

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
FINANCIAL REPORT
JUNE 30, 2005**

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430 Verbena Court
Pleasant Hill, CA 94523

(925) 229-1950
Fax (925) 229-1952
wroweassoc@aol.com

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

Board of Commissioners
First 5 Contra Costa
Children and 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 and Families Commission as of June 30, 2005 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 and 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* (2004 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 and Families Commission as of June 30, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government auditing Standards*, we have also issued our report dated November 1, 2005, on our consideration of the First 5 Children and Families Commission's internal control over financial reporting and on 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 9 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 and Families Commission basic financial statements. The accompanying supplementary schedules are presented for purposes of additional analysis as required by the First 5 California Children and 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. Rowe, CPA

November 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements for the fiscal year 2005 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 2005 FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2005 the Commission completed its sixth 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 \$8,000,000 of new grant contracts were awarded to subgrantee agencies and individuals during fiscal year 2005.

Financial highlights of the year include the following:

- The Commission's restated net assets (see Note 4) increased from \$44,617,426 for fiscal year 2004 to \$48,707,671 for fiscal year 2005.
- Total commission revenues, which includes Proposition 10 grants, other foundation grants, and interest, for fiscal year 2005 were \$14,408,057, an increase of \$1,422,945 from the prior year's amount of \$12,985,112. Total expenses for 2005 were \$10,317,812, an increase of \$291,161 from the prior year's balance of \$10,026,651.

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 2005.

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 \$44,617,426 in 2004 to \$48,707,671 in 2005. 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 \$1,112,231, 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 at June 30, 2005 were \$2,360,879. These receivable amounts are due from the State for Proposition 10 tax revenues collected for 2005 and not remitted to the Commission prior to June 30, 2005.
- Expenses of the Commission increased \$291,161.

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.

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
COMPARATIVE STATEMENT OF NET ASSETS
JUNE 30, 2005**

GOVERNMENTAL ACTIVITIES

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current and Other Assets	<u>\$ 50,976,510</u>	<u>\$ 48,432,045</u>
Total Assets	<u>\$ 50,976,510</u>	<u>\$ 48,432,045</u>
<u>Liabilities</u>		
Current and Other Liabilities	<u>\$ 2,268,839</u>	<u>\$ 3,814,619</u>
Total Liabilities	<u>2,268,839</u>	<u>3,814,619</u>
<u>Net Assets</u>		
Invested in Capital Assets, net of related debt	617,808	-
Restricted Net Assets	31,355,000	30,288,808
Unrestricted Net Assets	<u>16,734,863</u>	<u>14,328,618</u>
Total Net Assets	<u>\$ 48,707,671</u>	<u>\$ 44,617,426</u>

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
COMPARATIVE STATEMENT OF ACTIVITIES
JUNE 30, 2005**

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2005</u>	<u>2004</u>
<u>Revenues</u>		
Prop 10 tax revenues (Note 4)	\$ 13,352,295	\$ 12,450,285
Interest	1,052,158	478,856
Other grants	3,181	55,391
Other	<u>423</u>	<u>580</u>
Total Revenues	<u>14,408,057</u>	<u>12,985,112</u>
<u>Expenditures</u>		
Grants	8,706,818	8,444,409
Salaries	966,152	903,572
Employee benefits	377,403	347,632
Professional services	117,131	137,098
Other administrative expenses	<u>150,308</u>	<u>193,940</u>
Total Expenditures	<u>10,317,812</u>	<u>10,026,651</u>
Excess of revenues over (Under) expenditures	4,090,245	2,958,461
Fund balance, beginning of year	<u>44,617,426</u>	<u>41,658,965</u>
Net Assets, End of Year	<u>\$ 48,707,671</u>	<u>\$ 44,617,426</u>

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
BUDGET TO ACTUAL COMPARISON
JUNE 30, 2005**

