

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION**

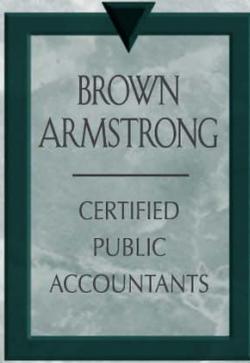
Independent Auditor's Reports and
Financial Statements

For the Year Ended June 30, 2014

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2014**

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors
County of Merced, California
To the Honorable Board of Commissioners
First 5 Merced County Children and
Families Commission

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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of the First 5 Merced County Children and Families Commission (the Commission), a component unit of the County of Merced, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic 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 opinions 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 Commission'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 Commission'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 have obtained is sufficient and appropriate to provide a basis for our audit opinions.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Opinions

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

Emphasis of Matter

As noted in Note 1 to the financial statements, during the year ended June 30, 2014, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The Supplemental Schedule of First 5 California Funding is presented for the purpose of additional analysis and is not a required part of the financial statements.

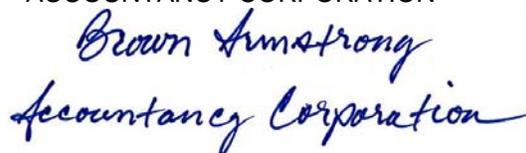
The Supplemental Schedule of First 5 California Funding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedule of First 5 California Funding is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2014, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Bakersfield, California
October 15, 2014

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2014**

INTRODUCTION

First 5 Merced County Children and Families Commission (the Commission) is funded primarily by a tax on tobacco products as established by Proposition 10, passed in 1998. All tax revenues are distributed to First 5 California Children and Families Commission (First 5 California) who utilizes 20% of those revenues and distributes the remainder to local First 5 county commissions formed by local ordinances after Proposition 10 was adopted. The County of Merced adopted its county ordinance establishing the Commission on December 14, 1998 (Ordinance No. 1614). Funds are disbursed to the County of Merced by First 5 California based upon the number of children born to mothers with a residence in the County of Merced. The revenue from this tax is to be used for tobacco education and cessation programs and for programs that promote, support, and improve the early development of children from conception through age five. The intent is for California children to be healthy, to live in a healthy and supportive family environment, and to enter school ready to learn.

The Commission has developed a Strategic Plan to guide how funds are disbursed for this purpose. The Commission has adopted initiatives that set aside funding for implementation of certain goals from the Strategic Plan. A three-year financial plan supplements and operationalizes the Strategic Plan and any accompanying initiatives.

This discussion and analysis of the Commission's financial performance provides an overview of the financial activities for the fiscal year ending June 30, 2014. It should be read in conjunction with the Commission's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, issued June 1999; and GASB Statement No. 37, *Basic Financial Statement – and Management and Discussion and Analysis – for State and Local Governments: Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

FINANCIAL HIGHLIGHTS

- Total net position was \$5,683,666 of June 30, 2014.
- Total liabilities totaled \$961,658.
- Revenues were \$3,685,658. Expenses totaled \$3,250,793, reflecting an increase in net position of \$434,865.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – the management’s discussion and analysis (this section), the basic financial statements, and the required supplementary information. The three sections together provide a comprehensive overview of the Commission. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the Commission’s overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the Commission’s operations in more detail. The fund financial statements comprise the remaining statements.
 - **Governmental funds** statements tell how general governmental services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Government-Wide Financial Statements

The government-wide financial statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the Commission’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the Commission’s net position and how they have changed. Net position – the difference between assets and liabilities – is one way to measure the financial health and position of the Commission.

- Over time, increases or decreases in the Commission’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Commission, one needs to consider additional non-financial factors such as decreases in Proposition 10 tax revenue due to decreased tobacco sales.

The government-wide financial statements of the Commission include governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Commission’s most significant fund – not the Commission as a whole. Funds are accounting devices that the Commission uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Commission establishes other funds to control and manage money for particular purposes or to show that The Commission is meeting a legal responsibility for using certain revenues. The Commission has only one kind of fund:

- **Governmental funds** – All of The Commission’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statement provides a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission’s programs.

