

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2003

AND INDEPENDENT AUDITORS' REPORT

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

Table of Contents

	Page
Independent Auditors' Report	1–2
Management's Discussion and Analysis	3–6
Basic Financial Statements:	
Government–Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund	10
Notes to Basic Financial Statements	11–19
Required Supplementary Information –	
Budgetary Comparison Schedule	20
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – School Readiness	21
Schedule of Revenues, Expenditure and Changes in Fund Balances – Retention Incentive	22
Report Required by Government Auditing Standards –	
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23–24

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the *Monterey County Children and Families Commission* as of and for the year ended June 30, 2003 as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures* and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with "Government Auditing Standards" we have also issued our report dated August 25, 2003 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.

The Management's Discussion and Analysis on pages 3 through 6 and the Budgetary Comparison Schedule on page 20 are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the *Monterey County Children and Families Commission*. The Schedule of Revenues and Expenditures – School Readiness on page 21 and the Schedule of Revenues and Expenditures – Retention Incentive on page 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the *Monterey County Children and Families Commission*. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

August 25, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2002–2003

On November 3, 1998, California voters approved Proposition 10 – the Children and Families First Act (Act). The Act established additional taxes on tobacco products, with revenues to be used for tobacco education and cessation programs, and for programs that promote, support, and improve the early development of children from prenatal up to age five. The intent is for all California children to be healthy, to live in a healthy and supportive family environment, and to enter school ready to learn.

The Monterey County (County) Board of Supervisors created the Children and Families First Commission of Monterey County (Commission) on December 8, 1998, under the provisions of the Act. The Commission also known as, *First 5 Monterey County*, consists of seven members appointed by the County Board of Supervisors. The Commission is a public entity legally separate and apart from the County.

First 5 Monterey County's mission is to serve as a catalyst to create sustainable change in systems, policies, and practices for enhancing the development of children in their first five years of life. The overall objective of this system is to prepare children to enter school in good health, emotionally well developed, and ready and able to learn.

As management of the Commission, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003.

FINANCIAL HIGHLIGHTS

The Commission was allocated and received revenues of \$6.1 million from the State of California as revenues collected under the Children and Families Act. Interest income for the fiscal year 2002–2003 was \$255,076. During the fiscal year 2002–2003, the Commission disbursed approximately \$4.5 million to funded agencies. Encumbered funds of approximately \$900,360 million will be disbursed over the course of the next year. The Commission has designated an additional \$279,968 for program evaluations. Additionally, the Commission has designated \$7.5 million as “Sustainability Funds”. The Commission’s allocated funds from the State of California have decreased by 3.2 percent in the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Commission’s financial statements. The Commission’s financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission’s finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Commission’s assets and liabilities, with the difference between the two reported as *net assets*.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 7 and 8 of this report.

Fund Financial Statements – The *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government wide statements.

The Commission adopts an annual budget for its fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

The fund financial statements can be found on pages 9 and 10 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 through 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the Commission has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. In future years, when prior-year information is available a comparative analysis of government-wide data will be included.

Net Assets – Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceed liabilities by \$14.7 million at the close of the most recent fiscal year. The net assets are either restricted as to the purposes they can be used for or are invested in capital assets.

Changes in Net Assets – The Commission's net assets increased by approximately \$1.8 million during the current fiscal year. This increase is explained in the governmental fund analysis below and is primarily a result of revenues in excess of expenditures for the current year.

Government Activities – The Commission does not have business type activities and so the analysis presented below for the government wide financial statements also represents an analysis of the Commission’s governmental activities.

FINANCIAL ANALYSIS OF THE COMMISSION’S GOVERNMENTAL FUND

For the fiscal year–ended June 30, 2003, the Commission reported an ending fund balance of \$14.7 million, an increase of \$1.8 million from the prior year. This increase represents the amount of revenue in excess of expenditures for the period ended June 30, 2003.