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>Favorable (Unfavorable) Variance</u>
<u>Revenues</u>			
Proposition 10 tax revenues	\$ 12,284,714	\$ 13,352,295	\$ 1,067,581
Interest	773,100	1,052,158	279,058
Other grants	-	3,181	3,181
Other income	-	423	423
	<u>13,057,814</u>	<u>14,408,057</u>	<u>1,350,243</u>
<u>Expenditures</u>			
Grants	9,683,329	8,706,818	976,511
Salaries	880,114	966,152	(86,038)
Employee benefits	392,328	377,403	14,925
Professional services	190,000	117,131	72,869
Other administrative expenses	214,754	150,308	64,446
	<u>11,360,525</u>	<u>10,317,812</u>	<u>1,042,713</u>
Excess of revenues over (Under) expenditures	<u>\$ 1,697,289</u>	<u>\$ 4,090,245</u>	<u>\$ 2,392,956</u>

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 2005 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 AND FAMILIES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments (Note 2)	\$ 47,529,218	\$ -	\$ 47,529,218
Grants receivable	2,360,879	-	2,360,879
Accounts receivable	12,263	-	12,263
Note receivable	400,000	-	400,000
Interest receivable	40,561	-	40,561
Prepaid expenses	15,781	-	15,781
Capital assets			
Land	245,430	-	245,430
Building and improvements	<u>372,378</u>	<u>-</u>	<u>372,378</u>
 Total assets	 <u>\$ 50,976,510</u>	 <u>\$ -</u>	 <u>\$ 50,976,510</u>
LIABILITIES			
Accounts payable	\$ 103,754	\$ -	\$ 103,754
Due to other agencies	1,972,677	-	1,972,677
Accrued compensated absences	73,345	-	73,345
Accrued liabilities	<u>119,063</u>	<u>-</u>	<u>119,063</u>
 Total liabilities	 <u>2,268,839</u>	 <u>-</u>	 <u>2,268,839</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>617,808</u>	<u>-</u>	<u>617,808</u>
Restricted for sustainability	<u>31,355,000</u>	<u>-</u>	<u>31,355,000</u>
Total restricted net assets	<u>31,355,000</u>	<u>-</u>	<u>31,355,000</u>
Unrestricted:			
Other unrestricted net assets	<u>16,734,863</u>	<u>-</u>	<u>16,734,863</u>
Total unrestricted net assets	<u>16,734,863</u>	<u>-</u>	<u>16,734,863</u>
 Total net assets	 <u>\$ 48,707,671</u>	 <u>\$ -</u>	 <u>\$ 48,707,671</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Program Revenues</u>	<u>Net Revenue and Changes to Net Assets</u>	
Governmental Activities:	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
<u>Expenses</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Total	Total	Total	Total
Governmental Activities:			
First 5 programs	\$ 10,317,812	\$ 3,037,664	\$ -
Total governmental activities	<u>10,317,812</u>	<u>3,037,664</u>	<u>-</u>
Business-type Activities:			
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 10,317,812</u>	<u>\$ 3,037,664</u>	<u>\$ 3,037,664</u>
General Revenues:			
Investment earnings		1,052,158	1,052,158
Miscellaneous		423	423
Total general revenues		<u>1,052,581</u>	<u>1,052,581</u>
Change in net assets		<u>4,090,245</u>	<u>4,090,245</u>
Net assets - beginning, as previously stated		44,911,912	44,911,912
Prior period adjustment (Note 4)		(294,486)	(294,486)
Net assets - beginning, as restated		<u>44,617,426</u>	<u>44,617,426</u>
Net assets, ending		<u>\$ 48,707,671</u>	<u>\$ 48,707,671</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 2005.

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 \$13,352,295 for fiscal year 2005 versus \$12,450,285 for 2004. Expenditures for 2005 for these programs were \$10,930,894 for 2005 versus \$10,005,552 for 2004.

