

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2002**

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
FINANCIAL REPORT
JUNE 30, 2002**

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**INDEPENDENT AUDITOR'S REPORT
ON BASIC FINANCIAL STATEMENTS**

Board of Commissioners
Contra Costa Children &
Families Commission
1340 Arnold Drive, Suite 125
Martinez, CA 94553

We have audited the basic financial statements of the Contra Costa Children & Families Commission as of June 30, 2002 and for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Contra Costa Children & Families Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 Contra Costa Children & Families Commission as of June 30, 2002, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

As described in Note 1 to the basic financial statements, the Commission adopted the provisions of Government Accounting Standards Board No. 34, *Basic Financial Statements-and Management Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*, as of July 1, 2001. This results in a change in the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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.

Wallace E. Howe, CPA

October 14, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2002 are being issued for the first time in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the Commission to provide this overview of its financial statements for the fiscal year. Please read it in conjunction with the Basic Financial Statements.

FISCAL 2002 FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2002 the Commission completed its third year in existence. During this just completed fiscal year the number of programs and activities administered by the Commission increased significantly over those of the first two years. This growth is expected to continue during the next several years.

Over \$3.9 million of new grant contracts were awarded to subgrantee agencies and individuals during the final three months of fiscal year 2001 and during fiscal year 2002.

Financial highlights of the year include the following:

- The Commission's net assets increased \$12,681,238, after an \$8,551,974 increase in the prior fiscal year. At June 30, 2002, net assets totaled \$40,486,808.
- Total commission revenues, which includes Proposition 10 grants, other foundation grants, and interest, were \$17,376,849, an increase of \$6,292,961 from the prior year. Total expenses were \$4,695,611, an increase of \$2,163,697 from the prior year.
- Revenues from Proposition 10 Tax Revenues were \$16,619,710, an increase of \$5,128,189 from the prior year (see note 4). Expenses for direct early childhood development programmatic costs increased \$1,840,626.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

This annual Financial Report is in four parts:

1. Management's Discussion and Analysis (this part),
2. Independent Auditors' Report,
3. The Basic Financial Statements, which include the Government-wide Financial Statements and the Fund financial Statements; along with the Notes to these financial statements,
4. Report on Compliance and on Internal Control Over Financial Reporting Required by Government Auditing Standards.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements comprise the Commission-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Commission's financial activities and financial position.

The Commission-wide Financial Statements provide a longer-term view of the Commission's activities as a whole, and are comprised of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Commission as a whole on the full accrual basis, similar to that used in the private sector. The

Statement of Activities provides information about the Commission's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of the Commission's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

The Fund Financial Statements report the Commission's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Commission's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the Commission and are presented individually, while the activities of Non-major funds (if any were to exist) would be presented in summary, with subordinate schedules presenting the detail for each of the other funds. The Major Funds are explained below.

The Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

Governmental activities -All of the Commission's basic services are considered to be governmental activities. The services are supported primarily by tax revenues generated from the State of California Proposition 10.

The Commission-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Commission as a whole.

Fund Financial Statements

The Fund financial Statements provide detailed information about each of the Commission's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with any Non-major Funds summarized and presented in a single column. Major Funds present the major activities of the Commission for the year, and may change from year to year as a result of changes in the pattern of the Commission's activities. In the Commission's case, the First 5 Fund is a major fund for the fiscal year 2002.

Fund Financial Statements include the governmental funds discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and long-term liabilities (were they to exist), are not presented in Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds.

FINANCIAL ACTIVITIES OF THE COMMISSION AS A WHOLE

The Commission's net assets from governmental activities increased from \$27,842,808 in 2001 to \$40,486,808 in 2002 from \$27,842,291 in 2001. This increase is the Change in Net Assets reflected in the Statement of Activities, and an explanation of the more significant account changes are explained below.

- Cash and investments increased \$10,710,467, principally as a result of the continued inflow of Proposition 10 tax revenues collected and remitted by the State of California. This cash must be used to provide for early childhood development programs to aid children ages zero to five.
- Grants receivable - state at June 30, 2002 were \$2,066,841. These receivable amounts are due from the State for Proposition 10 tax revenues collected for 2002 and not remitted to the Commission prior to June 30, 2002.
- Revenues of the Commission increased \$6,292,961 (see Note 4).
- Expenses of the Commission increased \$2,163,697.