The most significant portion of the Commissions fund balance is its cash balance (\$15.2 million). This represents resources received from the State Commission from Proposition 10 taxes. Cash accounts, which essentially operate as demand deposit accounts, are maintained by the Monterey County Treasurer’s Office. Another source of net assets also resides in the Commissions receivables due from the State Commission for Proposition 10 taxes (\$1.1 million). These receivables represent taxes that were remitted by the State but had not been received by the Commission as of June 30, 2003. The Commission also reports accounts/grants payable of \$1.7 million representing payments due on invoices and grant contracts that had not been expended at year–end. The fund balance represents amounts that are encumbered for future payments to funded programs (\$1.1 million), restricted by grantees (\$728,242), and designated by the Board for contingencies and sustainability (\$7.9 million) and future programs (\$4.2 million).

**Monterey County Children And Families Commission
Fund Analysis Comparison**

	<u>FY 2002–2003</u>	<u>FY 2001–2002</u>
Total Revenue	\$ 7,290,340	\$ 7,057,776
Expenditures:		
Salaries, Benefits, Supplies & Services	675,926	616,399
Grant Expenditures	<u>4,792,901</u>	<u>6,170,898</u>
Total Expenditures	<u>5,468,827</u>	<u>6,787,297</u>
Change in Fund Balance	<u>\$ 1,821,513</u>	<u>\$ 270,479</u>

Total revenues consisting of Proposition 10 funds, interest and investment income, State Commission matching and Foundation grants increased from \$7 million to \$7.2 million for the year ended June 30, 2003. This increase was due to State Commission matching funds for School Readiness and CARES programs, which mitigated reductions in both Proposition 10 apportionment revenue and interest. There was a reduction in the Foundation grants due to a decrease in funds available.

Total expenditures decreased \$1.3 million to \$5.5 million. Capital grants were \$944,478 for fiscal year 2001–2002 and \$90,036 for fiscal year 2002–2003. Program and service grants were \$4,876,022 for fiscal year 2001–2002 and \$4,307,237 for fiscal year 2002–2003.

Fund Budgetary Highlight – Actual total expenditures were \$1.7 million less than budgeted due to termination of contracts, cost savings for current funded projects, and start up time required for the School Readiness Program.

Actual total revenues were \$364,840 more than budgeted due primarily to the Commission taking a fiscally conservative approach in revenue projections for fiscal year 2002–2003. In projecting revenues, the Commission took into account variables such as declining tobacco consumption, impending State Budget changes, as well as lower return on investments

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Commission’s capital assets for its governmental activities as of June 30, 2003, amounted to \$31,473 (net of accumulated depreciation). Capital assets include furniture and equipment.

Debt Administration – At the end of the current fiscal year, the Commission’s only long–term obligation outstanding was for compensated absences.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET

The Monterey County Children and Families Commission is committed to build strong and effective programs for the early development of children from prenatal to age five that can be supported for the long term. As such, the Commission has completed a process of long range financial planning as means to develop a funding allocation plan to support the Commission’s Proposition 10 strategic plan and provide sustainability for successful programs and initiatives developed over the next ten years. The Commission continually reviews and refines the ten year financial plan and assumptions.

The following economic factors were considered in preparing the Commission’s fiscal year 2003–2004 budget:

- 4 % decline in State Proposition 10 funds annually,
- 1.3% interest earnings, and
- Department of Finance birth projections.

During the current fiscal year, committed and designated fund balance increased to \$14 million, which provides the Commission funding for expanding or renewing existing initiatives. The remaining balance of \$737,812 represents the unreserved, undesignated fund balance, which is available for new initiatives in fiscal year 2003–2004.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Monterey County Children and Families Commission finances for all those interested. Questions concerning, any of the information provided in this report or requests for additional financial information should be addressed to the Monterey County Children and Families Commission, 1125 Baldwin Street, Salinas, CA 93906.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2003**

