

FIRST FIVE SAN FRANCISCO (CHILDREN AND FAMILIES COMMISSION):

Financial Statements Audit
July 1, 2004, Through
June 30, 2005

FINANCIAL AUDITS



Audit Number 05017
September 21, 2005



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
AUDITS DIVISION**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

September 21, 2005

Audit Number 05017

Chairperson and Members
First Five San Francisco
1390 Market Street, Suite 318
San Francisco, CA 94102

Chairperson and Members:

The Office of the Controller presents its financial audit report of financial statements of First Five San Francisco, also known as the San Francisco Children and Families Commission (Commission), of the City and County of San Francisco for the fiscal year ended June 30, 2005. The balance sheet and the statements of revenues, expenditures, and changes in fund balance present the financial position and the results of the Commission's operations for the audit period.

We found that the statements present fairly, in all material respects, the financial position of the Commission for the audit period and the results of its operations in conformity with generally accepted accounting principles. In addition, the Commission complied with the laws and regulations of the California Children and Families First Act.

Respectfully submitted,

Original signed by:
Noriaki Hirasuna
Director



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
AUDITS DIVISION**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

INDEPENDENT AUDITOR'S REPORT

First Five San Francisco
City and County of San Francisco

We have audited the accompanying financial statements of First Five San Francisco, also known as the San Francisco Children and Families Commission (Commission), of the City and County of San Francisco, California, as of and for the year ended June 30, 2005. These financial statements are the responsibility of the 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 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.

As discussed in Note 1, the financial statements of the Commission are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the City and County of San Francisco, California, that is attributable to the transactions of the Commission.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission of the City and County of San Francisco, California, 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 a report dated September 21, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

In connection with this audit, there are certain disclosures that need to be made in relation to *Government Auditing Standards (2003 Revision)*, by the United States Government Accountability Office (GAO). According to the new standards, auditors and audit organizations have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities in themselves, may lead to a situation that would violate provisions in the amendment pertaining to auditor independence. Specifically, an organizational impairment to independence may exist since Auditor-Controllers provide both audit and nonaudit services, and under the new GAO standards, it is not generally appropriate for an audit organization to perform both audit and selected nonaudit services for the same client.

The Controller is the Auditor-Controller for the City and County of San Francisco, and personnel in different divisions carry out the functions of auditing, accounting, and financial reporting. These functions are necessarily separate and discrete tasks independently performed by personnel within their respective divisions; however, they ultimately report to the Controller who is the organizational head of the agency. We believe that the following safeguards and division of responsibility exist that would enable the reader of this report to rely on the information contained herein:

- The Audits Division is not responsible for the input or reconciliation of any financial transactions.
- The Audits Division is subjected to an independent peer review every three years.

Nevertheless, the reader of this report is to consider the above disclosure a qualification of scope that may have an effect on this report.

This report is intended solely for the information and use of the Commission's board, Commission's management, others within the organization, the Board of Supervisors, and First Five California and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:
Noriaki Hirasuna, CPA

San Francisco, California
September 21, 2005

FIRST FIVE SAN FRANCISCO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of First Five San Francisco, also known as the Children and Families Commission (Commission), are prepared in accordance with generally accepted accounting principles (GAAP). The accounting and reporting framework and the more significant accounting principles and practices are described in subsequent sections of this Note. The remainder of the Notes is organized to provide explanations, including required disclosures, of the Commission's financial activities for the fiscal year ended June 30, 2005.

(a) Financial Reporting Entity

Under the authority of the California Children and Families First Act of 1998 and the California Health and Safety Code §130100 et seq., the San Francisco Children and Families Commission was established by ordinance in December 1998 and first convened in May 1999. The purpose of the Commission is to promote, support and improve the early development of children from the prenatal stage to five years of age and to carry out the provisions of the California Children and Families First Act. The Commission adopted a Strategic Plan for the support and improvement of early childhood development within the City and County of San Francisco (City) and submitted this plan to the California Children and Families Commission, as required by law, in June 2000. The Commission operates under a memorandum of understanding with the San Francisco Department of Children, Youth and their Families (DCYF), which sets forth the rental allocation and human resource charges, as well as shared resources, to the Commission.