Analysis of Major Governmental Funds

First 5 Fund

The First 5 Fund accounts for the activities of the various grants and programs administered directly for the Proposition 10 funded early childhood development Programs.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

It is expected that revenues will decrease and expenses will increase for the next fiscal year. The decrease in revenues is due to expected decreases in Proposition 10 tax revenues. Commission expenses are expected to increase due to the growth in the funding of the early childhood development related grants and Commission managed programs.

As indicated in Note 4 to the financial statements, the Commission received \$1,590,625 in Proposition 10 Stipend Match Grants and \$200,000 in Proposition 10 School Readiness Grants for the fiscal year 2002. The availability of these types of grants in future years is uncertain.

Future annual revenues from the Proposition 10 apportionments are expected to decrease due to the decrease in the amount of tobacco sales within the State. To prepare for this expected decrease in future years' revenues the Commission has prepared and will be periodically revising a Commission Sustainability Plan.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This annual report is intended to provide citizens and taxpayers with a general overview of the Commission's finances. Questions about this report should be directed to the Commission's Executive Director at 1340 Arnold Drive, Suite 125, Martinez, CA 94553.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities are entirely new statements required by Government Accounting Board Statement 34. Their purpose is to summarize the entire Commission's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Commission's assets and its liabilities, as well as its revenues and expenses. This is known as the full accrual basis - the effect of all the Commission's transactions is taken into account, regardless of whether or when cash changes hands.

The Statement of Net Assets reports the difference between the Commission's total assets and the Commission's total liabilities. The statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Commission's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Commission's Governmental Activities in a single column and the financial position of all the Commission's Business-Type Activities. For the fiscal year 2002 the Commission did not administer any Business-type Activities as defined by GASB 34. These columns are followed by a Total column which represents the financial position of the entire Commission.

The Commission's Governmental Activities include the Activities of its General Fund, along with its Proposition 10 First 5 Special Revenue Fund.

The Statement of Activities reports increases and decreases in the Commission's net assets. It is also prepared on the full accrual basis, which means it includes all the Commission's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflects only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities differs considerably from those in the past. It presents the Commission's expenses first, listed by program, and follows these with expenses of its business-type activities. Program revenues-that is, revenues which are generated directly by these programs-are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The Commission's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2002**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments (Note 2)	\$ 38,938,789	\$ -	\$ 38,938,789
Grants receivable - State	2,066,841	-	2,066,841
Accounts receivable	21,307	-	21,307
Prepaid expenses	<u>19,415</u>	<u>-</u>	<u>19,415</u>
Total assets	<u>41,046,352</u>	<u>-</u>	<u>41,046,352</u>
 LIABILITIES			
Accounts payable	27,975	-	27,975
Due to other agencies	354,316	-	354,316
Accrued compensated absences	36,721	-	36,721
Accrued liabilities	<u>140,532</u>	<u>-</u>	<u>140,532</u>
Total liabilities	<u>559,544</u>	<u>-</u>	<u>559,544</u>
 NET ASSETS			
Restricted for:			
Commission sustainability	<u>33,558,000</u>	<u>-</u>	<u>33,558,000</u>
Total restricted net assets	<u>33,558,000</u>	<u>-</u>	<u>33,558,000</u>
Unrestricted:			
Other unrestricted net assets	<u>6,928,808</u>	<u>-</u>	<u>6,928,808</u>
Total unrestricted net assets	<u>6,928,808</u>	<u>-</u>	<u>6,928,808</u>
Total net assets	<u>\$ 40,486,808</u>	<u>\$ -</u>	<u>\$ 40,486,808</u>