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 AND FAMILIES COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments (Note 2)	\$ -	\$ 47,529,218	\$ 47,529,218
Accounts receivable	-	12,263	12,263
Grants receivable	-	2,360,879	2,360,879
Notes receivable	-	400,000	400,000
Interest receivable	-	40,561	40,561
Prepaid expenses	-	15,781	15,781
	<u>-</u>	<u>15,781</u>	<u>15,781</u>
Total assets	<u>\$ -</u>	<u>\$ 50,358,702</u>	<u>\$ 50,358,702</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable	\$ -	\$ 103,754	\$ 103,754
Due to other agencies	-	1,972,677	1,972,677
Accrued liabilities	-	119,063	119,063
	<u>-</u>	<u>119,063</u>	<u>119,063</u>
Total liabilities	<u>-</u>	<u>2,195,494</u>	<u>2,195,494</u>
FUND BALANCE:			
Reserved for future sustainability	-	31,355,000	31,355,000
Unreserved:			
Undesignated	-	16,808,208	16,808,208
	<u>-</u>	<u>16,808,208</u>	<u>16,808,208</u>
Total fund balance	<u>-</u>	<u>48,163,208</u>	<u>48,163,208</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 50,358,702</u>	<u>\$ 50,358,702</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005**

(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 reported on the governmental funds balance sheet	\$ 48,163,208
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets and therefore are not reported in the governmental Funds.	617,808
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>(73,345)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 48,707,671</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
Revenues			
Proposition 10 tax revenue	\$ -	\$ 13,352,295	\$ 13,352,295
Interest	-	1,052,158	1,052,158
Other grants	-	3,181	3,181
Other income	-	423	423
	<u>-</u>	<u>14,408,057</u>	<u>14,408,057</u>
Total revenue			
Expenditures			
Grants (Note 3)	-	8,706,818	8,706,818
Salaries	-	961,426	961,426
Employee benefits	-	377,403	377,403
Professional services	-	117,131	117,131
Other administrative expenses	-	150,308	150,308
Capital outlay	-	617,808	617,808
	<u>-</u>	<u>10,930,894</u>	<u>10,930,894</u>
Total expenditures			
Net change in fund balance	<u>-</u>	<u>3,477,163</u>	<u>3,477,163</u>
Fund balance, beginning, as previously stated	-	44,980,531	44,980,531
Prior period adjustment (Note 4)	<u>-</u>	<u>(294,486)</u>	<u>(294,486)</u>
Fund balance, beginning, as restated	<u>-</u>	<u>44,686,045</u>	<u>44,686,045</u>
Net assets, June 30, 2005	<u>\$ -</u>	<u>\$ 48,163,208</u>	<u>\$ 48,163,208</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
CHILDREN AND 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, 2005**

Net changes in fund balances - total governmental funds \$ 3,477,163

CAPITAL ASSET TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, on the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives.

The capital outlay are therefore added back to fund balance 617,808

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

(4,726)

Change in net assets of governmental activities (page 12) \$ 4,090,245

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
 CHILDREN AND FAMILIES COMMISSION
 GENERAL FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Grants	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	-	-	-	-
EXPENDITURES				
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 AND FAMILIES COMMISSION
FIRST 5 FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget Favorable <u>(Unfavorable)</u>
REVENUES				
Proposition 10 tax revenue	\$ 12,170,275	\$ 12,284,714	\$ 13,352,295	\$ 1,067,581
Interest	623,669	773,100	1,052,158	279,058
Other grants	-	-	3,181	3,181
Other income	-	-	<u>423</u>	<u>423</u>
Total Revenues	<u>12,793,944</u>	<u>13,057,814</u>	<u>14,408,057</u>	<u>1,350,243</u>
EXPENDITURES				
Administration	1,707,196	1,677,196	2,224,076	(546,880)
Grants	<u>9,340,963</u>	<u>9,683,329</u>	<u>8,706,818</u>	<u>976,511</u>
Total Expenditures	<u>11,048,159</u>	<u>11,360,525</u>	<u>10,930,894</u>	<u>429,631</u>
Excess of Revenues over (under) Expenditures	1,745,785	1,697,289	3,477,163	1,779,874
Fund balance - beginning, as restated	<u>44,686,045</u>	<u>44,686,045</u>	<u>44,686,045</u>	<u>-</u>
Fund Balance - ending	<u>\$ 46,431,830</u>	<u>\$ 46,383,334</u>	<u>\$ 48,163,208</u>	<u>\$ 1,779,874</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The First 5 Contra Costa Children and 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 2005.

