

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2001

AND INDEPENDENT AUDITORS' REPORT

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

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**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

Board of Commissioners

June 30, 2001

Supervisor Edith Johnson	Chair
Len Foster	Vice-Chair
Carole Singley	Secretary
Helen Shaw	Member
Robert Taniguchi	Member
Robert Melton, M.D.	Member

INDEPENDENT AUDITORS' REPORT

**Board of Commissioners
Monterey County Children and Families Commission
Salinas, California**

We have audited the accompanying general purpose financial statements of the *Monterey County Children and Families Commission* as of and for the year ended June 30, 2001. These general purpose financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the *Monterey County Children and Families Commission* as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards" we have also issued our report dated August 24, 2001 on our consideration of the *Monterey County Children and Families Commission's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

August 24, 2001

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
BALANCE SHEET
JUNE 30, 2001
(With Comparative Totals for June 30, 2000)

	SPECIAL REVENUE FUND	GENERAL FIXED ASSETS ACCOUNT GROUP	TOTALS (MEMORAN- DUM ONLY) 2001	2000
<u>ASSETS</u>				
Cash and equivalents	\$ 10,782,153	\$ -	\$ 10,782,153	\$ 8,966,358
Receivables	1,100,818	-	1,100,818	1,129,056
Interest receivable	-	-	-	257,507
Advances	861,424	-	861,424	-
Fixed assets	-	68,548	68,548	1,391
TOTAL	<u>\$ 12,744,395</u>	<u>\$ 68,548</u>	<u>\$ 12,812,943</u>	<u>\$ 10,354,312</u>
<u>LIABILITIES, FUND EQUITY AND OTHER CREDITS</u>				
LIABILITIES:				
Accounts payable	\$ 2,749	\$ -	\$ 2,749	\$ 31,335
Grants payable	75,022	-	75,022	-
Compensated absences	9,935	-	9,935	10,109
Total liabilities	<u>87,706</u>	<u>-</u>	<u>87,706</u>	<u>41,444</u>
FUND EQUITY AND OTHER CREDITS:				
Investment in general fixed assets	-	68,548	68,548	1,391
Fund balances:				
Reserved	74,547	-	74,547	-
Unreserved, designated:				
Investment growth fund	3,000,000	-	3,000,000	3,000,000
Infrastructure and capital expenditure fund	1,734,875	-	1,734,875	3,000,000
Technical assistance and emerging opportunities fund	2,000,000	-	2,000,000	2,000,000
Matching grant and startup support fund	1,400,000	-	1,400,000	1,400,000
Contingency reserve	558,837	-	558,837	-
Unreserved, undesignated	3,888,430	-	3,888,430	911,477
Total fund equity and other credits	<u>12,656,689</u>	<u>68,548</u>	<u>12,725,237</u>	<u>10,312,868</u>
TOTAL	<u>\$ 12,744,395</u>	<u>\$ 68,548</u>	<u>\$ 12,812,943</u>	<u>\$ 10,354,312</u>

See Notes to General Purpose Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2001
(With Comparative Totals for June 30, 2000)

	<u>2001</u>	<u>2000</u>
REVENUES:		
Proposition 10 allocation	\$ 6,570,172	\$ 10,429,275
Grants	75,000	161,000
Interest	<u>288,036</u>	<u>257,969</u>
Total revenues	<u>6,933,208</u>	<u>10,848,244</u>
EXPENDITURES:		
Administration:		
Salaries and employee benefits	298,171	156,007
Services and supplies	271,928	413,217
Capital outlay	67,157	1,391
Information and community education –		
Services and supplies	2,837	587
Programs and services:		
Grants	3,947,133	–
Services and supplies	<u>770</u>	<u>7,918</u>
Total expenditures	<u>4,587,996</u>	<u>579,120</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,345,212	10,269,124
BEGINNING FUND BALANCE	<u>10,311,477</u>	<u>42,353</u>
ENDING FUND BALANCE	<u>\$ 12,656,689</u>	<u>\$ 10,311,477</u>