See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants and Contributions</u>	<u>Net Revenue and Changes to Net Assets</u>		<u>Total</u>
			<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Governmental Activities:					
First 5 programs	\$ 4,695,611	\$ 16,643,070	\$ 11,947,459	-	\$ 11,947,459
Total Governmental Activities	<u>4,695,611</u>	<u>16,643,070</u>	<u>11,947,459</u>	<u>-</u>	<u>11,947,459</u>
Business-type Activities:	-	-	-	-	-
Total Business-type Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,695,611</u>	<u>\$ 16,643,070</u>	<u>11,947,459</u>	<u>-</u>	<u>11,947,459</u>
General Revenues:					
Investment earnings			732,983	-	732,983
Miscellaneous			796	-	796
Total general revenues			<u>733,779</u>	<u>-</u>	<u>733,779</u>
Change in Net Assets			12,681,238	-	12,681,238
Net Assets - Beginning			<u>27,805,570</u>	<u>-</u>	<u>27,805,570</u>
Net Assets - Ending			<u>\$ 40,486,808</u>	<u>-</u>	<u>\$ 40,486,808</u>

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds (if any) are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

The funds described below were determined to be Major Funds by the Commission for the fiscal year 2002.

GENERAL FUND

The General Fund is used for all the general revenues of the Commission not specifically collected for other Commission funds, and the related expenditures.

FIRST 5 FUND

The First 5 Fund accounts for the activities of the programs funded from the proceeds of Proposition 10. These programs are designed in partnership with parents, caregivers, communities, public and private organizations, advocates and county government, to foster the optimal development of children zero to five years of age. Tax revenues from Proposition 10 amounted to \$16,19,710 for fiscal year 2002 versus \$11,491,521 for 2001 (see Note 4). Expenditures for 2002 for these programs were \$4,695,611 versus \$2,531,914 for 2001. Annual revenues are expected to exceed expenditures for the next several years until the decline in revenues intersects with increases in expenditures.

Each year a portion of the excess of revenues over expenditures are being set aside for sustainability of the Commission for the future years when expenditures are expected to exceed revenues. Proceeds from Proposition 10 are derived from the sales of tobacco products within the State of California. It is anticipated that future tax revenues will decrease annually.

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2002**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments (Note 2)	\$ -	\$ 38,938,789	\$ 38,938,789
Grants receivable - State	-	2,066,841	2,066,841
Accounts receivable	-	21,307	21,307
Prepaid expenses	<u>-</u>	<u>19,415</u>	<u>19,415</u>
Total assets	<u><u>\$ -</u></u>	<u><u>\$ 41,046,352</u></u>	<u><u>\$ 41,046,352</u></u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Accounts payable	\$ -	\$ 27,975	\$ 27,975
Due to other agencies	-	354,316	354,316
Accrued liabilities	<u>-</u>	<u>140,532</u>	<u>140,532</u>
Total liabilities	<u>-</u>	<u>522,823</u>	<u>522,823</u>
Fund Balance:			
Reserved for future sustainability	-	33,558,000	33,558,000
Unreserved:			
Undesignated	<u>-</u>	<u>6,965,529</u>	<u>6,965,529</u>
Total fund balance	<u>-</u>	<u>40,523,529</u>	<u>40,523,529</u>
Total liabilities and fund balance	<u><u>\$ -</u></u>	<u><u>\$ 41,046,352</u></u>	<u><u>\$ 41,046,352</u></u>

See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2002**

(Continued)

Amounts reported for Governmental Activities in the Statement of Net Assets
are different from those reported in the Governmental funds because of the following:

TOTAL FUND BALANCES - PER GOVERNMENTAL FUNDS	\$ 40,523,529
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LONG TERM ASSETS AND LIABILITIES

The liabilities below are not due and payable in the current period
And therefore are not reported in the funds:

Non-current portion of compensated absences	<u>(36,721)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 40,486,808</u>
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See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
Revenues:			
Proposition 10 tax revenue	\$ -	\$ 16,619,710	\$ 16,619,710
Interest	-	732,983	732,983
Other grants	-	23,360	23,360
Other income	-	796	796
	<u>-</u>	<u>17,376,849</u>	<u>17,376,849</u>
Expenditures:			
Grants	-	3,597,984	3,597,984
Salaries	-	509,306	509,306
Employee benefits	-	166,495	166,495
Office supplies and equipment	-	153,588	153,588
Publications	-	4,859	4,859
Office rent	-	66,107	66,107
Other administrative expenses	-	9,817	9,817
Travel and training	-	32,004	32,004
Professional services	-	155,451	155,451
	<u>-</u>	<u>4,695,611</u>	<u>4,695,611</u>
Excess of revenues over (under) expenditures	-	12,681,238	12,681,238
Fund balance, June 30, 2001	<u>-</u>	<u>27,842,291</u>	<u>27,842,291</u>
Fund balance, June 30, 2002	<u>\$ -</u>	<u>\$ 40,523,529</u>	<u>\$ 40,523,529</u>

See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002**

During the current fiscal year there were no differences in the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current asset and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities on the Statement of Activities, which is prepared on the full accrual basis.

