

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2004

AND INDEPENDENT AUDITORS' REPORT

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and major fund of the *Monterey County Children and Families Commission* as of and for the year ended June 30, 2004 which, collectively comprise the basic financial statements as listed in the table of contents. These 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, 2004, 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.

In accordance with "Government Auditing Standards" we have also issued our report dated August 26, 2004 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 7 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 26, 2004

/S/ Hayashi & Wayland

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2003–2004

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, 2004.

FINANCIAL HIGHLIGHTS

The Commission was allocated and received revenues of \$6.2 million from the State of California as revenues collected under the Children and Families Act. Interest income for the fiscal year 2003–2004 was \$229,347. During the fiscal year 2003–2004, the Commission disbursed approximately \$4.8 million to funded agencies and spent approximately \$388,000 on evaluation and planning. The Commission has designated \$9.6 million as “Sustainability Funds.”

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 8 and 9 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 10 through 12 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 13 through 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

These statements include all assets and liabilities using the accrual basis of accounting (and reports depreciation on capital assets), which is similar to the basis of accounting used by most private-sector companies. The change in net assets (the difference between total assets and total liabilities) over time is one indicator of whether the Commission's financial health is improving or deteriorating. However, you need to consider other nonfinancial factors in making an assessment of the Commission's health, such as change in services, changes in the State's funding, and changes in the economy, etc. to assess the overall health of the Commission.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in the Commission's net assets (rounded to the nearest \$1,000) were as follows:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Current assets	\$ 16,735,000	\$ 16,478,000	\$ 257,000	2%
Capital assets – net	<u>30,000</u>	<u>31,000</u>	<u>(1,000)</u>	
Total assets	<u>16,765,000</u>	<u>16,509,000</u>	<u>256,000</u>	2%
Current liabilities	997,000	1,722,000	(725,000)	(42%)
Non-current liabilities	<u>32,000</u>	<u>13,000</u>	<u>19,000</u>	146%
Total liabilities	<u>1,029,000</u>	<u>1,735,000</u>	<u>(706,000)</u>	(41%)
Net assets	<u>\$ 15,736,000</u>	<u>\$ 14,774,000</u>	<u>\$ 962,000</u>	7%
Net assets consist of:				
Invested in capital assets, net of related debt	\$ 24,000	\$ 31,000	\$ (7,000)	
Restricted net assets	<u>15,712,000</u>	<u>14,743,000</u>	<u>969,000</u>	7%
Net assets	<u>\$ 15,736,000</u>	<u>\$ 14,774,000</u>	<u>\$ 962,000</u>	7%

The decrease in current liabilities is due to a capital grant for approximately \$900,000 being due in fiscal year 2003.

The increase in net assets is due to a positive change in net assets for the year, which is detailed below.

Changes in the Commission's revenues (rounded to the nearest \$1,000) were as follows:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Program Revenue:				
Proposition 10 allocation	\$ 6,239,000	\$ 6,121,000	\$ 118,000	2%
Foundation and state matching grants	427,000	858,000	(431,000)	(50%)
Other revenue	<u>11,000</u>	<u>56,000</u>	<u>(45,000)</u>	(80%)
Total Program Revenue	<u>6,677,000</u>	<u>7,035,000</u>	<u>(358,000)</u>	(5%)
General Revenue–				
Investment income	<u>229,000</u>	<u>255,000</u>	<u>(26,000)</u>	(10%)
Total Revenue	<u>\$ 6,906,000</u>	<u>\$ 7,290,000</u>	<u>\$ (384,000)</u>	(5%)

The decrease in program revenues is mainly due to a decrease in the funding received from the State Commission for the School Readiness Program. The Commission received approximately \$620,000 in fiscal year 2003, compared to approximately \$265,000 received in fiscal year 2004, a decrease of \$355,000.