See Notes to General Purpose Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2001

	<u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
Proposition 10 allocation	\$ 6,779,040	\$ 6,570,172	\$ (208,868)
Grants	59,000	75,000	16,000
Interest	<u>340,017</u>	<u>288,036</u>	<u>(51,981)</u>
Total revenues	<u>7,178,057</u>	<u>6,933,208</u>	<u>(244,849)</u>
EXPENDITURES:			
Administration:			
Salaries and employee benefits	396,016	298,171	97,845
Services and supplies	325,939	271,928	54,011
Capital outlay	76,000	67,157	8,843
Information and community education –			
Services and supplies	100,000	2,837	97,163
Programs and services:			
Grants	8,760,000	3,947,133	4,812,867
Services and supplies	<u>5,000</u>	<u>770</u>	<u>4,230</u>
Total expenditures	<u>9,662,955</u>	<u>4,587,996</u>	<u>5,074,959</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>\$ (2,484,898)</u>	2,345,212	<u>\$ 4,830,110</u>
BEGINNING FUND BALANCE		<u>10,311,477</u>	
ENDING FUND BALANCE		<u>\$ 12,656,689</u>	

See Notes to General Purpose Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Monterey County Children and Families Commission (the Commission) was established on December 8, 1998 by Ordinance of the Monterey County Board of Supervisors under the authority of Section 5, Division 108 of the Health and Safety Code, commencing with Section 130100. The purpose of the Commission is to create and manage a comprehensive system of information, programs, services, and administrative support for enhancing the early childhood development of children and their families. The objective of this system is to prepare children to enter school in good health, ready and able to learn, and emotionally well developed.

Generally accepted accounting principles require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Statement No. 14 have been considered and there are no agencies or entities, which are required to be presented with the Commission.

The Commission has a seven member board of commissioners. The commissioners serve for a term of three years. The Monterey County Board of Supervisors, consistent with the Health and Safety Code, appoints the commissioners as follows:

- The Director of the Monterey County Health Department, or their designee.
- An assistant director of the Monterey County Health Department
- The Director of the Monterey County Social Services Department, or their designee
- An assistant director of the Monterey County Social Services Department
- A member of the Monterey County Board of Supervisors
- Two members recommended for appointment by the Monterey County Children's Council and drawn from categories stated in Health and Safety Code Section 130140(a)(1)(A)(iii).

Basis of Presentation – The accounts of the Commission are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The Commission uses the following fund and account group:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Types

Governmental Funds are those through which the governmental functions of the Commission are financed. The acquisition, use and balances of the Commission's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following is the Commission's Governmental Fund type:

Special Revenue Fund – The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than debt service, expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes. All of the Commission's funds are considered Special Revenue Funds and must be spent on early childhood programs and services, as determined through the Commission's strategic plan. Funds can only be spent to supplement, not to supplant existing levels of services.

Account Groups

Account Groups are not "funds" they are concerned only with the measurement of financial position and are not involved with the measurement of results of operations. The following is the Commission's account group:

General Fixed Assets Account Group – Fixed assets used in governmental fund type Operations (general fixed assets) are accounted for in the general fixed assets account Group rather than in the governmental fund type.

Basis of Accounting and Measurement Focus – Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. All governmental fund types are accounted for by using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available (susceptible to accrual). Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Commission considers revenues to be available if they are expected to be collected within 60 days of the end of the year. Major revenue sources susceptible to accrual include substantially all Proposition 10 allocations and interest. Revenues that are determined to not be susceptible to accrual because they are either not available soon enough to pay liabilities of the current period or are not objectively measurable are recorded as received. Expenditures are recorded when the liability is incurred.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. Governmental Funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Governmental fund type operating systems present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During the year, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." The Statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. Generally, a nonexchange transaction occurs when a government either gives or receives value in a transaction without directly receiving or giving equivalent value in return. The standard does not modify existing guidance relative to the application of the modified accrual basis of accounting. The adoption of GASB No. 33 had no effect on prior fund balances.