FINANCIAL ANALYSIS OF THE COMMISSION AS A WHOLE

The Commission's combined net position was \$5,683,666 and \$5,898,846 at June 30, 2014 and 2013, respectively. See Table 1.

**Table 1:
Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets		
Current Assets	\$ 6,625,794	\$ 6,202,444
Noncurrent Assets	19,530	25,658
Total Assets	<u>6,645,324</u>	<u>6,228,102</u>
Liabilities		
Current Liabilities	787,697	152,247
Long-Term Liabilities	173,961	176,866
Total Liabilities	<u>961,658</u>	<u>329,113</u>
Net Position		
Net Investment in Capital Assets	19,530	25,658
Unrestricted	5,664,136	5,873,331
Total Net Position	<u>\$ 5,683,666</u>	<u>\$ 5,898,989</u>

Changes in Net Position

The Commission's total revenues were \$3,685,658 and \$3,701,385 for the fiscal years ended June 30, 2014 and 2013, respectively. The revenues come from a tax on tobacco products implemented by Proposition 10 (1998) and collected and distributed by First 5 California.

The total costs of all programs and services were \$3,250,793 and \$3,101,934 for the fiscal years ended June 30, 2014 and 2013, respectively. The Commission's expenses are predominately related to funding organizations to provide services for children ages 0 to 5 and their families. The remaining expenses were for internally operated programs, administrative activities, program expenses, and evaluation services.

**Table 2:
Changes in Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Program Revenues	\$ 3,618,929	\$ 3,718,366
General Revenues	66,729	(16,981)
Total Revenues	<u>3,685,658</u>	<u>3,701,385</u>
Expenses	<u>3,250,793</u>	<u>3,101,791</u>
Change in Net Position	434,865	599,594
Net Position - Beginning of Year	5,898,989	5,296,160
Prior Period Adjustment	(650,188)	3,235
Net Position - End of Year	<u>\$ 5,683,666</u>	<u>\$ 5,898,989</u>

FINANCIAL ANALYSIS OF THE COMMISSION'S GENERAL FUND

For the fiscal year ended June 30, 2014, The Commission reported an ending fund balance of \$5,838,097, an increase of \$438,088 from the restated prior year fund balance. This increase represents the amount of revenues in excess of expenditures for the year ended June 30, 2014.

General Fund Budgetary Highlights

Budget comparisons for Proposition 10 revenue and expenditures reveal some variances from previous spending trends. The variances are due to a variety of factors such as:

- General Salaries and Benefits
 - Actual expenditures were less than anticipated due to staff vacancies that resulted in expenditures below expectations. This resulted in reduced salary and benefits expenses.
- General Supplies and Services
 - Actual expenditures were less than budgeted largely due to lower than expected professional development/training and consultant services projections that were not fully expended.

A schedule of the Commission's original and final budget amounts compared with actual revenues and expenses is provided in the audited financial report.

CAPITAL ASSETS

The Commission investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$19,530 (net of accumulated depreciation). This investment in capital assets is made of equipment. At the end of the contract term plus the 6-month extension term, contractors were required to abide by the Equipment clause within the contract which states, "Any equipment, materials, supplies, or property of any kind purchased for or financed from funds provided under this Agreement, excepting any funds received for indirect expenses pursuant to the budget document attached as Exhibit B, having a useful life of three (3) years or greater or a value in excess of Five Thousand Dollars (\$5,000.00), shall be defined as an inventory item. All inventory items not fully consumed in the work described herein shall be the property of the COMMISSION at the termination of this Agreement unless the COMMISSION, at its sole discretion, makes an alternative disposition."

Table 3:
Capital Assets (net of depreciation)

	<u>June 30, 2014</u>
Equipment	<u>\$ 19,530</u>
Total	<u><u>\$ 19,530</u></u>

Additional information on The Commission's capital assets can be found in Notes 1D and 7 of this report.