The decrease in investment income is due to the general decline in interest rates.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in the Commission's expenses (rounded to the nearest \$1,000) were as follows:

	<u>2004</u>	<u>2003</u>	<u>Change</u>	<u>%</u>
Grant expenditures	\$ 4,814,000	\$ 4,516,000	298,000	7%
Salaries and benefits	492,000	510,000	(18,000)	(4%)
Evaluation/planning	388,000	263,000	125,000	48%
Professional fees	67,000	54,000	13,000	24%
Rent/utilities	59,000	57,000	2,000	4%
Community education	41,000	13,000	28,000	215%
Administrative expenses	33,000	32,000	1,000	3%
Training and conferences	25,000	13,000	12,000	92%
Insurance	14,000	17,000	(3,000)	(18%)
Depreciation	12,000	13,000	(1,000)	(8%)
Total Expenses	<u>5,945,000</u>	<u>5,488,000</u>	<u>457,000</u>	8%
Change in Net Assets	<u>\$ 961,000</u>	<u>\$ 1,802,000</u>	<u>\$ (841,000)</u>	(47%)

The increase in expenses is mainly due to an increase in both grant expenditures and evaluation due to the School Readiness Program running for the entire fiscal year.

The change in net assets decreased from the prior year due to a decrease in revenue and an increase in expenses.

FINANCIAL ANALYSIS OF THE COMMISSION'S GOVERNMENTAL FUND

The Commission only has governmental funds and only one fund, which is its major fund. The governmental funds provide a short-term view of the Commission's operations. They are reported using an accounting method called modified accrual accounting, which measures amounts using only cash and other short-term assets and liabilities (receivables and payables) that will soon be converted to cash or will soon be paid with cash.

Governmental fund balances increased by \$982,000 in fiscal year 2004 as compared to the government-wide increase in net assets of \$961,000. The primary differences between the two are that the governmental fund statements do not include depreciation or the accrual of compensated absences, both of which are not considered uses of current assets.

Fund Budgetary Highlight – Actual total expenditures were \$1.6 million less than budgeted due to grantees not expending funds as originally requested, changes in staffing and various expenditures not taking place as anticipated.

Actual total revenues were \$98,000 less than budgeted due primarily to the Commission receiving less on the School Readiness State funding than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Commission’s capital assets for its governmental activities as of June 30, 2004, amounted to \$30,000 (net of accumulated depreciation). Capital assets include furniture and equipment.

Debt Administration – At the end of the current fiscal year, the Commission’s long-term obligations were for compensated absences of \$25,000 and a capital lease of \$7,000.

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 factors were considered in preparing the Commission’s fiscal year 2004–2005 budget:

- Administrative expenses, and program salaries and benefits are 13% of total revenues,
- 4% decline in State Proposition 10 funds annually, and
- Department of Finance birth projections.

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, 2004**

ASSETS:	
Cash and equivalents	\$ 15,572,330
Due from the State – Proposition 10	1,092,747
Interest receivable	43,115
Advances	26,787
Capital assets, net of depreciation	<u>30,582</u>
Total assets	<u>16,765,561</u>
LIABILITIES:	
Accounts payable	21,415
Grants payable	975,383
Compensated absences	25,328
Capital lease	<u>6,955</u>
Total liabilities	<u>1,029,081</u>
NET ASSETS:	
Invested in Capital assets, net of related debt	23,627
Restricted	<u>15,712,853</u>
Total net assets	<u>\$ 15,736,480</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

PROGRAM EXPENSES:	
Grant expenditures	\$ 4,813,595
Salaries and benefits	491,861
Evaluation/planning	388,516
Rent/utilities	59,314
Professional fees	66,508
Insurance	13,738
Depreciation	11,625
Community education	41,399
Training and conferences	25,330
Computer supplies and maintenance	9,588
Services/supplies	9,730
Telephone	4,860
Repairs and maintenance	3,831
Subscriptions and dues	3,971
Interest on long-term debt	<u>1,582</u>
 Total program expenses	 <u>5,945,448</u>
PROGRAM REVENUES:	
Proposition 10 allocation	6,238,999
Foundation and state matching grants	427,267
Other revenue	<u>11,204</u>
 Total program revenues	 <u>6,677,470</u>
 Net program revenue	 732,022
GENERAL REVENUE –	
Investment income	<u>229,347</u>
 CHANGE IN NET ASSETS	 961,369
 NET ASSETS, BEGINNING OF YEAR	 <u>14,775,111</u>
 NET ASSETS, END OF YEAR	 <u>\$ 15,736,480</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2004