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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 2005.

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 AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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 AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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 majority of cash and investments of the Commission is 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 certificates of deposit are included in this category.

**FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(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	\$ 20,100	\$ -	\$ 20,100
U.S. Government Securities:			
Treasury Notes	45,840,727	-	45,840,727
Pooled investments with County	<u>-</u>	<u>1,668,391</u>	<u>1,668,391</u>
Total cash and Investments	<u>\$ 45,860,827</u>	<u>\$ 1,668,391</u>	<u>\$ 47,529,218</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 AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005
(Continued)**

Note 3 - GRANTS

For the fiscal year ending June 30, 2005 the Commission awarded \$9,865,030 of various types of program grants to community based organizations, departments of Contra Costa County and individuals. For the fiscal year ended June 30, 2005, the Commission expended \$8,706,818 of the awarded grant amounts.

The grant expenditures of \$8,706,818 were classified as follows by the Commission:

Grants with other agencies	\$ 7,137,813
Stipends	248,250
In-house grant expenditures	<u>1,320,755</u>
Total	<u>\$ 8,706,818</u>

Note 4 - PRIOR PERIOD ADJUSTMENT

For the fiscal year ended June 30, 2004 the Commission originally reported \$12,744,771 of grant revenues. Of this amount \$294,486 had not actually been earned as of June 30, 2004. Therefore, the correct amount of grant revenues for the 2004 fiscal year should have been recorded as \$12,450,285. The \$294,486 of grant revenues were earned and correctly recorded as revenues for the fiscal year ended June 30, 2005.

Note 5 - LEASE COMMITMENT

On April 1, 2005 the Commission entered into a lease agreement for its central offices. The lease agreement expires on March 31, 2008. Total rental expense for the year ended June 30, 2005 for the Commission's office space was \$48,053.

At June 30, 2005, the future minimum rental payments required under the current lease for the Commission's central office space are as follows:

<u>Fiscal Year Ending June 30</u>	
2006	\$ 66,639
2007	70,372
2008	<u>54,879</u>
Total	<u>\$ 191,890</u>

Note 6 - SUPPLANT REQUIREMENT

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

430 Verbena Court
Pleasant Hill, CA 94523

(925) 229-1950
Fax (925) 229-1952
wroweassoc@aol.com

**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 and 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 and Families Commission as of and for the year ended June 30, 2005, which collectively comprise the First 5 Children and Families Commission basic financial statements and have issued our report thereon dated November 1, 2005. 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 and Families Commission's 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 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. However, we noted certain matters involving the

internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the First 5 Contra Costa Children and Families Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the accompanying schedule of findings and recommendations.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the accompanying schedule of findings and recommendations are considered to be material weaknesses.

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

William E. Rowley CPA

November 1, 2005

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005**

FINDING

Upon commencing the fieldwork for the audit of the Commission for the year ended June 30, 2005 we found that the accounting records and supporting documentation were not in an acceptable condition for audit. Significant effort was required by various management and other Commission personnel to analyze the accuracy of the account balances and to prepare required supporting schedules and documentation needed for the audit. During this process of account analysis it was discovered that several adjustments and reclassifying entries were required to correct the books of accounts.

CAUSE

It appears that there were various reasons as to why the accounting records and supporting documentation were not completely ready to be audited. These reasons are as follows:

- a. All of the employees responsible for preparing and maintaining various records and documentation were not consulted with before the audit commencement date. Therefore, all needed schedules and documentation for the audit were not prepared and organized.
- b. Other schedules and reconciliations needed for an adequate system of internal controls weren't prepared until after the commencement of the audit. In order for there to be a sufficient system of checks and balances several of these schedules and reconciliations should have been prepared or performed on a monthly basis throughout the fiscal year.
- c. It appears there was insufficient communication and cooperation between the fiscal department and various other departments within the Commission as to what documentation should be prepared and maintained and what reconciliations were required. This lack of communication and cooperation also appears to have caused there to be significant duplication of effort in the preparation of certain required documents and other needed analysis and documentation not being prepared at all. For example it appears that significant time consuming duplicate systems are being maintained by the fiscal department and grants management department for the amounts awarded and expended on the Commission's contracts with its grantee agencies. The data provided by these separate systems were never periodically reconciled to determine if the information was accurate nor was it determined if there was an unnecessary duplication of effort being made.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
FINDINGS AND RECOMMENDATIONS**

