

**SAN LUIS OBISPO COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2005**

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Financial Statements
For the Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</u>
Commission Membership	i
<u>Financial Section</u>	
Independent Auditor's Report.....	1-2
Statement of Net Assets and Governmental Fund Balance Sheet	3
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances	4
Notes to Financial Statements.....	5-10
<u>Required Supplementary Information</u>	
Budgetary Comparison Schedule – General Fund.....	11
Notes to the Required Supplementary Information	12
<u>Supplementary Information</u>	
Schedule of Expenditures by Fund Source and Net Assets of CCFC Funds for First 5 Programs.....	13
<u>Other Report</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the California Children and Families First Act of 1998	14-15

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Commission Membership

<u>Name</u>	<u>Position</u>	<u>Organization Representative</u>	<u>Current Term Expires</u>
K.H. "Katcho" Achadjian	Chairperson	Supervisor, 4 th District Board of Supervisors	07/05
Elizabeth Steinberg	Vice-Chairperson	Child Care Planning Council	07/07
Julian Crocker		County Superintendent of Schools	07/05
René Bravo		San Luis Obispo Medical Society	07/07
Joel Diringer		Representative at large	07/07
Kathy Long		Representative at large	07/07
Don Dennison		Children's Services Network	07/07
Lee Collins		Director, Department of Social Services, County of San Luis Obispo	07/05
Gregory Thomas		Health Officer, Health Agency Director, Health Agency, County of San Luis Obispo	07/05

FINANCIAL SECTION

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
San Luis Obispo County Children and Families Commission
San Luis Obispo, California

We have audited the accompanying basic financial statements of San Luis Obispo County Children and Families Commission (Commission), as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2005, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Commission has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Board of Commissioners
San Luis Obispo County Children and Families Commission
San Luis Obispo, California

The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund as listed in the table of contents 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 inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of San Luis Obispo County Children and Families Commission taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis 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.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig Basler & Ray, CPAs, Inc.

September 19, 2005
Roseville, CA

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2005

	General Fund	Adjustments	Statement of Net Assets
<u>ASSETS</u>			
Cash in county treasury	\$ 6,435,424	\$ --	\$ 6,435,424
Due from other agencies	510,311	--	510,311
Total Assets	<u>\$ 6,945,735</u>	--	6,945,735
<u>LIABILITIES</u>			
Accounts payable	\$ 539,593	--	539,593
Total Liabilities	539,593	--	539,593
<u>FUND BALANCE/NET ASSETS</u>			
Fund Balances:			
Committed funds:			
Reserved for encumbrances	5,279,062	(5,279,062)	--
Total Committed Funds	5,279,062	(5,279,062)	--
Uncommitted funds	1,127,080	(1,127,080)	--
Total Fund Balances	6,406,142	(6,406,142)	--
Total Liabilities and Fund Balances	<u>\$ 6,945,735</u>		
Net Assets:			
Restricted		6,406,142	6,406,142
Total Net Assets		<u>\$ 6,406,142</u>	<u>\$ 6,406,142</u>

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Statement of Activities and
Governmental Fund Revenues, Expenditures and
Changes in Fund Balances
For the Year Ended June 30, 2005

	General Fund	Adjustments	Statement of Activities
<u>PROGRAM EXPENDITURES/EXPENSES</u>			
Current:			
Health & sanitation:			
Services and supplies	\$ 355,372	\$ --	\$ 355,372
Rent and utilities	11,718	--	11,718
SR-Georgia Brown program expenditures	96,427	--	96,427
SR-Oceano program expenditures	292,790	--	292,790
Retention incentive expenditures	65,027	--	65,027
Raising a Reader expenditures	11,923	--	11,923
Other program expenditures	2,426,508	--	2,426,508
Total Expenditures/Expenses	3,259,765	--	3,259,765
 <u>PROGRAM REVENUES</u>			
Operating grants and contributions:			
Proposition 10 apportionment	2,123,733	--	2,123,733
Proposition 10 school readiness	60,106	--	60,106
Proposition 10 retention incentive	134,168	--	134,168
Proposition 10 surplus money investment fund	45,372	--	45,372
Other revenue	17,666	--	17,666
Total Program Revenues	2,381,045	--	2,381,045
Net Program Revenue (Expense)			(878,720)
 <u>GENERAL REVENUES</u>			
Interest income	135,254	--	135,254
Excess of Revenues Over Expenditures	(743,466)	743,466	--
Change in Net Assets	--	(743,466)	(743,466)
 <u>FUND BALANCE/NET ASSETS</u>			
Beginning of Year	7,149,608	--	7,149,608
End of Year	\$ 6,406,142	\$ --	\$ 6,406,142

The accompanying notes are an integral part of these financial statements.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 1: **Summary of Significant Accounting Policies**

A. Reporting Entity

The San Luis Obispo County Children and Families Commission (County Commission) was established on December 15, 1998 pursuant to Health and Safety Code §130140. The County Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by San Luis Obispo County Ordinances 2846, 2868, and 2886. The San Luis Obispo County Board of Supervisors appoints the nine members of the County Commission.