ASSETS:	
Cash and equivalents	\$ 15,231,510
Due from the State – Proposition 10	1,188,248
Interest receivable	48,526
Other receivables	9,283
Capital assets, net of depreciation	<u>31,473</u>
Total assets	<u>16,509,040</u>
LIABILITIES:	
Accounts payable	27,029
Grants payable	1,694,307
Compensated absences	<u>13,282</u>
Total liabilities	<u>1,734,618</u>
NET ASSETS:	
Invested in Capital assets	31,473
Restricted	<u>14,742,949</u>
Total net assets	<u>\$ 14,774,422</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

PROGRAM EXPENSES:	
Grant expenditures	\$ 4,516,539
Salaries and benefits	509,691
Evaluation/planning	263,152
Rent/utilities	57,143
Professional fees	53,863
Insurance	17,389
Depreciation	13,337
Community education	13,210
Training and conferences	12,634
Computer/equipment lease	10,465
Services/supplies	9,703
Telephone	4,337
Repairs and maintenance	4,212
Subscriptions and dues	<u>2,221</u>
 Total program expenses	 <u>5,487,896</u>
PROGRAM REVENUES:	
Proposition 10 allocation	6,120,900
Foundation and state matching grants	858,465
Other revenue	<u>55,899</u>
 Total program revenues	 <u>7,035,264</u>
 Net program revenue	 1,547,368
GENERAL REVENUE –	
Investment income	<u>255,076</u>
 CHANGE IN NET ASSETS	 1,802,444
 NET ASSETS, BEGINNING OF YEAR	 <u>12,971,978</u>
 NET ASSETS, END OF YEAR	 <u>\$ 14,774,422</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2003

<u>ASSETS</u>	
Cash and equivalents	\$ 15,231,510
Due from the State – Proposition 10	1,188,248
Interest receivable	48,526
Other receivables	<u>9,283</u>
TOTAL ASSETS	<u>\$ 16,477,567</u>
 <u>LIABILITIES AND FUND BALANCES</u>	
LIABILITIES:	
Accounts payable	\$ 27,029
Grants payable	<u>1,694,307</u>
Total liabilities	<u>1,721,336</u>
FUND BALANCES:	
Reserved for:	
Encumbrances	1,180,328
Restricted grants:	
Civic engagement	15,995
Technical assistance	11,323
School readiness planning	171,417
School readiness program	518,210
Professional development	11,297
Unreserved, designated:	
Contingency reserve	364,517
Sustainability	7,535,354
Program and services system	4,000,000
Information and community education system	209,978
Undesignated	<u>737,812</u>
Total fund balances	<u>14,756,231</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,477,567</u>
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS:	
Fund balances from above	\$ 14,756,231
Amount reported in the Statement of Net Assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the Governmental Fund	31,473
Accrued compensated absences is not due and payable with current financial resources and is not reported in the Governmental Fund.	<u>(13,282)</u>
NET ASSETS	<u>\$ 14,774,422</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

REVENUES:	
Proposition 10 allocation	\$ 6,120,900
Foundation and state matching grants	858,465
Investment income	255,076
Other revenue	<u>55,899</u>
Total revenues	<u>7,290,340</u>
EXPENDITURES:	
Current:	
Grant expenditures	4,516,539
Salaries and benefits	503,959
Evaluation/planning	263,152
Rent/utilities	57,143
Professional fees	53,863
Insurance	17,389
Community education	13,210
Training and conferences	12,634
Computer/equipment lease	10,465
Services/supplies	9,703
Telephone	4,337
Repairs and maintenance	4,212
Subscriptions and dues	<u>2,221</u>
Total expenditures	<u>5,468,827</u>
NET CHANGE IN FUND BALANCE	1,821,513
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	<u>12,934,718</u>
FUND BALANCE, END OF YEAR	<u>\$ 14,756,231</u>
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES:	
Net change in Fund Balance from above.	\$ 1,821,513
Amounts reported in the Statement of Activities are different because:	
Governmental Funds report capital outlay 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.	
Current year depreciation.	(13,337)
The change in compensated absences reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds.	<u>(5,732)</u>
CHANGE IN NET ASSETS	<u>\$ 1,802,444</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

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).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Governmental Accounting Standards Board Statements and Interpretation – In fiscal year 2003, the Commission adopted two new statements of financial accounting standards and one interpretation issued by the Governmental Accounting Standards Board (GASB).

