

**Los Angeles County
Children and Families First –
Proposition 10 Commission
Report on Audited Financial Statements
For the Year Ended June 30, 2004**

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Proposition 10 Commission
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For the Year Ended June 30, 2004**

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Report of Independent Auditors

Report of Independent Auditors

Board of Commissioners
Los Angeles County Children and Families First - Proposition 10 Commission
Los Angeles, California

In our opinion, the financial statements of the Los Angeles County Children and Families First - Proposition 10 Commission (the "Commission") present fairly, in all material respects, the financial position of the Commission as of June 30, 2004, and the revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Commission's management; our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We conducted our audit in accordance with accounting principles generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Management's Discussion and Analysis on pages 2 through 6 and Budgetary Comparison Information on page 16 are not a required part of the basic financial statements, but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 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 for the year ended June 30, 2004. 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.

PricewaterhouseCoopers LLP

August 13, 2004

Management's Discussion and Analysis

Los Angeles County Children and Families First – Proposition 10 Commission June 30, 2004

Management’s Discussion and Analysis For the Year Ended June 30, 2004 (Unaudited)

Our discussion and analysis of the Los Angeles County Children & Families First – Proposition 10 Commission (the “Commission” or “First 5 LA”) provides an overview of the Commission’s financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Commission’s audited financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

The Commission received approximately \$131 million from the State of California from revenues collected under the California Children and Families Act (“Proposition 10”). Interest income for fiscal year 2004 was approximately \$8.5 million. During fiscal year 2004, the Commission disbursed approximately \$79 million in grants to various agencies and has designated approximately over \$685 million to be distributed over the next five years. The Commission’s total assets increased from \$645 million to \$703 million.

Partnership for Families:

In August 2003, the Commission approved a framework for the start of a five-year initiative entitled Partnership for Families. This approval follows a \$50 million allocation approved by the Commission for a secondary prevention strategy which: 1) coordinates and fills gaps in community-level services for families at risk for child maltreatment; 2) develops and/or strengthens natural helping networks at the neighborhood level; and 3) coordinates and promotes collaboration among and between community and county systems. The proposed framework addresses the Commission’s long-standing concern for the safety and survival of our county’s youngest children by strengthening families as well as the communities in which they live.

Prenatal to Three:

In November 2003, the Commission approved an initial investment of \$105 million (with the goal of achieving \$300 million) over a five year period to begin the development of a proposed planning strategy to improve the ability of families and communities to support the health, development and safety of young children prenatal to age three. The funds will be integrated across the three major goals of the new strategic plan; Early Learning, Health, and Safety.

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Universal Access to Preschool Initiative:

In February 2004, the Commission approved the First 5 LA Universal Preschool Ten-Year Master Plan, which outlines in detail how the organization will implement the initiative initially approved in August 2002 with an allocation of \$100 million. A consultant was contracted in January 2003, to create this Master Plan for Los Angeles County. Over a nine-month planning period, First 5 LA staff, in partnership with the consultant, developed and convened an Advisory Committee designed to create partnerships and cultivate support for Universal Preschool which included over 130 stakeholders from a multitude of sectors including education, business, philanthropy, early care and education, research and community leaders. The Advisory Committee was comprised of nine Content Committees to focus on the major operational aspects of the proposed Universal Preschool system and to develop products that will contribute to the operational components of the new system.

Strategic Plan:

In April 2004, the Commission approved the final draft of the *Next Five* Strategic Plan for fiscal years 2004-2009 which has a total budget of over one billion dollars. The strategic planning process took place over a 12-month period and defines the Commission's priorities for the next five years and builds on the Commission's previous strategic plans and activities.

KCET's Informal Child Caregiver Production:

In February 2003, the Commission granted \$25,000 to KCET to support initial planning efforts for a multi-media school readiness initiative called KCEd. In April 2004, the Commission approved \$2.3 million for a strategic partnership with KCET to support the development and production of a new PBS program, "A Place of Our Own." Produced in an entertaining talk show format, *A Place of Our Own*, and its Spanish-language counterpart, *Los Niños en Su Casa*, will offer useful advice and information on subjects such as early education, nutrition, safety and literacy. The show will be geared toward increasing the quality of childcare offered by the many thousands of informal care providers in Los Angeles County and beyond.