The County Commission is responsible for the creation and implementation of a comprehensive, collaborative, and integrated system of information and services to enhance early childhood development.

The County Commission includes all activities (operations of its administrative staff and commission officers) considered to be a part of the County Commission. The Commission reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No. 14, relating to the financial reporting entity to determine whether the County Commission is financially accountable for other entities. The County Commission has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the County Commission is not aware of any entity that would be financially accountable for the Commission that would result in the County Commission being considered a component unit of that entity.

The financial statements included in this report are intended to present the financial position and results of operations of only the Commission. They are not intended to present the financial position and results of operations of the County of San Luis Obispo taken as a whole.

B. Basis of Presentation and Accounting

In this report, the government-wide statements and the fund statements for the Commission are presented on the same page with the adjustments column showing the differences.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

B. **Basis of Presentation and Accounting** (continued)

Government-Wide Statements

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

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

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

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

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

Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) value in exchange, include sales taxes, grants, entitlements and donations. On a modified accrual basis, revenues from sales taxes are recognized when the underlying transactions take place and have met the

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

B. **Basis of Presentation and Accounting** (continued)

Fund Financial Statements (continued)

availability criteria. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Commission reports the following major governmental fund:

- The General Fund is the Commission's primary operating fund. It accounts for all financial resources of the general government.

C. **Implementation of Governmental Accounting Standards Board Statement**

On July 1, 2004, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosure – an Amendment of GASB Statement No. 3*. The Statement modifies the custodial credit risk disclosures required by Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and addresses deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Accordingly, the cash and investments disclosure has been revised to conform to the provisions of GASB Statement No. 40.

D. **Due from Other Agencies**

This amount represents receivables from other local governments. As of June 30, 2005, the Commission was due \$510,311 from the State of California. Management has determined the Commission's receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

E. **Net Assets/Fund Balances**

Net Assets

The government-wide activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The Commission only has restricted funds.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 1: **Summary of Significant Accounting Policies** (continued)

E. **Net Assets/Fund Balances** (continued)

Fund Balances

Reservations of fund balances are used to indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. The First 5 Association of California requires that fund balance be reported as either committed funds or uncommitted funds. Committed funds represent the portion of the fund balance that has been set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget, or financial forecast formally approved by the County Commission. Uncommitted funds represent the remainder of the fund balance.

Specific reservations of the fund balance accounts are summarized below:

Committed funds:

Reserved for Encumbrances was created to reflect outstanding contractual obligations for which goods and services have not been received.

Reserved for approved contracts not yet executed represents situations where the Commission has explicitly authorized and directed staff to enter into an agreement with a specified agency, but the contract has not actually been executed.

F. **Insurance and Risk of Loss**

The Commission is exposed to various risks of loss related to general liability and workers' compensation. The Commission is covered by various commercial insurance policies and does not participate in a public entity risk pool.

G. **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 2: **Cash**

Cash at June 30, 2005 consisted of the following:

	<u>2005</u>
Cash in County Treasury	<u>\$ 6,435,424</u>

The Commission maintains all of its cash and investments with the San Luis Obispo County Treasurer in an investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of San Luis Obispo's financial statements may be obtained by contacting the County of San Luis Obispo Auditor-Controller's office at County Government Center, Room 300, San Luis Obispo, CA 93408. The San Luis Obispo County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Government Accounting Standards Board Statement No. 40, effective for fiscal years ending June 30, 2005, requires additional disclosures about a government's deposit and investment risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Commission has no deposit or investment policy that addresses a specific type of risk.

Required disclosures for the Commission's deposit and investment risks at June 30, 2005, were as follows:

Credit risk	Not rated
Custodial risk	N/A
Concentration of credit risk	N/A
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

Note 3: **Related Party Transactions**

During the fiscal year ended June 30, 2005, the Commission paid the County of San Luis Obispo, a related party, \$303,927 for accounting, legal and administrative services.