Budgets and Budgetary Accounting – The Commission operates under the general laws of the State of California and annually adopts a budget on the modified accrual basis of accounting to be effective July 1 for the ensuing fiscal year.

Cash Equivalents – The Commission considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Pooled Cash – Cash accounts, which essentially operate as demand deposit accounts, are maintained by the Monterey County Treasurer's Office. Available cash balances are controlled and invested by the County Treasurer in pooled investment funds in order to provide safety, liquidity and high investment returns for all funds. Interest earnings from these funds are generally credited to the Commission's account on a quarterly basis.

The Monterey County Treasurer's investment policy is in compliance with Section 53635 of the Government Code of the State of California, which permits investments in certain securities and participation in certain investment trading techniques or strategies.

Advances – Advances represent funds transferred to grantees who have not satisfied all eligibility requirements for a voluntary nonexchange transaction. As of June 30, 2001, advances were \$861,424.

General Fixed Assets – Fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Governmental fund type fixed assets are recorded as expenditures at the time of acquisition. Such amounts, except for public domain ("infrastructure") assets (including roads, bridges, curbs and gutters, streets, sidewalks, drainage systems and lighting systems), are then capitalized in the general fixed assets account group. No depreciation has been provided on general fixed assets.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – The Commission accrues vested liabilities for vacation and sick pay. Permanent employees are vested after 90 days of full-time employment. Vacation accrues at the rate of 15 days per year for the first year of employment, 20 days per year for two to three years of employment, and 25 days per year after three years. Earned vacation time accrues to a maximum of two times the accrual rate per year. Once the maximum accrual amount has been reached, no additional vacation will be earned until previously accrued vacation time is used. Sick leave accrues at the rate of 12 days each year. Unused sick leave may be accumulated up to a maximum of 79 hours and may be carried over from year to year. Upon termination, an employee is entitled to a sick leave cash out of sixty-five percent (65%) of the remaining sick leave balance, not to exceed 75 hours. The liability for compensated absences is recorded within the general fund, and general long-term obligations account group depending on classification as a current or long-term liability.

Proposition 10 Allocation – The Children and Families Trust Fund (the Fund) was created by the California Children and Families Act of 1998 (Proposition 10). Effective January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized the Fund to collect 50 cents for each cigarette pack distributed and an additional surtax for other tobacco products. The State Board of Equalization collects and deposits the cigarette tax and the additional surtax into the Fund. These monies are allocated and appropriated 20% to the State Commission and 80% to the county commissions. Each county commission receives a portion of the monies equal to the percentage of the number of live births recorded in the relevant county (for the most recent reporting period) in proportion to the entire number of live births recorded in California for the same period. The Commission is economically dependent on these funds.

Designations of Fund Balances – The Commission’s management will sometimes designate portions of fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned. The Commission has designated fund balances as follows:

Investment Growth Fund – The purpose of this Fund is to obtain investment returns on deposited funds that exceed the typical rate of return for funds deposited through the County Treasurer. Earnings from this Fund will be used in future years to minimize the expected reduction in tobacco tax revenues so that support for multi-year programs can be maintained.

Infrastructure and Capital Expenditure Fund – The purpose of this Fund is to provide support for capital items or equipment whose useful life will continue over a longer number of years. These are non-recurring, non-consumable expenditures.

Technical Assistance and Emerging Opportunities Fund – The purpose of this Fund is to provide resources for sponsored providers, assistance to potential grantees for further program design and/or proposal development, new or innovative early childhood research specific to Monterey County, and unanticipated opportunities for support that emerges after a grant-making cycle has concluded. Grants for projects under \$25,000 will be included in this area.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Matching Grants and Startup Support Fund – The purpose of this Fund is to set aside amounts to assist grant-supported programs (in early childhood development which also meet the Plan criteria) with required matching funds. The Fund may also be used to assist programs in need of startup funding, only.

