

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2004**

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
FINANCIAL REPORT  
JUNE 30, 2004**

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

Board of Commissioners  
First 5 Contra Costa  
Children & Families Commission  
1340 Arnold Drive, Suite 125  
Martinez, CA 94553

We have audited the financial statements of the governmental activities and each major fund of the First 5 Contra Costa Children & Families Commission as of June 30, 2004 and for the year then ended, which collectively comprise the commission's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the First 5 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* (2003 Revision), 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 governmental activities and each major fund of the First 5 Contra Costa Children & Families Commission as of June 30, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the First 5 Contra Costa Children & Families Commission basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis as required by the First 5 California Children & Families Commission, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*William E. Kow, CPA*

October 20, 2004

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2004 are being issued 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 2004 FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2004 the Commission completed its fifth year in existence. During this just completed fiscal year the programs and activities envisioned by the Commission in its strategic plan were fully implemented.

Over \$7,100,000 of new grant contracts was awarded to subgrantee agencies and individuals during fiscal year 2004.

Financial highlights of the year include the following:

- The Commission's net assets increased \$3,252,947, after an \$2,755,982 increase in the prior fiscal year. At June 30, 2004, net assets totaled \$44,911,912.
- Total commission revenues, which includes Proposition 10 grants, other foundation grants, and interest, were \$13,279,598, a increase of \$605,895 from the prior year. Total expenses were \$10,026,651, an increase of \$108,930 from the prior year.
- Revenues from Proposition 10 Tax Revenues were \$12,744,771, an increase of \$775,408 from the prior year partly due to a recalculation of funds at the State level to cover projected Proposition 99 shortfall as a direct result of Proposition 10.
- Expenses for direct early childhood development programmatic costs decreased \$297,930.

### **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 2004.

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 \$41,658,965 in 2003 to \$44,911,912 in 2004. 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 \$3,834,213, principally as a result of the excess of revenues over expenditures. 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, 2004 were \$1,998,801. These receivable amounts are due from the State for Proposition 10 tax revenues collected for 2004 and not remitted to the Commission prior to June 30, 2004.
- Revenues of the Commission increased \$605,895, as a result of the recalculation of Proposition 99 backfill at the state level.
- Expenses of the Commission increased \$108,930.

### *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 only slightly 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 future implementation of early childhood development-related grants and Commission-managed programs.

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 long-term sustainability plan.

## **CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT**

This annual report is intended to provide the community 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 2004 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.



**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ 46,416,987	\$ -	\$ 46,416,987
Grants receivable - State	1,998,801	-	1,998,801
Interest receivable	8,996	-	8,996
Prepaid expenses	<u>7,261</u>	<u>-</u>	<u>7,261</u>
Total assets	<u>48,432,045</u>	<u>-</u>	<u>48,432,045</u>
<b>LIABILITIES</b>			
Accounts payable	342,315	-	342,315
Due to other agencies	2,117,861	-	2,117,861
Unearned grants	873,547	-	873,547
Accrued compensated absences	68,619	-	68,619
Accrued liabilities	<u>117,791</u>	<u>-</u>	<u>117,791</u>
Total liabilities	<u>3,520,133</u>	<u>-</u>	<u>3,520,133</u>
<b>NET ASSETS</b>			
Restricted for:			
Commission sustainability	<u>30,288,808</u>	<u>-</u>	<u>30,288,808</u>
Total restricted net assets	<u>30,288,808</u>	<u>-</u>	<u>30,288,808</u>
Unrestricted:			
Other unrestricted net assets	<u>14,623,104</u>	<u>-</u>	<u>14,623,104</u>
Total unrestricted net assets	<u>14,623,104</u>	<u>-</u>	<u>14,623,104</u>
Total net assets	<u>\$ 44,911,912</u>	<u>\$ -</u>	<u>\$ 44,911,912</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net Revenue and Changes to Net Assets</u>	<u>Total</u>
Governmental Activities:			<u>Governmental Activities</u>	<u>Business-Type Activities</u>
First 5 programs	\$ 10,026,651	\$ 12,800,162	\$ 2,773,511	\$ 2,773,511
Total Governmental Activities	<u>10,026,651</u>	<u>12,800,162</u>	<u>2,773,511</u>	<u>2,773,511</u>
Business-type Activities:	-	-	-	-
Total Business-type Activities	-	-	-	-
Total	<u>\$ 10,026,651</u>	<u>\$ 12,800,162</u>	<u>2,773,511</u>	<u>2,773,511</u>
General Revenues:				
Investment earnings			478,856	478,856
Miscellaneous			580	580
Total general revenues			<u>479,436</u>	<u>479,436</u>
Change in Net Assets			3,252,947	3,252,947
Net Assets - Beginning			<u>41,658,965</u>	<u>41,658,965</u>
Net assets, Ending			<u>\$ 44,911,912</u>	<u>\$ 44,911,912</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 2004.