**CONTRA COSTA
 CHILDREN & FAMILIES COMMISSION
 GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	Variance With Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1, 2001	\$ -	\$ -	\$ -	
Resources (inflows):				
Grants	-	-	-	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Amounts available for appropriations	-	-	-	-
Charges to appropriations (Outflows):				
Administration	-	-	-	-
Program costs	-	-	-	-
Total charges to Appropriations	-	-	-	-
Budgetary fund balance, June 30, 2002	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
FIRST 5 FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>Budgetary Basis</u>	Variance With Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balance, July 1, 2001	\$ 27,842,291	\$ 27,842,291	\$ 27,842,291	
Resources (inflows):				
Proposition 10 tax increments	-	13,703,975	16,619,710	\$ 2,915,735
Interest	-	-	732,983	732,983
Other grants	-	100,000	23,360	(76,640)
Miscellaneous	-	-	796	796
Amounts available for appropriations	-	13,803,975	17,376,849	3,572,874
Charges to appropriations (Outflows):				
Administration	737,847	815,479	1,097,627	(282,148)
Program costs	7,739,545	7,833,878	3,597,984	4,235,894
Total charges to Appropriations	8,477,392	8,649,357	4,695,611	3,953,746
Budgetary fund valance, June 30, 2002	\$ 19,364,899	\$ 32,996,909	\$ 40,523,529	\$ 7,526,620

See accompanying notes to financial statements

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Contra Costa Children & Families Commission (the Commission) was established by the Contra Costa County Board of Supervisors. The Commission was established to implement the provisions of Proposition 10 adopted on November 3, 1998. The Board of Supervisors originally appointed nine commission members and nine alternate members on September 1, 1999. One of the Commissioner positions will be occupied by a member of the County Board of Supervisors and will serve a one year term, three of the Commissioner positions will be occupied by employees of Contra Costa County and will serve without term limit, the remaining five Commissioner positions will consist of representatives from various organizations or recipients of services. These positions were originally appointed for three or four years. Upon completion of the initial terms of appointment these five positions will be appointed for three year terms. The mission of the Commission is, in partnership with parents, caregivers, communities, public and private organizations, advocates and county government, to foster optimal development of children, zero to five years of age.

B. Basis of Presentation

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statement 34, *Basic financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 requires that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Assets and Statement of Activities display information about the primary government (the Commission). These statements include the financial activities of the overall Commission. These statements distinguish between the *governmental and business-type activities* of the Commission. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. There were no business-type activities for the Commission for fiscal 2002.

CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

(Continued)

Note 1 (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program of function and, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to the operations of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Commission's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

C. Major Funds

GASB 34 defines major funds and requires that the Commission's major governmental and business-type funds be identified and presented separately in the Fund financial statements. All other funds, called non-major funds, are to be combined and reported in a single column, regardless of their fund type. There were no non-major funds for the Commission for 2002.

Major funds are defined as funds which have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The General fund is always a major fund.

The Commission reported the following major governmental funds in the accompanying financial statements:

General Fund - This is the Commission's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

First 5 Fund - This fund accounts for Proposition 10 tax increments which must be used for programs aiding development of children ages zero to five years of age.

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

Note 1 (continued)

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flows take place.

Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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*. The Commission considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

E. Accounting Policies

Non-exchange Transactions

Non-exchange transactions, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include Proposition 10 tax increments and other grants. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

(Continued)

Note 1 (continued)

F. Budgeting Procedures

Each year management of the Commission prepares a proposed budget which is presented to the Commission's Board of Commissioners. The annual budget is the legally enacted through adoption of a budget resolution.

Budgets are prepared on the modified accrual basis of accounting. Operating budgets which have not been encumbered lapse at the end of the fiscal year.