Research shows that, during the day, more than half of preschool-age children are currently in the care of a parent or informal caregiver, such as a grandparent, domestic worker or neighbor. Many of these non-professional providers are eager for more information and training in early childhood education. The shows will be supported by extensive community outreach that will reinforce the programs' content and provide workforce development for licensed and unlicensed childcare providers. A robust interactive website will also accompany the series.

Included in this partnership is First 5 California which contributed \$4 million and an outside private corporation, which will contribute \$10 million over five years.

Los Angeles County Children and Families First – Proposition 10 Commission June 30, 2004

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows (pages 7-9) provide information about the activities of the Commission as a whole. Additionally, certain required supplemental information (page 16) contains information regarding the Commission’s budget and how actual operating results compare to the budget adopted by the Commission.

ASSETS OF THE COMMISSION

The assets of the Commission increased during fiscal year 2004 due to normal operations. The 2004 ending balance is a combination of allocated funds and encumbered funds that the Commission expects to disburse during the next five years.

Table 1
Assets of the Commission
June 30, 2004 and 2003
(amounts in thousands)

	<u>2004</u>	<u>2003</u>
Cash	\$ 8,011	\$ 3,011
Investments	670,488	603,333
Receivables	13,237	27,587
Fixed assets	8,581	8,625
Other assets	<u>2,999</u>	<u>2,146</u>
Total	<u>\$ 703,316</u>	<u>\$ 644,702</u>

Los Angeles County Children and Families First – Proposition 10 Commission June 30, 2004

LIABILITIES OF THE COMMISSION

The liabilities of the Commission increased in fiscal year 2004 as most of the employees continued to qualify for vacation and for the Commission’s retirement plan. This resulted in the Commission having to recognize additional liabilities associated with these plans.

Table 2
Liabilities of the Commission
June 30, 2004 and 2003
(amounts in thousands)

	<u>2004</u>	<u>2003</u>
Accounts payable	\$ 9,350	\$ 5,174
Accrued liabilities	847	598
Capital lease obligation	<u>8,499</u>	<u>8,499</u>
Total	<u>\$ 18,696</u>	<u>\$ 14,271</u>

NET ASSETS OF THE COMMISSION

The net assets of the Commission represents the funds that are available for future years. The amount of the net assets has been designated for the specific goals outlined in the *Next Five* Strategic Plan.

Table 3
Net Assets of the Commission
June 30, 2004 and 2003
(amounts in thousands)

	<u>2004</u>	<u>2003</u>
Net Assets:		
Investment in capital assets, net of related debt	\$ 83	\$ 126
Restricted	<u>684,538</u>	<u>630,305</u>
Total assets	<u>\$ 684,621</u>	<u>\$ 630,431</u>

Los Angeles County Children and Families First – Proposition 10 Commission June 30, 2004

REVENUES OF THE COMMISSION

The Commission receives virtually all of its revenue from the State allocation of Proposition 10 funds or from interest earned from its investments. In the fiscal year ending June 30, 2004, the \$131 million received from the State was a decrease of \$3 million as compared to fiscal year 2003 mostly due to the decrease in the sales of tobacco products. The Commission has its funds invested with the Los Angeles County Investments Pool and returned \$8.5 million for the fiscal year 2004.

EXPENSES OF THE COMMISSION

During fiscal year 2004, the Commission disbursed \$79 million to various grantees within Los Angeles County while \$685 million in funds have been designated for specific initiatives over the next five years.

CASH FLOWS OF THE COMMISSION

The operations of the Commission produced a positive cash flow of \$64 million. The majority of this cash was invested in the Los Angeles County Investment Pool. There was a \$5 million increase in the actual cash balance for this year in order to meet the increase in grantee disbursements.

BUDGETS

The Commission adopted its original budget in June 2003. The budget was not subsequently modified. As of June 30, 2004, most line items versus budget have positive variances with actual results. However, the revenue line item was under budgeted; this is due to the Commission receiving less revenue during fiscal year 2004 than expected. The decrease is due to a larger reduction in consumption of tobacco products than anticipated. In addition, there is a negative variance in professional services due to unforeseen expenditures for legal and audit fees. Overall, the Commission operated within its approved budget, due to its conservative approach in regards to approving the original budget.