ECONOMIC FACTORS AND NEXT YEARS' BUDGETS

The budgeting and expenditures for the 2014/15 fiscal year were planned within Merced County guidelines, in accordance with the Commission annual budget and Long Range Financial Plan protocols, and approved by the First 5 Merced County Commission. The Long Range Financial Plan was comprehensively reviewed and revised with updated revenue projections through this Strategic Planning term ending 2016. The next two years of financial planning intentionally matches and relates to the term of the current Strategic Plan.

The plan also identifies a financial contingency amount, which is preserved from available funds to account for unexpected or emerging trends/occurrences.

The 2014/15 budget is relatively stable and fundamentally supports the current contracted amounts. It is important to note, revenues are projected to continue declining, thus payment for expenditures rely on revenues received in prior years. This is observed in the reliance on past revenues received in order to balance the 2014/15 budget, as well as the trending decline in total fund balance due to a decline in the use of tobacco products in California.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Ms. Martha Hermosillo, Executive Director, The Commission, 676 Loughborough Drive, Merced, California 95348 (209-385-7337).

**FIRST 5 MERCED COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2014**

ASSETS

Current assets:

Cash and cash equivalents	\$ 6,084,235
Accounts receivable	541,559

Total current assets	6,625,794
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Capital assets, depreciable, net	19,530
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Total assets	6,645,324
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LIABILITIES

Current liabilities:

Accounts payable	756,753
Due to County	1,734
Accrued payroll	29,210

Long-term liabilities:

Due within one year	10,576
Due in more than one year	163,385

Total liabilities	961,658
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NET POSITION

Net investment in capital assets	19,530
Unrestricted	5,664,136

Total net position	\$ 5,683,666
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The accompanying notes are an integral part of these financial statements.

**FIRST 5 MERCED COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Revenue and Changes in Net Position Governmental Activities
Governmental activities:			
Child development services	\$ 3,250,793	\$ 3,618,929	\$ 368,136
Totals	\$ 3,250,793	\$ 3,618,929	368,136
General revenues:			
Interest and investment earnings			57,719
Miscellaneous income			9,010
Change in net position			434,865
Net position - beginning of year, as previously reported			5,898,989
Prior period adjustment			(650,188)
Net position end of year			\$ 5,683,666

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

**FIRST 5 MERCED COUNTY
GENERAL FUND BALANCE SHEET
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	\$ 6,084,235
Accounts receivable	541,559
	<hr/>
Total assets	\$ 6,625,794
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 756,753
Due to County	1,734
Accrued payroll	29,210
	<hr/>
Total liabilities	787,697
	<hr/>

Fund balance:

Committed	4,859,762
Assigned	978,335
	<hr/>
Total fund balance	5,838,097
	<hr/>
Total liabilities and fund balance	\$ 6,625,794
	<hr/> <hr/>

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

FIRST 5 MERCED COUNTY
RECONCILIATION OF THE GENERAL FUND BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2014

Reconciliation of the General Fund Balance Sheet
to the Statement of Net Position:

Total fund balance	\$ 5,838,097
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund (net of accumulated depreciation of \$77,717).	19,530
Long-term liabilities are not due in the current period and, therefore, are not included in the general fund.	<u>(173,961)</u>
Total net position - governmental activities	<u><u>\$ 5,683,666</u></u>

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

**FIRST 5 MERCED COUNTY
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2014**

Revenues:

State Proposition 10 tax	\$ 2,966,947
Child Signature Program #1	565,200
Child Signature Program #2	30,599
CARES Plus	56,183
Gain from investment activities	57,719
Other revenue	9,010
	3,685,658
Total revenues	3,685,658

Expenditures:

Salaries and benefits	540,367
Supplies and services	193,309
Child Signature Program salaries and benefits	198,213
Child Signature Program supplies and services	989,651
CARES Plus services and supplies	186,174
Grant supplies and services	37,716
Commission/Community supplies and services	1,102,140
	3,247,570
Total expenditures	3,247,570
Net change in fund balance	438,088
Fund Balance - beginning of year, as previously reported	6,050,197
Prior Period Adjustment	(650,188)
	5,838,097
Fund balance, end of year	\$ 5,838,097