Statement No. 34 – The Commission adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement affects the manner in which the Commission records transactions and presents financial information. State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private–sector financial reports.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The statement was developed to make annual reports of state and local governments easier to understand and more useful to the people who use governmental financial information to make decisions.

Management’s Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Commission’s financial activities in the form of “management’s discussion and analysis” (MD&A). This analysis is similar to the analysis provided in the annual reports of private–sector organizations.

Government–Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the Commission’s activities. This approach includes not just current assets and liabilities, but also capital and other long–term assets, as well as long–term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

Statement of Net Assets –The statement of net assets is designed to display the financial position of the government Commission. The net assets of the Commission are broken down into two categories – invested in capital assets and restricted.

Statement of Activities – The statement of activities reports expenses and revenues in a format that focuses on the cost of the Commission’s function. The expense of individual functions is compared to the revenue generated directly by the function.

Accordingly, the Commission has recorded certain other long–term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement No. 38 – The Commission adopted the provisions of GASB No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

Interpretation No. 6 – The Commission adopted the provisions of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The interpretation impacts the fund level financial statements required by GASB Statement No. 34, but has no direct impact on the government-wide financial statements. Accordingly, the Commission has not recognized the current portion of certain liabilities and related expenditures in the governmental fund financial statements for amounts not considered to be due and payable as of June 30, 2003, and has restated fund balances as of July 1, 2002 to reflect the cumulative effect of the change as of that date.

Basis of Presentation and Accounting –

Government-Wide and Fund Financial Statements

The statement of net assets and statement of activities display information about the primary government (Commission). These statements include the financial activities of the overall government.

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues.

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include Proposition 10 allocations, grants, and donations. Revenues from Proposition 10 allocations are recognized when all eligibility requirements are met which coincides with when the State apportions Proposition 10 tax revenues to the Commission. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the governmental fund. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to finance expenditures of the current period. Proposition 10 apportionments, grant revenues and investment income are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. General capital assets acquisitions are reported as expenditures in the governmental fund.

Non-Current Governmental Assets/Liabilities – GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide statement of net assets.

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.

Capital Assets – This includes furniture and equipment that are reported as governmental activity in the statement of net assets. Capital assets are defined as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation. Furniture and equipment are depreciated using the straight-line method over the following estimated useful lives.

Furniture	2-10 Years
Equipment	3-5 Years

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. After completion of 5 years of service, 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 Commission accrues for all salary-related items in the government-wide financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The Commission includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for vacation.

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.

Budget and Budgetary Reporting – The Commission is required to prepare a budget each year based on estimates of revenues and expected expenditures. The budget is adopted on a basis consistent with GAAP. Budgetary control is exercised at the major object level. All changes to the budget during the year require the approval of the Commission. All unencumbered annual appropriations lapse at the end of each fiscal year.

Reservations and Designations of Fund Balance – Reservations of fund balance of the governmental fund indicate the portion of fund equity which is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a description of the nature of certain reserves.

Reserve for Encumbrances – A reserve is set side for certain contractual obligations that the Commission has with its subrecipients in the operation of programmatic activities. These obligations in the current year do not constitute expenditures or liabilities, but once the subrecipient fulfills certain eligibility requirements, will represent expenditures or liabilities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reserved for Restricted Grants – To reflect resources to be used for grantor specified purposes.

The Commission applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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:

Contingency Reserve – A set aside for unforeseen operational costs. The Commission has designated approximately 5% of revenues each year to be set aside.

Sustainability – The purpose of this Fund is to sustain funding at the current levels as Proposition 10 allocations begin to dwindle. The principal and interest accumulated will remain intact for a period of years so that the fund can grow.

