

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

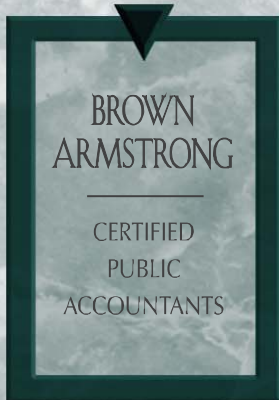
Independent Auditor's Reports and
Financial Statements

For the Year Ended June 30, 2013

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2013**

Table of Contents

	<u>Page(s)</u>
Independent Auditor’s Report	1-3
Management’s Discussion and Analysis.....	4-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements:	
General Fund Balance Sheet	12
Reconciliation of the General Fund Balance Sheet to the Statement of Net Position	13
General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of the Changes in Fund Balance to the Changes in Net Position.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual.....	16
Notes to the Financial Statements	17-28
Other Reports:	
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 <i>Government Auditing Standards</i>	29-30
Independent Auditor’s Report on State Compliance	31-32
Supplementary Information:	
Supplemental Schedule of First 5 California Funding	33



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, 2013, and the related notes to the financial statements, which collectively comprise the Commission's 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 statement 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 of 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 the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

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

Opinion

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, 2013, 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 discussed in Note 1 to the financial statements, during the year ended June 30, 2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, 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 basic financial statements that collectively comprise the Commission’s basic financial statements. The Supplemental Schedule of First 5 California Funding is presented for purposes of additional analysis and is not a required part of the basic 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 the basic financial statement 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 respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated October 14, 2013, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that grant 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
October 14, 2013

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2013**

INTRODUCTION

First 5 Merced County Children and Families Commission (First 5 Merced County or 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 First 5 Merced County 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 prenatal 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.

First 5 Merced County has developed a Strategic Plan to guide how funds are disbursed for this purpose. First 5 Merced County 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 First 5 Merced County financial performance provides an overview of the financial activities for the fiscal year ending June 30, 2013. It should be read in conjunction with First 5 Merced County'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 \$5,898,846 of June 30, 2013.
- Total liabilities totaled \$329,113.
- Revenues were \$3,701,385. Expenditures totaled \$3,101,934, reflecting a increase in net position of \$599,451.

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 First 5 Merced County. 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 First 5 Merced County’s overall financial position.
- **Fund financial statements** focus on reporting the individual parts of First 5 Merced County 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 First 5 Merced County as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of First 5 Merced County’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 First 5 Merced County’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 First 5 Merced County.

- Over time, increases or decreases in First 5 Merced County’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of First 5 Merced County, 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 First 5 Merced County include governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about First 5 Merced County’s most significant fund – not First 5 Merced County as a whole. Funds are accounting devices that First 5 Merced County 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. First 5 Merced County establishes other funds to control and manage money for particular purposes or to show that First 5 Merced County is meeting a legal responsibility for using certain revenues. First 5 Merced County has only one kind of fund:

- **Governmental funds** – All of First 5 Merced County’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 First 5 Merced County’s programs.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

First 5 Merced County's combined net position was \$5,898,846 and \$5,296,160 at June 30, 2013 and 2012, respectively. See Table 1.

**Table 1:
Net Position**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets		
Current Assets	\$ 6,202,444	\$ 6,270,280
Noncurrent Assets	25,658	19,682
Total Assets	<u>6,228,102</u>	<u>6,289,962</u>
Liabilities		
Current Liabilities	152,247	846,938
Long-Term Liabilities	176,866	146,864
Total Liabilities	<u>329,113</u>	<u>993,802</u>
Net Position		
Net Investment in Capital Assets	25,658	19,682
Unrestricted	5,873,331	5,276,478
Total Net Position	<u>\$ 5,898,989</u>	<u>\$ 5,296,160</u>