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

**FIRST 5 MERCED COUNTY
RECONCILIATION OF THE CHANGES IN FUND BALANCE
TO THE CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of the General Fund Statement of Revenues, Expenditures,
and Changes in Fund Balance to the Statement of Activities:

Net change in fund balance - general fund	\$ 438,088
The general fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$4,779) exceeded capital outlay (\$0) in the current period.	(6,128)
Long-term liabilities are not due during the current year and, therefore, are not recorded in the general fund. This is the amount by which long-term liabilities increased in the current period.	<u>2,905</u>
Change in net position of governmental activities	<u><u>\$ 434,865</u></u>

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

FIRST 5 MERCED COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2014

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
State Proposition 10 tax	\$ 4,906,389	\$ 4,907,722	\$ 2,970,776	\$ (1,936,946)
Interest	45,760	45,760	43,751	(2,009)
CARES Plus	150,000	185,490	56,183	(129,307)
Child Signature Program #1	661,625	943,749	709,505	(234,244)
Child Signature Program #2	-	-	30,599	30,599
Commission/Community Initiatives	-	-	42,391	42,391
Other revenue	-	-	3,857	3,857
	<u>5,763,774</u>	<u>6,082,721</u>	<u>3,857,062</u>	<u>(2,225,659)</u>
Expenditures:				
Salaries and benefits	929,249	931,363	736,914	194,449
Supplies and services	338,419	336,305	184,918	151,387
CARES Plus services and supplies	415,218	597,013	167,645	429,368
Child Signature Program #1 supplies and services	1,063,163	1,622,933	617,761	645,943
Child Signature Program #2 supplies and services	-	47,084	22,366	19,718
Commission/Community Initiatives supplies and services	3,058,877	3,535,603	882,516	2,367,128
	<u>5,804,926</u>	<u>7,070,301</u>	<u>2,612,120</u>	<u>3,807,993</u>
Net change in fund balance (Budgetary Basis)	<u>\$ (41,152)</u>	<u>\$ (987,580)</u>	1,244,942	<u>\$ 1,582,334</u>
Budget to GAAP reconciliation				
Revenue accrual prior year			(675,208)	
Revenue accrual current year			503,804	
Accounts payable prior year			152,247	
Accounts payable current year			(787,697)	
			<u>438,088</u>	
Net change in fund balance (GAAP Basis)			438,088	
Fund Balance - beginning of year, as previously reported			6,050,197	
Prior Period Adjustment			(650,188)	
Fund balance, end of year			<u>\$ 5,838,097</u>	

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

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the First 5 Merced County Children and Families Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Commission are described below.

A. Reporting Entity

The Commission is a special revenue fund (Fund #1500) of the County of Merced (the County) and, accordingly, is included in the basic financial statements of the County.

The accompanying financial statements present only the Commission's Special Revenue Fund of the County and are not intended to present fairly the financial position and changes in financial position of the County in conformity with accounting principles generally accepted in the United States of America.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Commission's basic financial statements consist of government-wide financial statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Commission as a whole. The statement of net position presents the financial condition of the governmental activities of the Commission at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

2. Fund Financial Statements

The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the General Fund balance sheet. The General Fund statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, compensated absences are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted resources as they are needed. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for the governmental fund.

The *Special Revenue Fund* is used to account for proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

C. Budgetary Control and Encumbrances

The Commission adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against the budget appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures as they do not constitute expenditures or liabilities. Therefore, the budget reported in the current year audited financial statements is overstated to include their encumbrances.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounting Policies

Cash and cash equivalents – Cash and cash equivalents include cash in banks and investments held by the County Treasurer in a cash management pool. Cash and cash equivalents are pooled with other County cash for investment purposes. Interest earned on investments is allocated on the basis of average balances and is apportioned quarterly based on cost, which differs from the fair value basis used in these financial statements. Investment policies and associated risk factors applicable to the Commission are those of the County. Pooled cash and cash equivalents are carried at cost which approximates market value. All pooled cash and investment securities held by the County are insured, registered, and held by the County or its agent in the County’s name.