JUNE 30, 2005

(Continued)

- d. Beginning July 1, 2004 the Commission began utilizing a new accounting software system. In our discussions with the various department managers and the fiscal department's manager it appears that the various department's staff feel that they aren't receiving needed information from the Commission's accounting system. However, the fiscal manager indicated that he felt that all needed information is being or can be produced if requested by the other departments' managers or staff.

EFFECT

The effect of the above noted items is as follows:

- a. Numerous adjustments and reclassifications were required to correct various line item account balances.
- b. Excessive duplication of work was performed by other departments due to the lack of cooperation and the other department's lack of reliance on the information produced by the Commission's accounting records.
- c. The Commission mistakenly remitted \$328,753 of earned Comprehensive Approaches to Raising Educational Services Program funds to the First 5 California Children and Families Commission.
- d. The required prior period adjustment of \$294,486 previously described in Footnote 4 to the financial statements.

RECOMMENDATION

We recommend that the Commission review its system of internal controls as it relates to communication and on-going working relationships between fiscal and program staff to ensure periodic reconciliations of the various program expenses, line item accounts, and grantee contracts and the amounts expended on these contracts.

We also recommend that staff from each of the Commission's departments meet with the fiscal manager. During these meetings discussions should be held as to the procedures being performed by the various departments to ensure that there is no unnecessary duplication of effort being made. At these meetings the departmental staff should also express their needs from the fiscal department. The fiscal department's personnel should then determine how to best provide guidance and also provide the needed information.

**FIRST FIVE CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2005
(Continued)**

CONCLUSION

It appears that the majority of the problems noted during the performance of our audit was the result of lack of communication and cooperation between the fiscal department and various other departments within the Commission. In order for the problems noted in the audit to be resolved and not be duplicated in the future better communication and cooperation is needed between the various departments and the fiscal department.

COMMISSION'S RESPONSE

The Executive Committee, on behalf of the Commission, accepts the finding stated in the report and will take the necessary steps to address the issues.

SUPPLEMENTARY INFORMATION

**FIRST FIVE CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
BALANCE SHEET
SCHOOL READINESS AND RETENTION INCENTIVES GRANTS
JUNE 30, 2005**

	<u>School Readiness - Program</u>	<u>School Readiness - Implementation</u>	<u>Retention Incentives</u>
ASSETS			
Cash	\$ 223,118	\$ -	\$ -
Grants receivable	<u>-</u>	<u>-</u>	<u>328,753</u>
Total assets	<u>\$ 223,118</u>	<u>\$ -</u>	<u>\$ 328,753</u>
LIABILITIES AND EQUITY			
Liabilities:			
Unearned grants	\$ 223,118	\$ -	\$ -
Total liabilities	<u>223,118</u>	<u>-</u>	<u>-</u>
Equity:			
Fund Balance	<u>-</u>	<u>-</u>	<u>328,753</u>
Total liabilities and fund balance	<u>\$ 223,118</u>	<u>\$ -</u>	<u>\$ 328,753</u>

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

**FIRST FIVE CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
SCHOOL READINESS AND RETENTION INCENTIVES PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>School Readiness - Program</u>	<u>School Readiness - Implementation</u>	<u>Retention Incentives</u>
Revenues:			
State Commission	\$ <u>809,366</u>	\$ <u>102,953</u>	\$ <u>260,581</u>
Total revenues	<u>809,366</u>	<u>103,953</u>	<u>260,581</u>
Expenditures:			
Project costs	<u>809,366</u>	<u>102,953</u>	<u>260,581</u>
Total expenditures	<u>809,366</u>	<u>102,953</u>	<u>260,581</u>
Excess of revenues over expenditures	-	-	-
Funds erroneously remitted to the state	-	-	328,753
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,753</u>

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