(b) Basis of Presentation - Fund Accounting

The financial transactions of the Commission are accounted for in a special revenue fund within the City's basic financial statements, since revenue received by the Commission is legally restricted to specific use. Moneys allocated and awarded to the Commission can be expended only for purposes authorized by the California Children and Families First Act and in accordance with the Commission's Strategic Plan.

(c) Basis of Accounting

The Commission uses the modified accrual basis of accounting for its fund. Under this basis of accounting, revenues are recorded when susceptible to accrual (i.e. measurable and available). Measurable means the amount of the transaction can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered to be available if they are

FIRST FIVE SAN FRANCISCO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

generally collected within 120 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred.

(d) Budgetary Control and Encumbrances

The Commission adopts an annual budget on a modified accrual basis of accounting. The budget is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes the services and activities to be provided during the fiscal year, the estimated resources and amounts available for appropriation, and the estimated charges to appropriations. The budget represents a process through which policy decisions are made, implemented and controlled. The City Charter prohibits expending funds for which there is no legal appropriation. Appropriations may be adjusted during the year with the approval of the Mayor and Board of the Supervisors. The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this system, the current year expenditures and encumbrances (reserved portions of apportionments for which commitments have been made), are charged against the budgeted appropriation. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures as they do not constitute expenditures or liabilities.

(e) "Totals (Memorandum Only)" Information

Columns on the accompanying combined financial statements captioned "Totals (Memorandum Only)" do not present consolidated financial information. They are not necessary for a fair presentation of the financial statements but are presented as additional analytical data. Inter-fund elimination has not been made in the aggregation of this data.

NOTE 2— DEPOSITS AND INVESTMENTS

The Commission's deposits and investments are pooled with other funds in the City's investment pool in order to maximize investment opportunities. Interest income is allocated monthly based on average daily cash balances. Investment policies and associated risk factors applicable to the funds provided by the California Children and Families Commission are those of the City and are included in the City's basic financial statements.

Deposits and investments are recorded at their fair market value as of June 30, 2005, in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Changes in fair value are recorded in the statement of revenues, expenditures, and

FIRST FIVE SAN FRANCISCO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

changes in fund balance. The effect of this statement as of June 30, 2005, and 2004 resulted in an unrealized loss of \$12,280 and \$267,840, respectively.

	<u>Book Value</u>	<u>Fair Value</u>
Deposits and Investments:	\$28,137,115	\$28,149,395

NOTE 3 - RECEIVABLE FROM STATE

The Commission receives monthly tobacco tax allocations from the California Children and Families Commission and expends those allocations on programs designed to enhance the health and early development of children. The allocations are received approximately two months after the designated month. As such, allocations for May and June are recorded as receivables from the State in that they are measurable, known amounts and will be available within 120 days of year-end.

NOTE 4 - FUND BALANCE RESERVES

Fund balance reserves consist of amounts encumbered for future expenditures for city programs and budgeted appropriations. The Commission also designated \$8,000,000 of unreserved fund balance for future programs.

NOTE 5 – REVENUES

In addition to the monthly tobacco tax allocation received from the California Children and Families Commission (State Commission), the Commission also received from the State Commission \$414,397 for school readiness programs, \$100,000 for school readiness implementation, \$132,914 for SMIF tax, \$21,464 in interest on these funds, \$1,350,228 for the CARES program, \$202,017 for special needs and \$50,000 for preschool for all. The Commission was further granted \$1,000 from private donor activities.

NOTE 6 – CITY GRANT PROGRAMS EXPENDITURES

The Commission evaluates all requests for grants and awards based on its approved strategic plan and awards contracts to various agencies, community based organizations, and service providers. During the current fiscal year, the Commission disbursed grant payments for the following programs:

FIRST FIVE SAN FRANCISCO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

High Risk Infant Interagency Council	\$165,846
Supportive Services for Informal and Exempt Caregivers	129,128
Bright Beginnings Program	335,262
SF CARES Program	2,338,351
Family Support Programs	2,019,486
Homeless Training Program	38,959
Pediatric Dental Home Program	240,786
Homeless Family Aftercare	314,475
School Readiness Program	689,680
San Francisco Family Child Care Association	53,221
Parent Ambassador Program	342,471
Parent ACTION Programs	124,965
Centralized Eligibility Program	42,319
Multidisciplinary Development Assessment Center	100,572
Gateway to Quality Project	40,539
Technical & Peer Support	14,541
Special Needs Program	5,755
Preschool for All	51,519
Total:	\$7,047,875