Changes in Net Position

First 5 Merced County's total revenues were \$3,701,385 and \$3,770,390 for the fiscal years ended June 30, 2013 and 2012, 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 \$3,101,934 and \$4,135,613 for the fiscal years ended June 30, 2013 and 2012, respectively. First 5 Merced County'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, 2013</u>	<u>June 30, 2012</u>
Program Revenues	\$ 3,718,366	\$ 3,685,635
General Revenues	(16,981)	84,755
Total Revenues	<u>3,701,385</u>	<u>3,770,390</u>
Expenses	<u>3,101,791</u>	<u>4,135,613</u>
Excess (Deficiency) of Revenues over (under) Expenditures	599,594	(365,223)
Special Item	-	3,134,794
Change in Net Position	599,594	2,769,571
Net Position - Beginning of Year	5,296,160	2,526,589
Prior Period Adjustment	3,235	-
Net Position - End of Year	<u>\$ 5,898,989</u>	<u>\$ 5,296,160</u>

FINANCIAL ANALYSIS OF THE FIRST 5 MERCED COUNTY'S FUND

For the fiscal year ended June 30, 2013, First 5 Merced County reported an ending fund balance of \$6,050,197, an increase of \$626,855 from the prior year. This increase represents the amount of revenues in excess of expenditures for the year ended June 30, 2013.

General Fund Budgetary Highlights

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

➤ **General salaries and benefits:**

Actual expenditures were higher this year than they were last year due to changes in staff re-positioning. The former Program Manager became the Executive Director and the former Program Specialist became the Program Manager. There is some compaction between the Program Specialist and Program Manger salary, which required the Program Manager to start at a higher pay step.

➤ **General supplies and services:**

Actual expenditures were slightly less than budgeted in this area however within anticipated limits.

➤ **Child Signature Program, or CSP (formerly Power of Preschool, or POP) and CARES Plus supplies and services:**

The Child Signature Program was granted to First 5 Merced by First 5 California in fiscal year 2012/13. Although the Child Signature Program sites were the same as the Power of Preschool sites, the new CSP requirements were different. Expenditures were less than budgeted due to funded contractors gearing up for the change in programs. Budgeted amounts were established based on guidelines of the grant and approved by the First 5 Commission. This year actual program costs fell short of the full budgeted amount.

CARES Plus was also under expended because of fewer applicants than anticipated by the contractor. Also there was some attrition of participants due to factors that included availability of courses and the lack of courses available in Spanish.

➤ **Commission/community supplies and services:**

The first half of fiscal year 12/13, from June to December, First 5 Merced County offered a 6-month extension to contractors funded in the 11/12 year. This extension was due to a number of factors including the hiring of a new First 5 Executive Director and the Commission and Consultant working to update the Strategic Plan. Expenditures in the first half of the fiscal year were similar to budgeted amounts. However expenditures in the second half of the fiscal year were the beginning months of new 3 ½ -year contracts that began January 1, 2013, and continue to June 2016. These expenditures were less than budgeted due to the gearing up of programs. Also expenditures in this account are planned for a variety of funding mechanisms and since budgets are established to accommodate the total maximum contract amounts, lower than budgeted expenditures are often observed.

A schedule of the First 5 Merced County's original and final budget amounts compared with actual revenues and expenses is provided in the audited financial report.

CAPITAL ASSETS

First 5 Merced County investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$25,515 (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." One of the contractors purchased a vehicle to conduct the work of that particular contract. When the contract ended, the contractor returned the vehicle to First 5 Merced County and the vehicle is used for First 5 business.

Table 3:
Capital Assets (net of depreciation)

	<u>June 30, 2013</u>
Equipment	<u>\$ 25,658</u>
Total	<u><u>\$ 25,658</u></u>

Additional information on First 5 Merced County'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 2013/14 fiscal year were planned within Merced County guidelines, in accordance with the First 5 Merced County 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, and with the added goal of stabilizing funding through the next Strategic Planning term. The upcoming three and a half year period is noteworthy since it matches the term of the First 5 Merced County Strategic Plan in which the programmatic goals (Desired Outcomes) and strategic objectives for First 5 Merced County are detailed.

The coinciding of the Strategic Plan term with updated Long Range Financial Plan figures is intentional, and relates the two plans. The Strategic Plan goals for First 5 Merced County and specifically funded interventions are linked within the financial parameters outlined by the Long Range Financial Plan projections.

The Long Range Financial Plan provides expenditure parameters for the annual budget while pursuing the mission and goals of First 5 Merced County for the next three years (to June 2016). The plan also identifies a financial contingency amount, which is preserved from available funds to account for unexpected or emerging trends/occurrences.