Note 4: **Section 30131.4 of the California Tax & Revenue Code Certification**

The Commission has certified that the supplant requirement stated in Section 30131.4 of the California Tax & Revenue Code has been met.

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to Financial Statements
June 30, 2005

Note 5: **Policy on Use of Funds**

The Commission has adopted the policy to use the state funds that it receives for the School Readiness and Retention Incentive Program first before using the Commission match funds.

REQUIRED SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual Amount	Variance With Final Budget Positive (Negative)
<u>REVENUES</u>				
Proposition 10 - tobacco tax	\$ 4,203,867	\$ 4,203,867	\$ 2,363,379	\$ (1,840,488)
Other revenue	7,935	7,935	17,666	9,731
Interest income	--	--	135,254	135,254
	<u>4,211,802</u>	<u>4,211,802</u>	<u>2,516,299</u>	<u>(1,695,503)</u>
<u>EXPENDITURES</u>				
Current:				
Health & sanitation:				
Services and supplies	373,317	373,317	355,372	17,945
Rent and utilities	12,500	12,500	11,718	782
SR-Georgia Brown program expenditures	--	--	96,427	(96,427)
SR-Occano program expenditures	--	--	292,790	(292,790)
Retention incentive expenditures	--	--	65,027	(65,027)
Raising a Reader expenditures	--	--	11,923	(11,923)
Other program expenditures	6,268,204	6,268,204	2,426,508	3,841,696
	<u>6,654,021</u>	<u>6,654,021</u>	<u>3,259,765</u>	<u>3,394,256</u>
Total Charges to Appropriations	<u>6,654,021</u>	<u>6,654,021</u>	<u>3,259,765</u>	<u>3,394,256</u>
Net Change in Fund Balance	(2,442,219)	(2,442,219)	(743,466)	(5,089,759)
Fund Balance - Beginning of Year	<u>7,149,608</u>	<u>7,149,608</u>	<u>7,149,608</u>	<u>--</u>
Fund Balance - End of Year	<u>\$ 4,707,389</u>	<u>\$ 4,707,389</u>	<u>\$ 6,406,142</u>	<u>\$ (5,089,759)</u>

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

BUDGET AND BUDGETARY ACCOUNTING

The Commission prepares and legally adopts a final budget on or before June 30th of each fiscal year. The Commission operation, commencing July 1st, is governed by the proposed budget, adopted by the Board of Commissioners in June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, and capital outlay.

The budget is adopted on a basis consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

SAN LUIS OBISPO COUNTY CHILDREN AND FAMILIES COMMISSION

Schedule of Expenditures by Fund Source and
Net Assets of CCFC Funds for First 5 Programs
For the Year Ended June 30, 2005

	<u>School Readiness Program</u>		<u>CARES</u>	
	<u>CCFC Program Funds</u>	<u>County and Other Local Funds</u>	<u>CCFC Program Funds</u>	<u>County Commission Funds</u>
<u>REVENUES</u>				
CCFC funds	<u>60,106</u>		<u>134,168</u>	
Total Revenues	<u>60,106</u>		<u>134,168</u>	
<u>EXPENDITURES</u>				
Expenditures	96,427	--	65,027	130,054
Raising a Reader and Oceano	--	304,713	--	--
Land donation	--	<u>1,000,000</u>	--	--
Total Expenditures	<u>96,427</u>	<u>1,304,713</u>	<u>65,027</u>	<u>130,054</u>
Change in Net Assets	(36,321)		69,141	
Net Assets - Beginning of Year	<u>73,602</u>		<u>--</u>	
Net Assets - End of Year	<u>\$ 37,281</u>		<u>\$ 69,141</u>	

OTHER REPORT

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trybala
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE CALIFORNIA CHILDREN AND FAMILIES FIRST ACT OF 1998

Board of Commissioners
San Luis Obispo County Children and Families Commission
San Luis Obispo, California

We have audited the financial statements of the San Luis Obispo County Children and Families Commission as of and for the year ended June 30, 2005, and have issued our report thereon dated September 19, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the San Luis Obispo County Children and Families Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the San Luis Obispo County 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and the California Children and Families First Act of 1998.

Board of Commissioners
San Luis Obispo County Children and Families Commission
San Luis Obispo, California

This report is intended for the information of the Board of Commissioners and the management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

September 19, 2005
Roseville, California