Financial Statements

**Los Angeles County Children and Families First –
Proposition 10 Commission
Statement of Net Assets
June 30, 2004**

Assets

Current assets:		
Cash		\$ 8,010,500
Investments:		
Operating funds		10,000,000
Allocated funds		470,170,474
Healthy Kids		85,317,188
Sustainability funds		<u>105,000,000</u>
Total investments		670,487,662
State allotment receivable		11,157,891
Interest receivable		<u>2,079,740</u>
Total current assets		691,735,793
Fixed assets, net		8,581,262
Other assets		<u>2,999,119</u>
Total assets		<u>\$ 703,316,174</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable		\$ 9,350,003
Accrued liabilities		847,245
Capital lease obligation		<u>665,261</u>
Total current liabilities		10,862,509
Capital lease obligation		<u>7,833,441</u>
Total liabilities		18,695,950
Net Assets:		
Invested in capital assets, net of related debt		82,560
Restricted		<u>684,537,664</u>
Total net assets		<u>684,620,224</u>
Total liabilities and net assets		<u>\$ 703,316,174</u>

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

**Los Angeles County Children and Families First –
Proposition 10 Commission
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2004**

Operating revenues:	
State allotment	<u>\$ 131,232,345</u>
Total operating revenues	131,232,345
Operating expenses:	
Provider grants	79,133,367
Staffing services	4,809,497
Operating services	951,337
Consultant services	128,168
Professional services	431,267
Other	66,353
Depreciation	<u>44,007</u>
Total operating expenses	<u>85,563,996</u>
Operating income	<u>45,668,349</u>
Nonoperating revenues:	
Interest income	<u>8,520,520</u>
Change in net assets	54,188,869
Net assets - beginning of the year	<u>630,431,355</u>
Net assets - end of the year	<u>\$ 684,620,224</u>

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

**Los Angeles County Children and Families First –
Proposition 10 Commission
Statement of Cash Flows
For the Year Ended June 30, 2004**

Cash flows from operating activities:	
Receipts from the State	\$ 145,495,785
Payments to grantees	(74,957,595)
Payments to employees	(4,774,429)
Payments to suppliers	<u>(2,215,978)</u>
Net cash provided by operating activities	63,547,783
Cash flows from capital activities:	
Purchases of capital assets	<u>(853,476)</u>
Net cash used in capital activities	(853,476)
Cash flows from investing activities:	
Purchases of investments	(154,102,596)
Proceeds from sales of investments	87,801,478
Interest income	<u>8,606,811</u>
Net cash used in investing activities	<u>(57,694,307)</u>
Net increase in cash and cash equivalents	5,000,000
Cash and cash equivalents – beginning of the year	<u>3,010,500</u>
Cash and cash equivalents – end of the year	<u>\$ 8,010,500</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 45,668,349
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	44,007
Change in assets and liabilities:	
State allotment receivable	14,263,440
Other assets	(853,476)
Accounts payable	4,175,773
Accrued liabilities	<u>249,690</u>
Net cash provided by operating activities	<u>\$ 63,547,783</u>

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

Los Angeles County Children and Families First – Proposition 10 Commission Notes to Financial Statements June 30, 2004

1. Definition of the Reporting Entity

With passage of a ballot initiative in November 1998, California (the “State”) voters approved the establishment of the Los Angeles County Children and Families First – Proposition 10 Commission (the “Commission”), a component unit of Los Angeles County. The initiative, Proposition 10, mandated an additional 50-cent-per-pack tax on cigarettes and a comparable increase in the tax of other tobacco products and required that the new funds be used on programs focused exclusively on early childhood development for children prenatal up to five years of age.