Note 2 - CASH AND INVESTMENTS

The cash and investments of the Commission are maintained in Contra Costa County's - internal pool or specified individual securities, and are invested by the County Treasurer. Income from pooled investments is allocated to the Commission's fund based on average daily cash balances. The County also maintains individual investment accounts for the Commission. These accounts are separate from the pool and are reported in an investment trust fund. The types of investments for these funds are made at the direction of the Commission, and the income derived, from these investments and changes in the investments value affect only the trust fund of the Commission.

The Commission categorizes its individual securities investments in ascending order to reflect relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. Categorization does not measure Market Risk, which is the risk that investments will fluctuate in market value. The three levels of risk prescribed by generally accepted accounting principles are described below:

Category 1 - Security instruments in this category are in the Commission's name and are in the possession of a Trust Department of a bank employed solely for this purpose. The commission is the registered owner of securities held in book entry form by the bank's Trust Department. Insured certificate of deposit are included in this category.

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

Note 2 (continued)

Category 2 - Security instruments and book entry form securities in this category are in the bank's name as agent for the Commission, but are held by its Trust Department in the Commission's name.

Category 3 - Investments in this category include only Commission owned securities instruments or book entry form securities which are not in the Commission's name or held by the bank's Trust Department.

Pooled Investments - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair value, which is the same as fair market value and are categorized as follows at June 30:

	<u>Category 1</u>	<u>Non-Categorized</u>	<u>Total</u>
Cash with banks	\$ 3,894	\$ -	\$ 3,894
U.S Government Securities:			
Treasury Notes	33,558,000	-	33,558,000
Pooled investments with County	-	<u>5,376,895</u>	<u>5,376,895</u>
Total cash and Investments	<u>\$ 33,561,894</u>	<u>\$ 5,376,895</u>	<u>\$ 38,938,789</u>

California Law requires banks and savings and loan institution to pledge government securities with a market value of 110% of the Commission's cash or deposit or first trust deed mortgage notes with a value 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Commission's name and places the Commission ahead of general creditors of the institution. The Commission has waived the collateral requirements for the portion of deposits covered by federal deposit insurance.

**CONTRA COSTA
CHILDREN & FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

(Continued)

Note 3 - GRANTS

During the fifteen-month period April 1, 2001 through June 30, 2002 the Commission awarded over \$3.9 million of various types of program grants to community based organizations, departments of Contra Costa County and individuals. For the fiscal year ended June 30, 2002, the Commission expended \$3,519,493 of the awarded grant amounts.

Note 4 - PROPOSITION 10 TAX REVENUES

During the current fiscal year the Commission recorded \$16,619,710 of Proposition 10 tax revenues. The individual Proposition 10 grant programs for which revenues were recorded during fiscal year 2002 are as follows:

Tax apportionment	\$	14,763,579
Stipends match		1,590,625
School readiness		200,000
SMIF		<u>65,506</u>
Total		<u>\$ 16,619,710</u>

Of the total \$14,763,579 of tax apportionment grants, \$2,918,685 were for Proposition 10 tax revenues that had been collected by the State for fiscal 2001, but had not been remitted to the Commission in time to be recorded as revenues by the Commission in its previous fiscal year (2001).

Therefore, the Commission's portion of Proposition 10 revenues actually attributable to State collections for fiscal year 2002 were \$11,844,894. The Proposition 10 tax apportionments collected and remitted by the state, to the Commission for fiscal year 2001 collections were \$12,060,263.

Note 5 - SUPPLANT REQUIREMENT

Management of the Commission has represented that the supplant requirement stated in Section 30134.4 of the California Tax & Revenue Code has been met.

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**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
Contra Costa Children &
Families Commission
1340 Arnold Drive, Suite 125
Martinez, CA 94553

We have audited the basic financial statements of the Contra Costa Children & Families Commission as of June 30, 2002 and for the year then ended, and have issued our report thereon dated October 14, 2002. 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 Contra Costa Children & Families Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance 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 herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Contra Costa Children & 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 financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more 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 basic 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 for the information of the Board of Commissioners, management and the State of California Children & Families Commission. However, this report is a matter of public record and its distribution is not limited.

Wallace E. Kow, CPA

October 14, 2002