The 2013/14 budget is relatively stable and supports fundamentally the current contracted amounts. The budget also allows for the release of a Request for Proposals to address one of the Desired Outcomes later this year. Revenues are projected to continue declining, thus payment for expenditures will increasingly rely on revenues received in prior years. This is observed in the increasing reliance on past revenues received in order to balance the 2013/14 budget, as well as the trending decline in total fund balance due to a decline in the use of tobacco products in California.

Future year annual budgets will be adopted in accordance with regularly updated Long Range Financial Plans, and the updated Strategic Plan adopted by the First 5 Merced County Commission in June 2013.

CONTACTING THE FIRST 5 MERCED COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors, and creditors with a general overview of the First 5 Merced County's finances and to demonstrate the First 5 Merced County'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, First 5 Merced County, 676 Loughborough Drive, Merced, California 95348 (209-385-7337).

**FIRST 5 MERCED COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2013**

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,469,253
Accounts receivable	733,191

Total current assets	6,202,444
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Capital assets, depreciable, net	25,658
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Total assets	<u>6,228,102</u>
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LIABILITIES

Current liabilities:

Accounts payable	62,955
Due to County	61,753
Accrued payroll	27,539

Long-term liabilities:

Due within one year	12,821
Due in more than one year	164,045

Total liabilities	<u>329,113</u>
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NET POSITION

Net investment in capital assets	25,658
Unrestricted	5,873,331

Total net position	<u><u>\$ 5,898,989</u></u>
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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, 2013**

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	\$ 3,101,791	\$ 3,718,366	\$ 616,575
Totals	\$ 3,101,791	\$ 3,718,366	616,575
General revenues:			
			(37,110)
			9,517
			10,612
			599,594
			5,296,160
			3,235
			\$ 5,898,989

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

**FIRST 5 MERCED COUNTY
GENERAL FUND BALANCE SHEET
JUNE 30, 2013**

ASSETS

Cash and cash equivalents	\$ 5,469,253
Accounts receivable	733,191
	<hr/>
Total assets	\$ 6,202,444
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 62,955
Due to County	61,753
Accrued payroll	27,539
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Total liabilities	152,247
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Fund balance:

Committed	5,297,633
Assigned	752,564
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Total fund balance	6,050,197
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Total liabilities and fund balance	\$ 6,202,444
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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, 2013**

Total fund balance	\$ 6,050,197
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund (net of accumulated depreciation of \$71,589).	25,658
Long-term liabilities are not due in the current period and, therefore, are not included in the general fund.	<u>(176,866)</u>
Total net position - governmental activities	<u><u>\$ 5,898,989</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, 2013**

Revenues:

State Proposition 10 tax	\$ 3,095,212
Child Signature Program	144,305
Power of Preschool	420,100
CARES Plus	58,749
Gain (loss) from investment activities	(37,110)
Other revenue	9,517
	<hr/>
Total revenues	3,690,773
	<hr/>

Expenditures:

Salaries and benefits	571,070
Supplies and services	242,240
Child Signature Program salaries and benefits	133,634
Child Signature Program supplies and services	539,835
CARES Plus services and supplies	412,519
Grant supplies and services	8,000
Commission/Community supplies and services	1,156,620
	<hr/>
Total expenditures	3,063,918
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Net change in fund balance	626,855
Fund balance, beginning of year	5,423,342
	<hr/>
Fund balance, end of year	\$ 6,050,197
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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, 2013**