### **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 prenatally to five years of age. Tax revenues from Proposition 10 amounted to \$12,744,771 for fiscal year 2004 versus \$11,969,363 for 2003 (see Note 4). Expenditures for 2004 for these programs were \$10,005,552 for 2004 versus \$9,906,922 for 2003.

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.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2004**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and investments (Note 2)	\$ -	\$ 46,416,987	\$ 46,416,987
Grants receivable - State	-	1,998,801	1,998,801
Interest receivable	-	8,996	8,996
Prepaid expenses	-	<u>7,261</u>	<u>7,261</u>
<b>Total assets</b>	<u>\$ -</u>	<u>\$ 48,432,045</u>	<u>\$ 48,432,045</u>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 342,315	\$ 342,315
Due to other agencies	-	2,117,861	2,117,861
Unearned grants	-	873,547	873,547
Accrued liabilities	-	<u>117,791</u>	<u>117,791</u>
<b>Total liabilities</b>	<u>-</u>	<u>3,451,514</u>	<u>3,451,514</u>
<b>Fund Balance:</b>			
Reserved for future sustainability	-	30,288,808	30,288,808
Unreserved:			
Undesignated	-	<u>14,691,723</u>	<u>14,691,723</u>
<b>Total fund balance</b>	<u>-</u>	<u>44,980,531</u>	<u>44,980,531</u>
<b>Total liabilities and fund balance</b>	<u>\$ -</u>	<u>\$ 48,432,045</u>	<u>\$ 48,432,045</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2004**

**(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	\$ 44,980,531
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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>(68,619)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 44,911,912</u>
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**See accompanying notes to financial statements**

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Proposition 10 tax revenue	\$ -	\$ 12,744,771	\$ 12,744,771
Interest	-	478,856	478,856
Other grants	-	55,391	55,391
Other income	-	<u>580</u>	<u>580</u>
Total revenue	-	<u>13,279,598</u>	<u>13,279,598</u>
<b>Expenditures:</b>			
Grants	-	8,444,409	8,444,409
Salaries	-	882,473	882,473
Employee benefits	-	347,632	347,632
Professional services	-	137,098	137,098
Other administrative expenses	-	<u>193,940</u>	<u>193,940</u>
Total expenditures	-	<u>10,005,552</u>	<u>10,005,552</u>
Excess of revenues over (under) expenditures	-	3,274,046	3,274,046
Fund balance, beginning	-	<u>41,706,485</u>	<u>41,706,485</u>
Fund balance, June 30, 2004	<u>\$ -</u>	<u>\$ 44,980,531</u>	<u>\$ 44,980,531</u>

**See accompanying notes to financial statements**

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

Net changes in fund balances - total governmental funds	\$ 3,274,046
The change in net assets reported for governmental activities in the statement of activities is different because the changes in compensated absences do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds	<u>(21,099)</u>
Change in net assets of governmental activities (page 8)	<u>\$ 3,252,947</u>

**See accompanying notes to financial statements**

**FIRST 5 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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	Variance With Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Grants	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	-	-	-	-
<b>EXPENDITURES</b>				
Administration	-	-	-	-
Program costs	-	-	-	-
Total Expenditures	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**See accompanying notes to financial statements**