NOTE 7 – SERVICES OF OTHER DEPARTMENTS – PUBLIC HEALTH AND CHS

The Commission entered six memorandum of understanding (MOU) agreements with the Department of Public Health (department). The first MOU provides for \$740,000 for fiscal year 2004-05 to reimburse the department for providing early childhood mental health services and consultation to center-based child care programs, family child care providers, shelters, treatment programs, and family support centers located in the Sunset and Richmond districts. In the second MOU, the Commission entered a three-year commitment through June 30, 2005 to pay the department \$1.2 million for it to provide early childhood mental health services to homeless children and families in shelters. In the third MOU, the Commission will pay \$50,000 of the annual salary and benefits of a public health nurse at the department. The public health nurse position will be dedicated to the High Risk Infant Interagency Council through October 31, 2005. In the fourth MOU, the Commission entered a three-year commitment through June 30, 2005 to pay the department \$1.38 million for activities to integrate, coordinate, and expand home visiting services to newborns. In the fifth MOU, the Commission entered a three-year commitment through November 30, 2005 to pay the department \$283,000 for infant oral health education to expecting and new mothers. In the sixth MOU, the Commission entered a four

FIRST FIVE SAN FRANCISCO
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

year commitment through November 30, 2006 to pay the department \$320,000 to increase the availability of public health nurses at early care and education sites in neighborhoods participating in the school readiness initiative. For the fiscal year ended June 30, 2005, the Commission paid \$1,392,057 to the department under these MOUs.

NOTE 8 – SERVICES OF OTHER DEPARTMENTS – HUMAN SERVICES

The Commission entered two MOU agreements with the Department of Human Services (Human Services). The first MOU is with Human Services' Division of Housing Homeless Programs (division) for fiscal year 2004/05 to pay the division \$200,000 for one time move-in assistance grants and eviction prevention assistance to families with children from ages zero to five. The second MOU with Human Services is a three-year commitment from April 1, 2004, to June 30, 2006, to pay \$500,000 for family support services to resident families of the Bayview-Hunters Point community. For the fiscal year ended June 30, 2005, the Commission paid \$248,896 to Human Services.

NOTE 9 – PUBLIC EDUCATION ENRICHMENT FUND

In March 2004, the City passed Proposition H, which amended the San Francisco Charter to create a Public Education Enrichment Fund (education fund). The new legislation requires that the City appropriate money to the education fund on an annual basis. Further, the City will appropriate one-third of the money in this education fund to the Children and Families Commission for universal preschool programs administered by the Commission. The Commission will receive the first disbursement from the education fund in fiscal year 2005/06.

NOTE 10 – COMPLIANCE REQUIREMENTS OF COMMISSION FUNDS

The California Children and Families First Act established the California Children and Families Commission. County commissions were created to implement the initiatives that provide comprehensive and integrated systems of support and services for all children from the prenatal stage to age five. All moneys allocated and granted to the Commission were used only to supplement existing levels of service and not to fund existing levels of service. Further, no moneys were used to supplant state or local general fund money.



CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
AUDITS DIVISION**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

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

First Five San Francisco
City and County of San Francisco

We have audited the financial statements of the First Five San Francisco, also known as the San Francisco Children and Families Commission (Commission), of the City and County of San Francisco (City), as of and for the year ended June 30, 2005, and have issued our report thereon dated September 21, 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 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 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. All moneys allocated and granted to the Commission were used only to supplement existing levels of service and not to fund existing levels of service. Further, no moneys were used to supplant state or local general fund money.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the Commission's management in a separate letter dated September 21, 2005.

This report is intended solely for the information and use of the Commission's board, Commission's management, others within the organization, the Board of Supervisors, and First Five California and is not intended to be and should not be used by anyone other than these specific parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:
Noriaki Hirasuna, CPA

San Francisco, California
September 21, 2005

cc: Mayor
Board of Supervisor
Civil Grand Jury
Budget Analyst
Public Library