Investment policies – California Government Code Section 53600, et seq., authorizes the County to invest in obligations of the State or any local agency of the State of California, bankers’ acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements or reverse repurchase agreements, medium-term notes issued by corporations, State of California Local Agency Investment Fund, and open-ended mutual funds that invest in securities authorized by the aforementioned California Government Code.

Allowance for doubtful accounts – Accounts receivable are considered fully collectible and as such, no allowance for doubtful accounts has been recorded.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Capital assets – Capital assets, which include equipment, are reported in the government-wide financial statements. Capital assets (equipment) are defined by the Commission as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. The reported cost of capital assets excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. Donated capital assets are recorded at their estimated fair value at the time received. Equipment of the Commission is depreciated using the straight-line method over a ten year period.

Compensated absences – Unused vacation leave may be accumulated by Commission employees up to a specified maximum and is paid at the time of termination from Commission employment. There is no maximum on the amount of unused sick leave which employees may accumulate; however, the Commission is not obligated to pay for unused sick leave if an employee terminates prior to retirement. Upon retirement, employees are entitled to be paid for up to one half of their unused sick leave, up to a specified maximum, depending on the employee’s job classification. The remainder of the accumulated balance will be credited towards time worked for retirement purposes.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Accounting Policies (Continued)

Because these leave balances do not require the use of financial resources, no liability is recorded within the governmental fund. However, this liability is reflected in the government-wide statement of net position.

Fund balance reservations – Beginning with fiscal year 2011, the Commission implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed – Amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority (Children and Families Commission). To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level action to remove or change the constraint.
- Assigned – Amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commission or by an official or body to which the Board of Commissioners delegates the authority.
- Unassigned – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Commission establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved contracts. Assigned fund balance is established by the Commission through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

For the Commission's governmental fund, the Commission strives to maintain a budgeted total fund balance that is in excess of \$1,250,000.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Governmental Accounting Standards Update

During the fiscal year ending June 30, 2014, the Commission implemented the following standards:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. There was no effect on the Commission’s accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 66 – *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. There was no effect on the Commission’s accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the Commission’s accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. There was no effect on the Commission’s accounting or financial reporting as a result of implementing this standard.

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Commission has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Commission has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The provisions of this statement were applied simultaneously with the provisions of GASB Statement No. 68. The Commission has not fully judged the effect of the implementation of GASB Statement No. 71 as of the date of the basic financial statements.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 2 – PROGRAM DESCRIPTION

The Commission was created by the County of Merced Ordinance No. 1629, which was adopted by the County Board of Supervisors on December 15, 1998, and amended on March 23, 1999, pursuant to the passage of the Children and Families First Act of 1998 by the voters of California on November 2, 1998. The Commission was established by that ordinance.

The Commission was created in order to utilize the funds generated by taxing cigarettes and related tobacco products to provide increased support for the optimal development of children from conception to age five. The Commission is subject to the public hearing and reporting requirements of the Children and Families First Act of 1998 and the guidelines promulgated from time to time by the First 5 California Children and Families Commission.

NOTE 3 – ACCOUNTS AND RECORDS

The Commission received funds from the California Children and Families First Trust which were deposited in Fund #1500 titled “Children and Families First.” All expenditures for the Commission were reported in Fund #1500 Budget Units #40600-40605 and noted on receipts and claim forms.

NOTE 4 – SUPPLANT CERTIFICATION

No moneys received pursuant to taxes imposed by Section 30131.2 of the California Tax and Revenue Code were used to fund existing levels of service nor used to supplant State or local General Fund money for any purpose. This certification is required pursuant to Section 30131.4.

NOTE 5 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in a pool established by the County. See the County financial statements for more information.