<u>ASSETS</u>	
Cash and equivalents	\$ 15,572,330
Due from the State – Proposition 10	1,092,747
Interest receivable	43,115
Advances	<u>26,787</u>
TOTAL ASSETS	<u>\$ 16,734,979</u>
<u>LIABILITIES AND FUND BALANCES</u>	
LIABILITIES:	
Accounts payable	\$ 21,415
Grants payable	<u>975,383</u>
Total liabilities	<u>996,798</u>
FUND BALANCES:	
Reserved for:	
Encumbrances	240,934
Restricted grants:	
School readiness planning	191,738
School readiness program	260,563
Unreserved, designated:	
Contingency reserve	345,340
Sustainability	9,613,996
Program and services system	4,000,000
Mini/capital grants	200,000
Information and community education system	102,700
Undesignated	<u>782,910</u>
Total fund balances	<u>15,738,181</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,734,979</u>
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND TO THE STATEMENT OF NET ASSETS:	
Fund balances from above	\$ 15,738,181
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	30,582
Accrued compensated absences is not due and payable with current financial resources and is not reported in the Governmental Fund	(25,328)
Long-term capital lease is not due and payable with current financial resources and is not reported in the Governmental Fund	<u>(6,955)</u>
NET ASSETS	<u>\$ 15,736,480</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, 2004

REVENUES:	
Proposition 10 allocation	\$ 6,238,999
Foundation and state matching grants	427,267
Investment income	229,347
Other revenue	<u>11,204</u>
Total revenues	<u>6,906,817</u>
EXPENDITURES:	
Current:	
Grant expenditures	4,813,595
Salaries and benefits	479,815
Evaluation/planning	388,516
Rent/utilities	59,314
Professional fees	66,508
Insurance	13,738
Community education	41,399
Training and conferences	25,330
Computer supplies and maintenance	9,588
Services/supplies	9,730
Telephone	4,860
Repairs and maintenance	3,831
Subscriptions and dues	3,971
Debt service:	
Principal	3,090
Interest	<u>1,582</u>
Total expenditures	<u>5,924,867</u>
NET CHANGE IN FUND BALANCE	981,950
FUND BALANCE, BEGINNING OF YEAR	<u>14,756,231</u>
FUND BALANCE, END OF YEAR	<u>\$ 15,738,181</u>

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)

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.	\$ 981,950
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.	
In the current period this amount is:	
Current year depreciation.	(11,625)
Repayment of long-term debt is reported as an expenditure in governmental funds but the repayment reduces long-term liabilities in the statement of net assets. In the current year this amount is:	
Principal payments	3,090
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>(12,046)</u>
CHANGE IN NET ASSETS	<u>\$ 961,369</u>

See Notes to Basic Financial Statements.

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION**
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

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)

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Mini/Capital Grants – The purpose of this fund is to provide resources for short-term, one-time projects and capital improvements. These type of grants are awarded every other year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 bank balances at June 30, 2004 were \$15,646,480. 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 \$15,546,480 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.

NOTE 3. CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended June 30, 2004:

Governmental Activities	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2004</u>
Furniture	\$ 28,837	\$ -	\$ -	\$ 28,837
Equipment	<u>39,710</u>	<u>10,734</u>	<u>-</u>	<u>50,444</u>
Total	<u>\$ 68,547</u>	<u>\$ 10,734</u>	<u>\$ -</u>	<u>\$ 79,281</u>
Less accumulated depreciation for:				
Furniture	\$ 8,554	\$ 2,830	\$ -	\$ 11,384
Equipment	<u>28,520</u>	<u>8,795</u>	<u>-</u>	<u>37,315</u>
Accumulated depreciation	<u>37,074</u>	<u>11,625</u>	<u>-</u>	<u>48,699</u>
Total capital assets – net	<u>\$ 31,473</u>	<u>\$ (891)</u>	<u>\$ -</u>	<u>\$ 30,582</u>

NOTE 4. CAPITAL LEASE

The Commission has entered into a lease agreement for financing the acquisition of a copier. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The copier is carried at \$8,050 as of June 30, 2004.

