Department of General Services’ CALSTARS Access and First 5 California’s reconciliation documentation. First 5 California responded to the recommendations. (Attachment C)

REVENUE

The following table represents the actual tax revenues transferred from the California Children and Families Trust Fund (0623) to First 5 California state accounts from Fiscal Year (FY) 2006-07 through FY 2010-11 and projected revenue for FY 2011-12 through 2014-15.

Fiscal Year	Tax Revenue Amount
2006-2007	\$116,000,574
2007-2008	\$109,726,760
2008-2009	\$105,060,597
2009-2010	\$95,830,895
2010-2011	\$94,050,327
Fiscal Year	Proposed Tax Revenue Amount
2011-2012	\$90,163,000
2012-2013	\$86,048,800
2013-2014	\$82,848,800
2014-2015	\$79,648,800

REVENUE ADJUSTEMENTS

The Board of Equalization (BOE) administers the Fund which includes determining the amount for adjustments to the Fund prior to the transfer of funds to the designated State Commission and county commission accounts. These adjustments include the annual backfill to the Proposition 99 Fund and Breast Cancer Fund and the monthly BOE operational costs for tax collection and enforcement programs.

Backfill

Pursuant to Health and Safety Code (HSC) section 130105, the California Children and Families Trust Fund (hereinafter referred to as “the Fund”), was created in the State Treasury and consists of revenues collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code. The Board of Equalization (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 transfer of funds to other programs is

referred to as the “backfill.” The backfill amount is deducted annually from the tax revenues prior to the BOE’s transfer of funds to First 5 California and county commissions.

At the November 15, 2011, BOE Board Meeting, the BOE Board approved the staff recommendation to adjust the California Children and Families Trust fund by \$16.5 million for backfill. (Attachment D) The adjustment occurred against the November 2011 cigarette tax revenue.

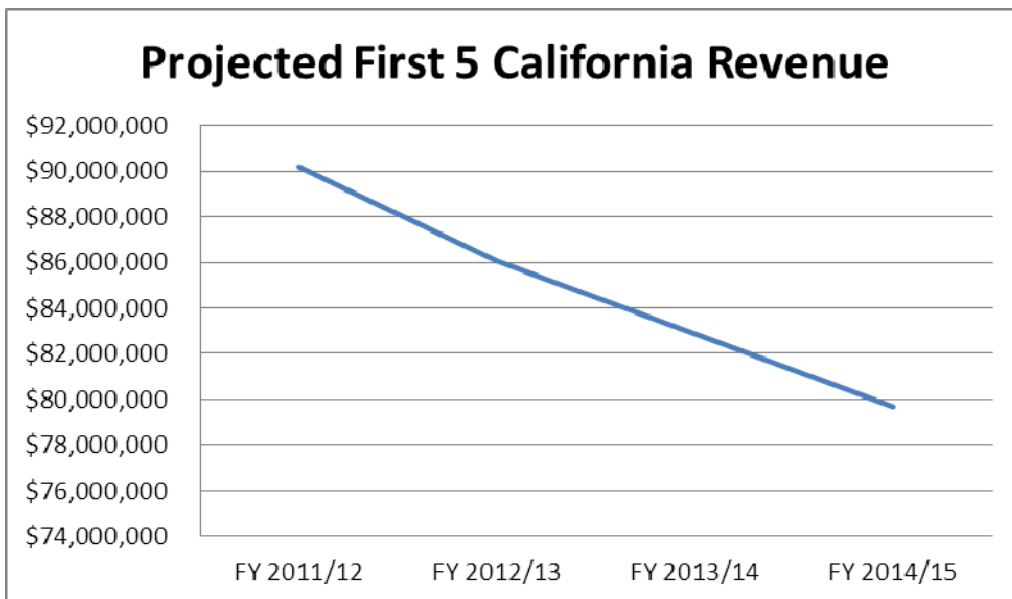
BOE Operational Costs for Tax Collection and Enforcement Programs

Pursuant to Revenue and Tax Code section 30131.3, the BOE will be reimbursed for expenses incurred in the administration and collection of the taxes imposed by Proposition 10. In December 2011, the BOE reported projected operational costs for tax collection and enforcement programs as follows: FY 2011-12/\$16.8 million and FY 2012-13/\$17.4 million.

REVENUE PROJECTIONS

The Department of Finance 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, as well as the impact of the state’s sluggish economy.

Based on the Department of Finance revenue projections updated in May 2011, the following table shows projected tax revenues for First 5 California state accounts for FY 2011-12 through FY 2014-15.



LEVERAGED FUNDS

In FY 2010-11, First 5 California leveraged over \$115 million in local and federal dollars for statewide efforts with approximately \$60 million First 5 California funds. The following table provides a summary of FY 2010-11 state funds that resulted in local and federal leveraged funds.

FY 2010-11 First 5 California Program Leveraged Dollars			
Program Description	State	Local Leveraged	Total
Health Access	\$13,986	\$1,756,815	\$1,770,801
Power of Preschool Demonstration ¹	\$16,465,075	\$68,535,677	\$85,000,752
School Readiness, Cycle 2 ¹	\$40,038,917	\$43,522,626	\$83,561,543
		Federal Leverage	
Kit for New Parents ²	\$3,851,379	\$1,248,859	\$5,100,238
Total	\$60,369,357	\$115,063,977	\$175,433,334

¹Coordination Funds for these programs do not have a match requirement and are not included in the above amounts.

²State contribution represents 8 months of expenditures for *Kit* building and 12 months of *Kit* distribution for federal reimbursement.

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 state funds: Media and Mass Communications, Education, Child Care, Research and Development, Unallocated and Administrative. Attachment E displays the Financial Plan for FY 2011-12 through 2014-15. 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. A Financial Statement Audit, First 5 California Children and Families Trust Fund and Related Accounts for the Fiscal Year Ended June 30, 2011
<http://www.cfc.ca.gov/commission/fiscal.asp>.
- B. November 8, 2011, Management Letter
- C. December 22, 2011, First 5 California Response to Management Letter
- D. October 26, 2011, BOE Staff Recommendation to BOE Board regarding Backfill
- E. First 5 California Financial Plan FY 2011-12 through FY 2014-15