NOTE 6 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2014, consisted of the following:

	2014
Cash and Cash Equivalents in County Treasury	\$ 6,084,235
Total Investment Gain (Loss) from County	\$ (57,719)

See the County financial statements for disclosures related to risks associated with cash and cash equivalents.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Equipment	\$ 97,247	\$ -	\$ -	\$ 97,247
Less accumulated depreciation:				
Equipment	<u>71,589</u>	<u>6,128</u>	<u>-</u>	<u>77,717</u>
Governmental activities, capital assets, net	<u>\$ 25,658</u>	<u>\$ (6,128)</u>	<u>\$ -</u>	<u>\$ 19,530</u>

Depreciation expense of \$6,128 was charged to the Child Development Services function.

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases/ Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 57,555	\$ 37,010	\$ (43,155)	\$ 51,410	\$ 10,576
Other postemployment benefits (OPEB)	<u>119,311</u>	<u>3,240</u>	<u>-</u>	<u>122,551</u>	<u>-</u>
Long-term liabilities	<u>\$ 176,866</u>	<u>\$ 40,250</u>	<u>\$ (43,155)</u>	<u>\$ 173,961</u>	<u>\$ 10,576</u>

NOTE 9 – LEASES

The Commission leases office space from which all operations are run from a non-related entity. Total rental expense for the fiscal year ending June 30, 2014, was \$72,000. Future minimum lease payments are as follows:

<u>June 30,</u>	
2015	\$ 72,000
2016	<u>72,000</u>
	<u>\$ 144,000</u>

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 10 – PROGRAM EVALUATION

The Commission spent \$199,583 on program evaluation during the fiscal year ended June 30, 2014, which consisted of \$64,172 in contracted program evaluation and \$135,411 of Commission salaries, benefits, services, and supplies based on time study allocations.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2014, the Commission paid the County, a related party, a total of \$45,417 for accounting, legal, insurance, vehicle, data processing, and administrative services. The Commission is a special revenue fund of the County.

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The Commission also participates in the Merced County Employees' Retirement Association plan. Pension costs charged to the Commission during the year amounted to \$202,997.

The County provides postemployment benefits including retiree health, dental, life, and spousal coverage for health in accordance with County resolutions. The County maintains the same medical and dental plans for its retirees as for its active employees, with certain modifications. The maximum annual dental benefit is reduced from \$2,000 to \$1,000. Vision coverage is not extended to retirees. Once a retiree reaches age 65 or becomes eligible for Medicare before age 65 as a result of a qualifying disability or end-stage renal disease, he or she must select from one of two Medicare options: Blue Cross Assurance 90 Medicare Supplement Plan or PacificCare Secure Horizons HMO (not available in the County).

The County's share of retiree premium depends on age, years of service, employment classification (Safety or Miscellaneous), and date of hire, as follows:

Tier 1 employees must be at least age 50 and have at least 10 years of service, or may be any age with at least 30 years of service (20 years for Safety members) at the time of retirement. Tier 1 employees include all Miscellaneous employees hired prior to June 13, 1997, and all Safety members employed in active law enforcement or as district attorney investigators, or juvenile hall counselors. Tier 1 employees may retire upon reach age 70 regardless of how many years of service obtained or at age 65 if employee was a member prior to December 31, 1978.

Tier 2 employees must be at least age 55 and have at least 10 years of service, or may be any age with at least 30 years of service. Tier 2 employees include all Miscellaneous employees hired on or after June 13, 1994. Tier 2 employees may retire upon reach age 70 regardless of how many years of service obtained or at age 65 if employee was a Safety member prior to December 31, 1978.

Tier 3 employees must be at least age 55 and have at least 10 years of service, or may be any age with at least 30 years of service. Tier 3 employees include all miscellaneous employees hired between October 1, 2012, and December 31, 2012, or anyone hired after December 31, 2012, who established reciprocity with another system or their membership date with the reciprocal system was before January 1, 2013. Tier 3 employees may retire upon reach age 70 regardless of how many years of service obtained or at age 65 if employee was a Safety member prior to December 31, 1978.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 12 – PENSION PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)
(Continued)

Tier 4 employees must be at least age 52 (age 50 for Safety members) and have at least 5 years of service. Tier 4 employees include all Miscellaneous employees hired on or after January 31, 2013, who did not establish reciprocity with another system or if their membership date with a reciprocal system was on or after January 31, 2013.