**FIRST 5 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, 2004**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Proposition 10 tax revenue	\$ 12,746,688	\$ 12,798,563	\$ 12,744,771	\$ (53,792)
Interest	-	-	478,856	478,856
Other grants	-	-	55,391	55,391
Other income	-	-	580	580
Total Revenues	<u>12,746,688</u>	<u>12,798,563</u>	<u>13,279,598</u>	<u>481,035</u>
<b>EXPENDITURES</b>				
Administration	1,443,069	1,543,332	1,561,143	(17,811)
Grants	<u>11,140,610</u>	<u>11,504,500</u>	<u>8,444,409</u>	<u>3,060,091</u>
Total Expenditures	<u>12,583,679</u>	<u>13,047,832</u>	<u>10,005,552</u>	<u>3,042,280</u>
Excess of Revenues over (under) Expenditures	163,009	(249,269)	3,274,046	3,523,315
Fund balance - beginning	<u>41,706,485</u>	<u>41,706,485</u>	<u>41,706,485</u>	<u>-</u>
Fund Balance - ending	<u>\$ 41,869,494</u>	<u>\$ 41,457,216</u>	<u>\$ 44,980,531</u>	<u>\$ 3,523,315</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The First 5 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, prenatally 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 2004.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(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 2004.

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 prenatally to five years of age.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

(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.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(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 then 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.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

(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	\$ 15,760	\$ -	\$ 15,760
U.S. Government Securities:			
Treasury Notes	40,913,000	-	40,913,000
Pooled investments with County	<u>-</u>	<u>5,488,227</u>	<u>5,488,227</u>
Total cash and Investments	<u>\$ 40,928,760</u>	<u>\$ 5,488,227</u>	<u>\$ 46,416,987</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.

**FIRST 5 CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**(Continued)**

**Note 3 - GRANTS**

For the fiscal year ending June 30, 2004 the Commission had awarded over \$9,800,000 of various types of program grants to community based organizations, departments of Contra Costa County and individuals. For the fiscal year ended June 30, 2004, the Commission expended \$8,444,409 of the awarded grant amounts.

**Note 4 - 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  
First 5 Contra Costa  
Children & Families Commission  
1340 Arnold Drive, Suite 125  
Martinez, CA 94553

We have audited the basic financial statements of the governmental activities of the First 5 Contra Costa Children & Families Commission as of and for the year ended June 30, 2004, which collectively comprise the First 5 Children and Families Commission basic financial statements and have issued our report thereon dated October 20, 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 First 5 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 First 5 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 over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that



might be material weaknesses a material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Commissioners, management and the First 5 California Children & Families Commission and is not intended to be and should not be used by anyone other than these specified parties.

*William E. Kover, CPA*

October 20, 2004

**SUPPLEMENTARY INFORMATION**

**FIRST FIVE CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
BALANCE SHEET  
SCHOOL READINESS AND RETENTION INCENTIVES GRANTS  
JUNE 30, 2004**

	<u>School Readiness - Program</u>	<u>School Readiness - Implementation</u>	<u>Retention Incentives</u>
<b>ASSETS</b>			
Cash	\$ <u>313,375</u>	\$ <u>102,954</u>	\$ <u>450,110</u>
Total assets	<u>\$ 313,375</u>	<u>\$ 102,954</u>	<u>\$ 450,110</u>
<b>LIABILITIES AND EQUITY</b>			
Liabilities:			
Unearned grants	\$ <u>313,375</u>	\$ <u>102,954</u>	\$ <u>450,110</u>
Total liabilities	<u>313,375</u>	<u>102,954</u>	<u>450,110</u>
Equity:			
Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 313,375</u>	<u>\$ 102,954</u>	<u>\$ 450,110</u>

**The auditors' report and accompanying notes are an integral part of this statement.**

**FIRST FIVE CONTRA COSTA  
CHILDREN & FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
SCHOOL READINESS AND RETENTION INCENTIVES PROGRAMS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>School Readiness - Program</u>	<u>School Readiness - Implementation</u>	<u>Retention Incentives</u>
<b>Revenues:</b>			
State Commission	\$ 494,297	\$ 294,397	\$ 523,500
Total revenues	<u>494,297</u>	<u>294,397</u>	<u>523,500</u>
<b>Expenditures:</b>			
Project costs	<u>494,297</u>	<u>294,397</u>	<u>523,500</u>
Total expenditures	<u>494,297</u>	<u>294,397</u>	<u>523,500</u>
Excess of revenues over expenditures	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**The auditors' report and accompanying notes are an integral part of this statement.**