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	\$ 626,855
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 (\$4,636) exceeded capital outlay (\$0) in the current period.	(4,636)
Donation of capital assets are not reported in the governmental funds. However, in the statement of activities, the market value of those assets is allocated over their estimated useful lives and reported as depreciation expense. This the amount by which the market value of the donated asset exceeded depreciation (\$1,434) in the current period.	10,612
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.	(33,237)
Change in net position of governmental activities	<u>\$ 599,594</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, 2013**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
State Proposition 10 tax	\$ 4,005,161	\$ 4,005,161	\$ 3,015,181	\$ (989,980)
Interest	85,760	85,760	47,901	(37,859)
CARES Plus	110,000	110,000	88,282	(21,718)
Child Signature Program	633,125	633,125	420,100	(213,025)
Commission/Community Initiatives	-	-	16,414	16,414
Other revenue	25,000	25,000	37,248	12,248
	<u>4,859,046</u>	<u>4,859,046</u>	<u>3,625,126</u>	<u>(1,233,920)</u>
Expenditures:				
Salaries and benefits	891,819	879,772	702,986	176,786
Supplies and services	357,039	376,431	256,534	119,897
CARES Plus services and supplies	440,000	749,215	513,861	235,354
Child Signature Program supplies and services	1,050,250	1,270,951	735,125	535,826
Grant supplies and services	8,000	16,000	8,000	8,000
Commission/Community Initiatives supplies and services	3,476,227	4,260,992	1,542,103	2,718,889
	<u>6,223,335</u>	<u>7,553,361</u>	<u>3,758,609</u>	<u>3,794,752</u>
Net change in fund balance (Budgetary Basis)	<u>\$ (1,364,289)</u>	<u>\$ (2,694,315)</u>	(133,483)	<u>\$ 2,560,832</u>
Budget to GAAP reconciliation				
Revenue accrual prior year			(609,561)	
Revenue accrual current year			675,208	
Accounts payable prior year			846,938	
Accounts payable current year			<u>(152,247)</u>	
Net change in fund balance (GAAP Basis)			626,855	
Fund balance, beginning of year			<u>5,423,342</u>	
Fund balance, end of year			<u>\$ 6,050,197</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, 2013**

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 (GAAP) 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 GAAP.

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, 2013**

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, 2013**

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, 2013**

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, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Governmental Accounting Standards Update

During the fiscal year ending June 30, 2013, the Commission implemented the following standards:

GASB Statement No. 60 – *Accounting and Financial Reporting for Services Concession Arrangements* address accounting and financial reporting issues related to public-private and public-public partnership. The statement is effective for periods beginning December 15, 2011. Upon implementation, there was no effect on the Commission’s accounting or financial reporting.

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. Upon implementation, there was no effect on the Commission’s accounting or financial reporting.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporated into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. Upon implementation, there was no effect on the Commission’s accounting or financial reporting.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The Commission has implemented this change for the fiscal year ended June 30, 2013.

GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. Upon implementation, there was no effect on the Commission’s accounting or financial reporting.

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Governmental Accounting Standards Update (Continued)

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

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. The Commission will implement this statement for the fiscal year ending June 30, 2014.

GASB Statement No. 66 – *Items 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. As of the date of the basic financial statements, the Commission has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 67 – *Financial Reporting for Pension Districts - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The Commission has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

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. 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. The Commission has not fully judged the effect of the implementation of GASB Statement No. 70 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, 2013**

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 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, 2013, consisted of the following:

	2013
Cash and Cash Equivalents in County Treasury	\$ 5,469,253
Total Investment Gain (Loss) from County	\$ (37,110)

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, 2013**

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Equipment	\$ 90,783	\$ 12,046	\$ (5,582)	\$ 97,247
Less accumulated depreciation:				
Equipment	71,101	6,070	(5,582)	71,589
Governmental activities, capital assets, net	<u>\$ 19,682</u>	<u>\$ 5,976</u>	<u>\$ -</u>	<u>\$ 25,658</u>

Depreciation expense of \$6,213 was charged to the Child Development Services function.

NOTE 8 – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases/ Adjustments	Ending Balance	Due Within One Year
Compensated absences	\$ 48,774	\$ 34,110	\$ (25,329)	\$ 57,555	\$ 12,821
Other postemployment benefits (OPEB)	98,090	24,456	(3,235)	119,311	-
Long-term liabilities	<u>\$ 146,864</u>	<u>\$ 58,566</u>	<u>\$ (28,564)</u>	<u>\$ 176,866</u>	<u>\$ 12,821</u>

NOTE 9 – LEASES

The Commission leases office space from which all operations are run from a non-related entity. Total rental expenditure for the fiscal year ending June 30, 2013, was \$72,000. Future minimum lease payments are as follows:

June 30,	
2014	\$ 72,000
2015	72,000
2016	72,000
	<u>\$ 216,000</u>

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013**

NOTE 10 – PROGRAM EVALUATION

The Commission spent \$244,985 on program evaluation during the fiscal year ended June 30, 2013, which consisted of \$125,099 in contracted program evaluation and \$119,886 of Commission salaries, benefits, services, and supplies based on time study allocations.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2013, the Commission paid the County, a related party, a total of \$108,168 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 \$184,602.