Employees having attained the required service may receive deferred benefits upon attainment of the applicable age requirement described above. Employees may also qualify for retiree health benefits through either Service-connected or Non-service-connected Disability Retirements. As the Commission is part of the County, these benefits are applicable to the Commission. Total OPEB costs charged to the Commission during the fiscal year amounted to \$1,050. Total OPEB liability accrued by the Commission as of June 30, 2014, was \$122,551.

See the County annual financial statement for more information regarding the pension plan and OPEB that were administered to the Commission via the County.

NOTE 13 – ECONOMIC DEPENDENCY

The Commission received the majority of its funding from one source, taxes imposed by Section 30131.2 of the California Tax and Revenue Code. This code imposes additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was \$3,588,330, or 97.36%, of total revenue for the year ending June 30, 2014. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes of Section 30131.2 of the California Tax and Revenue Code.

NOTE 14 – GOVERNMENT-WIDE STATEMENTS, NET POSITION – CLASSIFICATIONS

The classification of net position into three components, Net Investment in Capital Assets; restricted; and unrestricted, is required by GASB Statement No. 34 (and subsequently GASB Statement No. 63). These classifications are defined as follows:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

Restricted Net Position – Consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governmental units or constraints imposed by law through constitutional provisions or enabling legislations.

Unrestricted Net Position – Consists of funds which are undesignated and available for general operations.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 15 – FUND FINANCIAL STATEMENTS, FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1 for a description of these categories). A detailed schedule of fund balances at June 30, 2014, is as follows:

	2014
Committed to:	
Approved contracts	\$ 1,200,000
Approved contracts - services and supplies	172,500
Future Community Outreach State of CA funds	1,376,994
Future CARES Plus State of CA funds	298,643
Future Child Signature State of CA funds	561,625
Budget reserve contingency	1,250,000
Total Committed Fund Balance	4,859,762
Assigned to:	
Marketing and Communication	34,512
Advocacy and Legislative Education	7,500
Strategic Plan Desired Outcomes	936,323
Total Assigned Fund Balance	978,335
Total Fund Balance	\$ 5,838,097

NOTE 16 – ENCUMBRANCES

The Commission utilizes encumbrance accounting in its governmental fund. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued. Generally, all unencumbered appropriations lapse at year-end. Certain open encumbrances at fiscal year-end are included in restricted, committed, or assigned fund balance, as appropriate.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

NOTE 17 – PRIOR PERIOD ADJUSTMENT

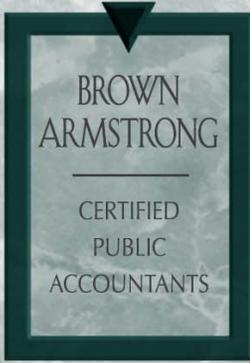
The Commission’s beginning net position and beginning fund balance were restated as follows:

	<u>Governmental Activities</u>	<u>General Fund</u>
Net Position/Fund Balance at June 30, 2013, as previously reported	\$ 5,898,989	\$ 6,050,197
Understatement of prior year expenses/expenditures	<u>(650,188)</u>	<u>(650,188)</u>
Net Position/Fund Balance at June 30, 2013, as restated	<u>\$ 5,248,801</u>	<u>\$ 5,400,009</u>

NOTE 18 – SUBSEQUENT EVENTS

In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 15, 2014, which is the date the basic financial statements were issued.

OTHER REPORTS



BROWN ARMSTRONG
Certified Public Accountants

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

To the Honorable Board of Supervisors
County of Merced, California

To the Honorable Board of Commissioners
First 5 Merced County Children and Families Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of the First 5 Merced County Children and Families Commission (the Commission), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 15, 2014.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations under 2014-1 to be material weaknesses.