Program and Services System – The purpose of this Fund is to provide resources for the ongoing programs and services sponsored, facilitated and supported by the Commission and whose goals are derived from and in support of the Strategic Plan.

Information and Community Education System – The purpose of this Fund is to provide resources for the array of programs, activities, materials and services provided by the Commission to improve accessibility to early childhood information and services, to increase the community’s awareness and appreciation of early childhood development and to provide educational materials and services to the public that will assist in achieving the goals of the Strategic Plan.

Restatement of Fund Balances – The Commission’s beginning fund balances have been restated to reflect the cumulative effect of the implementation of GASB Interpretation No. 6. The impact of GASB Interpretation No. 6 was to reduce the current portion of compensated absences, and only recognize expenditures in the governmental fund financial statements for those liabilities considered to be due and payable as of June 30, 2002.

Fund balance at June 30, 2002, as previously reported	\$ 12,927,168
Adjustment to fund balance –	
GASB Interpretation No. 6 adjustment	<u>7,550</u>
Fund balance at June 30, 2002, as restated	<u>\$ 12,934,718</u>

Income Taxes – The commission is an instrumentality of the State of California. It is exempt from income taxes under Internal Revenue Code Section 115.

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

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 or its agent 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 \$633,990 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 unit 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.

The bank balances at June 30 are categorized as follows:

	2003			BANK BALANCES	BOOK VALUE
	1	CATEGORY 2	3		
First National Bank	\$ 100,000	\$ 633,990	\$ –	\$ 733,990	\$ 691,397
County Treasury	–	–	14,539,963	14,539,963	14,539,963
	<u>\$ 100,000</u>	<u>\$ 633,990</u>	<u>\$ 14,539,963</u>	<u>\$ 15,273,953</u>	
Cash on hand					150
Total book value					<u>\$ 15,231,510</u>

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended June 30, 2003:

Governmental Activities	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2003</u>
Furniture	\$ 28,837	\$ -	\$ -	\$ 28,837
Equipment	<u>39,710</u>	<u>-</u>	<u>-</u>	<u>39,710</u>
Total	<u>\$ 68,547</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,547</u>
Less accumulated depreciation for:				
Furniture	\$ 5,523	\$ 3,031	\$ -	\$ 8,554
Equipment	<u>18,214</u>	<u>10,306</u>	<u>-</u>	<u>28,520</u>
Accumulated depreciation	<u>23,737</u>	<u>13,337</u>	<u>-</u>	<u>37,074</u>
Total capital assets – net	<u>\$ 44,810</u>	<u>\$ 13,337</u>	<u>\$ -</u>	<u>\$ 31,473</u>

NOTE 4. OPERATING LEASE

The Commission leases its office space and certain office equipment under operating leases expiring through August 30, 2006. Future minimal lease commitments at June 30, are as follows:

2004	\$ 58,962
2005	59,740
2006	58,572
2007	<u>9,178</u>
Total	<u>\$ 186,452</u>

Rent expense under operating lease for the year ended June 30, 2003 was \$56,278.

NOTE 5. RETIREMENT PLAN

The Commission provides 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 7% of annual salary. The contribution for the fiscal year ended June 30, 2003 was \$18,338.

NOTE 6. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, employee's health and natural disasters. The Commission manages these various risks of loss by purchasing commercial insurance coverage. Their policy includes coverage for bodily injury, property damage, personal injury, directors' and officers' liability, public officials' errors and omissions, crime and non-owned and hired autos. In addition, the Commission maintains a worker's compensation insurance policy and a health benefits insurance package for its employees.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Various matters of litigation have been filed against the State of California and the California Children and Families Commission challenging the validity of Proposition 10 and the related taxes imposed. Future tax revenue could be affected by this litigation. However, the outcomes of these matters currently cannot be predicted and the ultimate financial impact on the Commission is unknown at this time.