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, 2013**

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 \$24,456. Total OPEB liability accrued by the Commission as of June 30, 2013, was \$119,311.

See the County annual financial statement for more information regarding the pension plan and Other Postemployment Benefits (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 \$3,718,366, or 100.75%, of total revenue for the year ending June 30, 2013. 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, 2013**

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, 2013, is as follows:

	2013
Committed to:	
Approved contracts	\$ 1,600,000
Approved contracts - services and supplies	165,686
Future Community Outreach State of CA funds	1,392,077
Future CARES Plus State of CA funds	276,832
Future Child Signature State of CA funds	613,038
Budget reserve contingency	1,250,000
Total Committed Fund Balance	5,297,633
Assigned to:	
Marketing and Communication	27,512
Advocacy and Legislative Education	7,500
Strategic Plan Desired Outcomes	717,552
Total Assigned Fund Balance	752,564
Total Fund Balance	\$ 6,050,197

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, 2013**

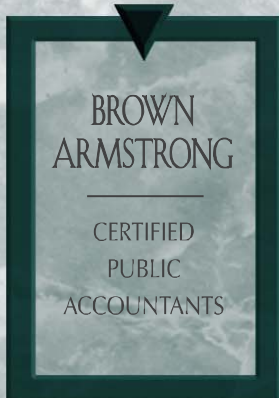
NOTE 17 – PRIOR PERIOD ADJUSTMENT

	Governmental Activities
Net Position at July 1, 2012, as previously stated	\$ 5,296,160
Correct prior year OPEB expense	3,235
Net Position at July 1, 2012, as restated	\$ 5,299,395

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 14, 2013, 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), a component unit of the County of Merced, as of and for the year ended June 30, 2013, 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 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we consider 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.

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 basic 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.

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

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 weakness or significant deficiencies. Given these limitations, during our audit we did not identify deficiencies in internal control that we consider to be material weakness. However, material weakness may exist that have not been identified.

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*.

Purpose of this Report

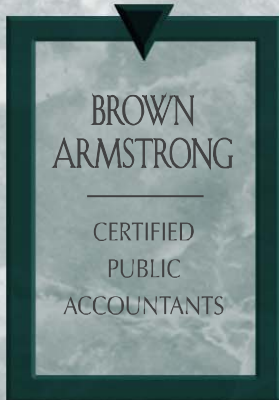
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed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

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California
October 14, 2013



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

Compliance

We have audited 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, 2013, and have issued our report thereon dated October 14, 2013. 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. We have also audited the Commission’s 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, 2013.

Management’s Responsibility

Compliance with the requirements referred to above is the responsibility of the Commission’s management.

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 material effect on the statutory requirements listed below occurred. 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.

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

We believe that our audit provides a reasonable basis for our opinion. 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:

<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 are applicable to the statutory requirements listed above for the year ended June 30, 2013.

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 14, 2013

SUPPLEMENTARY INFORMATION

**FIRST 5 MERCED COUNTY
CHILDREN AND FAMILIES COMMISSION
SUPPLEMENTAL SCHEDULE OF
FIRST 5 CALIFORNIA (F5CA) FUNDING
FOR THE YEAR ENDED JUNE 30, 2013**

Program or Project Title		REVENUE		CHANGE IN		NET POSITION	NET POSITION
		F5CA FUNDS	EXPENDITURES	NET POSITION	BEGINNING OF YEAR	END OF YEAR	END OF YEAR
School Readiness Program	F5CA Program Funds	\$ -	\$ -	\$ -	\$ -	(120,674)	\$ (120,674)
	County, Local Funds	-	-	-	-	-	-
Power of Preschool Demo Projects	F5CA Program Funds	420,100	-	420,100	-	(400,860)	19,240
	County, Local Funds	-	-	-	-	-	-
Child Signature Program	F5CA Program Funds	144,305	336,734	(192,429)	-	-	(192,429)
	County, Local Funds	-	336,735	(336,735)	-	-	(336,735)
CARES Plus (Phase 1)	F5CA Program Funds	58,749	103,130	(44,381)	-	-	(44,381)
	County, Local Funds	-	309,389	(309,389)	-	-	(309,389)
TOTAL F5CA FUNDS		\$ 623,154	\$ 1,085,988	\$ (462,834)	\$ -	(521,534)	\$ (984,368)