Contingency Reserve – The Commission has designated approximately 5% of the beginning fund balance as a reserve for contingencies.

Use of Estimates – The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results are not expected to differ from those estimates.

Total Columns - Total columns on the statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

Comparative Totals for June 30, 2000 – Condensed financial information for the year ended June 30, 2000 is presented for comparative purposes only, and is not intended to be a complete financial statement presentation.

NOTE 2. CASH AND EQUIVALENTS

Balances in cash and equivalents consist of a bank account with First National Bank and funds on deposit with the Monterey County Treasurer’s Office. The Commission is required to categorize its cash to give an indication of the level of risk assumed by the Commission at year-end. The categories are described as follows:

Category 1: Amount insured by the FDIC or collateralized with securities held by the Commission in its name.

Category 2: Amount collateralized with securities held by the pledging financial institution’s trust department in the Commission’s name.

Category 3: Uncollateralized or collateralized with securities held by the pledging financial institution’s trust department but not in the name of the Commission.

The difference between bank balances and the carrying amounts (book value) represents outstanding checks and deposits in transit. Of the bank balance \$100,000 was covered by federal depository insurance, and \$644,136 was collateralized by the pledging institution as required by Section 53652 of the California Government Code. Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local government units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

NOTE 2. CASH AND EQUIVALENTS (Continued)

The bank balances at June 30 are categorized as follows:

	2001			<u>BANK BALANCES</u>	<u>BOOK VALUE</u>
	<u>CATEGORY</u>				
	<u>1</u>	<u>2</u>	<u>3</u>		
First National Bank	\$ 100,000	\$ 644,136	\$ -	\$ 744,136	\$ 549,535
County Treasury	<u>-</u>	<u>-</u>	<u>10,232,468</u>	<u>10,232,468</u>	<u>10,232,468</u>
	<u>\$ 100,000</u>	<u>\$ 644,136</u>	<u>\$ 10,232,468</u>	<u>\$ 10,976,604</u>	10,782,003
Cash on hand					<u>150</u>
Total book value					<u>\$ 10,782,153</u>

NOTE 3. RECEIVABLES

Receivables at June 30, 2001 consist of amounts due from the State Commission for Proposition 10 allocations.

NOTE 4. FIXED ASSETS

The following is a summary of changes in General Fixed Assets:

	<u>Balance June 30, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Equipment	<u>\$ 1,391</u>	<u>\$ 67,157</u>	<u>\$ -</u>	<u>\$ 68,548</u>

NOTE 5. OPERATING LEASE

The Commission entered into a lease for office space commencing on September 1, 2000 and ending on August 30, 2003. Rent is payable at \$4,200 per month. Minimal rent payments at June 30, are as follows:

2002	\$ 50,400
2003	50,400
2004	<u>8,400</u>
Total	<u>\$ 109,200</u>

NOTE 6. SUBSEQUENT EVENTS

Subsequent to year ended June 30, 2001, the Commission entered into an agreement to provide a 457b retirement plan. All regular full-time employees who have completed six months (1,000 hours) of service are eligible for the plan. The Commission will contribute to the plan at a rate of 5% of annual salary.

**REPORT REQUIRED BY THE
GOVERNMENT AUDITING STANDARDS**

**REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Board of Commissioners
Monterey County Children and Families Commission
Salinas, California**

We have audited the financial statements of *Monterey County Children and Families Commission* as of and for the year ended June 30, 2001, and have issued our report thereon dated August 24, 2001. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Monterey County Children and Families Commission's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the *Monterey County Children and Families Commission* in a separate letter dated August 24, 2001.

This report is intended solely for the information and use of the members, management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

August 24, 2001