The Commission entered into a Service Provider Agreement with the Corporation for Standards and Outcomes effective as of March 1, 2002. The agreement shall continue for a period of three years. The maximum amount payable shall not exceed \$541,050. At June 30, 2003, the remaining commitment was \$279,968.

At June 30, 2003, the Commission's remaining commitment with grantees was \$900,360.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
BUDGETARY FUND BALANCE, JULY 1, 2002	\$ 15,228,317	\$ 15,228,317	\$ 12,934,718	\$ (2,293,599)
RESOURCES (INFLOWS):				
Proposition 10 allocation	5,600,000	5,600,000	6,120,900	520,900
Foundation and state matching grants	975,500	975,500	858,465	(117,035)
Investment income	350,000	350,000	255,076	(94,924)
Other revenue	—	—	55,899	55,899
AMOUNTS AVAILABLE FOR APPROPRIATION	<u>22,153,817</u>	<u>22,153,817</u>	<u>20,225,058</u>	<u>(1,928,759)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Grant expenditure	5,913,000	5,975,879	4,516,539	1,459,340
Salaries and benefits	519,656	519,656	503,959	15,697
Evaluation/planning	345,708	345,708	263,152	82,556
Rent/utilities	60,400	60,400	57,143	3,257
Professional fees	58,000	58,000	53,863	4,137
Insurance	20,350	20,350	17,389	2,961
Community education	122,968	122,968	13,210	109,758
Training and conferences	23,000	23,000	12,634	10,366
Computer/equipment lease	27,000	27,000	10,465	16,535
Supplies/services	26,500	26,500	9,703	16,797
Telephone	6,000	6,000	4,337	1,663
Repairs and maintenance	8,000	8,000	4,212	3,788
Subscriptions and dues	3,000	3,000	2,221	779
Capital outlay	5,000	5,000	—	5,000
Total	<u>7,138,582</u>	<u>7,201,461</u>	<u>5,468,827</u>	<u>1,732,634</u>
BUDGETARY FUND BALANCE, JUNE 30, 2003	<u>\$ 15,015,235</u>	<u>\$ 14,952,356</u>	<u>\$ 14,756,231</u>	<u>\$ (196,125)</u>
BUDGET-TO-GAAP RECONCILIATION:				
Sources/inflows of resources –				
Actual amounts (budgetary basis) “available for appropriation”			\$ 20,225,058	
Difference – budget to GAAP –				
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes			<u>(12,934,718)</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 7,290,340</u>	

SUPPLEMENTARY INFORMATION

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
SCHOOL READINESS
FOR THE YEAR ENDED JUNE 30, 2003

REVENUES:	
School Readiness planning grant	\$ 100,000
School Readiness program grant	<u>620,547</u>
Total revenues	<u>720,547</u>
EXPENDITURES:	
Current:	
Grant expenditures	102,336
Evaluation/planning	<u>4,980</u>
Total expenditures	<u>107,316</u>
CHANGE IN FUND BALANCE	613,231
FUND BALANCE, BEGINNING OF YEAR	<u>76,396</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 689,627</u></u>

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
RETENTION INCENTIVE
FOR THE YEAR ENDED JUNE 30, 2003

REVENUES –	
State matching grant	\$ <u>62,500</u>
Total revenues	<u>62,500</u>
EXPENDITURES –	
Current –	
Grant expenditures	<u>62,500</u>
Total expenditures	<u>62,500</u>
CHANGE IN FUND BALANCE	–
FUND BALANCE, BEGINNING OF YEAR	<u>–</u>
FUND BALANCE, END OF YEAR	<u><u>\$ –</u></u>

**REPORT REQUIRED BY THE
GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' 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 accompanying basic financial statements of *Monterey County Children and Families Commission (the Commission)*, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 25, 2003. 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 a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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 a material weakness.

This report is intended solely for the information and use of the *Monterey County Children and Families Commission* and its management and is not intended to be and should not be used by anyone other than these specified parties.

August 25, 2003