The lease obligation for the fiscal year ended June 30, 2004 comprises the following:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Copier	<u>\$ -</u>	<u>\$ 10,045</u>	<u>\$ 3,090</u>	<u>\$ 6,955</u>

Future minimum lease payments under the capital lease as of June 30, 2004 for each of the remaining years and in the aggregate are as follows:

Fiscal Year Ending June 30

2005	\$ 4,672
2006	<u>3,504</u>
Total minimum lease payments	8,176
Less: amount representing interest	<u>1,221</u>
Present value of minimum lease payments	<u>\$ 6,955</u>

NOTE 5. OPERATING LEASE

The Commission leases its office space under an operating lease which expires August 31, 2006. Future minimal lease commitments at June 30, are as follows:

2005	\$ 55,068
2006	55,068
2007	<u>9,178</u>
Total	<u>\$ 119,314</u>

Rent expense under the operating lease for the year ended June 30, 2004 was \$55,068.

NOTE 6. 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, 2004 was \$22,240.

NOTE 7. 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 8. 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, 2004, the remaining commitment was \$113,894.

REQUIRED SUPPLEMENTARY INFORMATION

**MONTEREY COUNTY CHILDREN
AND FAMILIES COMMISSION
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

	<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, 2003	\$ 14,756,231	\$ 14,756,231	\$ 14,756,231	\$ -
RESOURCES (INFLOWS):				
Proposition 10 allocation	5,764,612	5,764,612	6,238,999	474,387
Foundation and state matching grants	976,054	976,054	427,267	(548,787)
Investment income	264,000	264,000	229,347	(34,653)
Other revenue	-	-	11,204	11,204
AMOUNTS AVAILABLE FOR APPROPRIATION	<u>21,760,897</u>	<u>21,760,897</u>	<u>21,663,048</u>	<u>(97,849)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Grant expenditure	6,114,279	6,114,279	4,813,595	1,300,684
Salaries and benefits	565,614	565,614	479,815	85,799
Evaluation/planning	468,432	468,432	388,516	79,916
Rent/utilities	62,500	62,500	59,314	3,186
Professional fees	111,395	111,395	66,508	44,887
Insurance	15,150	15,150	13,738	1,412
Community education	100,000	100,000	41,399	58,601
Training and conferences	23,000	23,000	25,330	(2,330)
Computer supplies and maintenance	8,500	8,500	9,588	(1,088)
Supplies/services	23,300	23,300	9,730	13,570
Telephone	4,500	4,500	4,860	(360)
Repairs and maintenance	5,500	5,500	3,831	1,669
Subscriptions and dues	3,000	3,000	3,971	(971)
Capital lease:				
Principal	6,000	6,000	3,090	2,910
Interest	2,000	2,000	1,582	418
Total	<u>7,513,170</u>	<u>7,513,170</u>	<u>5,924,867</u>	<u>1,588,303</u>
BUDGETARY FUND BALANCE, JUNE 30, 2004	<u>\$ 14,247,727</u>	<u>\$ 14,247,727</u>	<u>\$ 15,738,181</u>	<u>\$ 1,490,454</u>
BUDGET-TO-GAAP RECONCILIATION:				
Sources/inflows of resources –				
Actual amounts (budgetary basis) “available for appropriation”			\$ 21,663,048	
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>(14,756,231)</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances			<u>\$ 6,906,817</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, 2004

REVENUES:	
School Readiness planning grant	\$ 100,000
School Readiness program grant	<u>264,767</u>
Total revenues	<u>364,767</u>
EXPENDITURES:	
Current:	
Grant expenditures	522,414
Evaluation/planning	<u>79,679</u>
Total expenditures	<u>602,093</u>
CHANGE IN FUND BALANCE	(237,326)
FUND BALANCE, BEGINNING OF YEAR	<u>689,627</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 452,301</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, 2004

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 financial statements of the governmental activities and the major fund of *Monterey County Children and Families Commission (the Commission)*, as of and for the year ended June 30, 2004 which collectively comprise their basic financial statements, and have issued our report thereon dated August 26, 2004. 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. 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 26, 2004.

This report is intended solely for the information and use of the Commission Board, management, the State Commissioner and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 26, 2004

/S/ Hayashi & Wayland