Following the directive of Proposition 10 to fund programs at the community level, each of the State’s 58 counties created a Proposition 10 Commission as well as a trust fund to receive Proposition 10 revenues. In Los Angeles County, the Board of Supervisors passed an ordinance in December 1998 to establish the Los Angeles County Children and Families First – Proposition 10 Commission, and in May 1999, the Commission held its first meeting, elected officers and established a number of ad hoc committees to address organizational and planning issues. The Commissioners and others who were involved in the effort regarded Proposition 10 as an extraordinary and unprecedented opportunity to begin making a difference in the lives of pregnant women, young children and their families, and to do so at a point in their lives when it can make the most difference. In August 2002, the Commission introduced a new branding identity, First 5 LA, to signify the importance of the first five years of life.

Following the development and release of a three-year strategic plan in December 2000, the Commission significantly expanded its role as a grant-maker and the scope of programs and activities presented in its first Strategic Plan. The broader emphasis of the 2001-2004 Strategic Plan remains focused on the Commission’s original mission statement: “To optimize the development and well-being of all children, from the prenatal stage until their fifth birthday by increasing resources, ensuring access to services, and improving the abilities to families, communities and providers of services.” Among the five desired outcomes originally outlined, the Commission identified School Readiness as its overarching goal and highest priority. School readiness incorporates many dimensions of child development and is integrally related to the Commission’s other long-term outcomes areas: Good Health, Safety and Survival, Economic Well-Being, and Social and Emotional Well-Being.

To accomplish school readiness and other desired outcomes with greater flexibility and responsiveness, the Commission established new funding approaches and programmatic strategies. Two funding approaches: 1) Commission-Development Initiatives, and 2) Community-Developed Initiatives, provide a wider array of funding options and a greater responsiveness to community-generated ideas. After determining how funds would be distributed, the Commission developed three programmatic strategies: 1) Programs, Projects and Services; 2) Systems Improvement; and 3) Data Improvement and Research Health Care Learning.

Los Angeles County Children and Families First – Proposition 10 Commission Notes to Financial Statements June 30, 2004

1. Definition of the Reporting Entity (Continued)

Also, in August 2002, the Commission passed the initial investment of \$100 million to begin the strategic plan to provide a quality early learning experience to all children ages 0-5 in Los Angeles County. The Commission has begun the process of a 10-year Master Plan to implement this initiative beginning in 2004. The short-term goal is to target 4-year olds while developing strategic partnerships for program planning and to leverage the funds with other organizations and broaden the program to include 2-and 3-year olds.

To evaluate the effectiveness of Proposition 10 efforts in Los Angeles County, the Commission will conduct comprehensive evaluation at various levels. A standardized evaluation framework will be used to ensure comparability within funded programs, between larger initiatives (groups of funded programs with similar goals), and organizational effectiveness as a whole.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”), using the economic resources measurement focus and the accrual basis of accounting. The accompanying statements include all net asset groups of the Commission.

Operating Revenues

The Commission receives the portion of the total funds available to all county commissions equal to the percentage of the number of births recorded in Los Angeles County (for the most recent period – as defined) in proportion to the number of births recorded in all of the counties participating in the California Children and Families Act (the “Act”). Revenue is recognized when collected by the State. Any amounts collected by the State, but not yet remitted to the Commission by fiscal year-end, are accrued.

Cash and Cash Equivalents

The Commission classifies its short-term, highly liquid investments having original maturities of three months or less as cash equivalents.

Concentration of Credit Risk

The Commission maintains cash in a Federal Deposit Insurance Company (“FDIC”) - insured commercial bank, which is in excess of FDIC insurance limits. The Commission performs ongoing evaluations of the commercial bank to limit its concentration of credit risk exposure.

**Los Angeles County Children and Families First –
Proposition 10 Commission
Notes to Financial Statements
June 30, 2004**

2. Summary of Significant Accounting Policies (Continued)

Investments

The Commission participates in the common investment pool of Los Angeles County, which is recorded at market value. Management of the investment pool is the responsibility of Los Angeles County.

The Commission has designated certain investment balances for specific purposes. The Commission's designations are:

Operating Funds – The Operating Funds are investments that have not been allocated for a specific purpose.

Allocated Funds – The Allocated Funds are investments, approved by the Commission, that have been committed for various initiatives.