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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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Commission's Response to Findings

The Commission's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

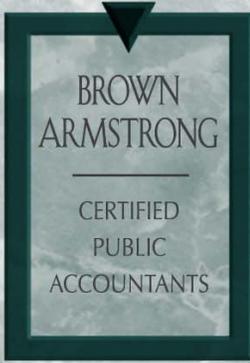
Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
October 15, 2014



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Honorable Board of Supervisors
County of Merced, California

To the Honorable Board of Commissioners
First 5 Merced County Children and
Families Commission

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Compliance

We have audited the First 5 Merced County Children and Families Commission's (the Commission) compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the requirements of the law and regulations applicable to the California Children and Families Act.

Auditor's Responsibility

Our responsibility is to express an opinion on the Commission's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the statutory requirements listed below. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Commission's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:



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<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict of Interest	3	Yes
County Ordinance	4	Yes
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2014.

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, and the State Controller's Office 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
October 15, 2014

SUPPLEMENTARY INFORMATION

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
SUPPLEMENTAL SCHEDULE OF
FIRST 5 CALIFORNIA (F5CA) FUNDING
FOR THE YEAR ENDED JUNE 30, 2014**

Program or Project Title		REVENUE		CHANGE IN		NET POSITION	NET POSITION
		F5CA FUNDS	EXPENDITURES	NET POSITION	BEGINNING OF YEAR	END OF YEAR	
Child Signature Program #1	F5CA Program Funds	\$ 565,199	\$ (447,372)	\$ 1,012,571	\$ (192,429)	\$ 820,142	
	County, Local Funds	-	(447,372)	447,372	(336,735)	110,637	
Child Signature Program #2	F5CA Program Funds	30,599	(17,701)	48,300	-	48,300	
	County, Local Funds	-	(17,701)	17,701	-	17,701	
CARES Plus (Phase 1)	F5CA Program Funds	56,183	(62,058)	118,241	(44,381)	73,860	
	County, Local Funds	-	(124,116)	124,116	(309,389)	(185,273)	
TOTAL F5CA FUNDS		\$ 651,981	\$ (1,116,320)	\$ 1,768,301	\$ (882,934)	\$ 885,367	

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2014**

2014-01: Expenditure and Revenue Cut-Off Financial Reporting

Criteria:

In accordance with *Governmental Accounting Standards*, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial performance reporting, or compliance with applicable laws and regulations.

Condition:

During our audit procedures, it was noted that the First 5 Merced County Children and Families Commission (the Commission) failed to properly accrue certain expenditures and revenue items in their appropriate accounting period based on when they were incurred or received.

Cause:

The Commission lacked proper procedures and internal controls to ensure the financial statements were complete and accurate for each reporting period.

Effect:

The Commission's financial statements were originally misstated in understating its revenues and accounts receivable while overstating expenditures and accounts payable for the reporting period ending June 30, 2014. However, these issues were identified during the audit and were correctly adjusted by management prior to the issuance of the financial statements.

Recommendation:

We recommend the Commission implement proper internal control procedures to perform cut-off procedures on invoices paid and receipts received subsequent to the financial reporting period to properly determine accurate and complete expenditures and revenue accruals in the respective financial reporting period in accordance with accounting standards generally accepted in the United States of America.

Management Response/Corrective Action Plan:

In order to mitigate the risks associated with the cut-off issue noted above, we shall implement the following procedures: A comprehensive listing of all identified accruals (receivables/payables) shall be created and forwarded to the Auditor-Controller's Office, for review. The list created by the Commission will be compared with the accruals listing generated through the accrual recognition procedures for the County of Merced and all variances shall be investigated.

Additionally, the Commission will perform a basic analytic of reviewing a three year average of revenues and expenditures in order to identify any material variances which could be due to an omission of items that should be accrued.

We believe the two procedures stated above mitigate the identified risks in cut-off and should help to ensure that all balances reported in any given reporting period are accurate.