Healthy Kids – On July 1, 2003, the Commission implemented the Healthy Kids Initiative that will provide medical, dental and vision care to all children ages 0-5 in Los Angeles County who do not qualify for Healthy Families or Medi-Cal. There will be no cost or minimal cost which will be based on their family's income as compared to the federal poverty level. The Healthy Kids Initiative was passed August 2002, by the Commission, which allocated \$100 million to provide this health insurance over the next four years.

Sustainability Funds – The Sustainability Funds are investments, approved by the Commission, which are to be used for programs and activities in case of future economic uncertainties.

Fixed Assets

Building, computers and equipment are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, 40 years, for buildings and generally 4 years for computers and equipment. Upon disposition of assets, the cost and related accumulated depreciation is removed with the resulting gain or loss recognized in restricted net assets.

Deferred Compensation Asset and Liability

The Commission offers all employees an employee deferred compensation plan adopted under the provision of Internal Revenue Code Section 457. The assets and corresponding liabilities are included in the accompanying financial statements.

**Los Angeles County Children and Families First –
Proposition 10 Commission
Notes to Financial Statements
June 30, 2004**

2. Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt – This category includes all of the Commission’s fixed assets, net of accumulated depreciation and any outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted – The Commission classifies all remaining net assets as restricted as the Commission’s funding is wholly from funds collected and distributed by the State in accordance with the California Children and Families Act. These funds are subject to restrictions as defined by the Act.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Fixed Assets, Net

Fixed assets consisted of the following at June 30, 2004:

Computers and equipment	\$ 206,716
Building	8,498,702
Less: accumulated depreciation	<u>(124,156)</u>
Fixed assets, net	<u>\$ 8,581,262</u>

**Los Angeles County Children and Families First –
Proposition 10 Commission
Notes to Financial Statements
June 30, 2004**

4. Commitments and Contingencies

The Commission leases office space and office equipment under operating leases. Minimum annual rents are:

Years Ending June 30,	Amount
2005	\$ 224,626
2006	<u>12,320</u>
Total	<u>\$ 236,946</u>

Rental expenses from the above operating leases were approximately \$224,626 for the fiscal year ended June 30, 2004.

In April 2003, the Commission executed a lease for an office building with the lease term commencing upon completion of construction of the office building. The estimated completion date of construction is January 2005. The Commission has recorded \$1,662,429 representing a security deposit in other assets. The lease is considered for accounting purposes to be a capital lease. The following are the future, annual minimum lease payments due under the agreement:

Years Ending June 30,	Amount
2005	\$ 665,261
2006	1,320,321
2007	1,309,609
2008	1,298,362
2009	1,286,553
2010 and thereafter	<u>7,986,496</u>
Total payments	13,866,602
Less: amounts representing interest	<u>(5,367,900)</u>
Present value of future minimum lease payments	<u>\$ 8,498,702</u>

The Commission has authorized approximately \$685 million of grants to various agencies over the next five years. These grants are required to be approved annually by the Commission prior to any funds being released. Agencies have to complete certain requirements prior to future years' funds being released and these additional funds are not guaranteed. As such, the authorized grants are not included as a liability or expense in the accompanying financial statements.

**Los Angeles County Children and Families First –
Proposition 10 Commission
Notes to Financial Statements
June 30, 2004**

5. Related Parties

The Los Angeles County Board of Supervisors appoints the members of the Commission's Board of Commissioners.

Additionally, the Commission invests its excess cash in Los Angeles County's investment pool.

Required Supplementary Information

REQUIRED SUPPLEMENTAL INFORMATION

**Los Angeles County Children and Families First –
Proposition 10 Commission
Budgetary Comparison Schedule
For the Year Ended June 30, 2004**

	Budgeted Amounts - Original and Final	Actual Results (GAAP Basis)	Variance With Final Budget Positive/(Negative)
Operating revenues:			
State allotment	<u>\$ 139,000,000</u>	<u>\$ 131,232,345</u>	<u>\$ (7,767,655)</u>
Total operating revenues	<u>139,000,000</u>	<u>131,232,345</u>	<u>(7,767,655)</u>
Operating expenses:			
Provider grants	85,000,000	79,133,367	5,866,633
Staffing services	5,290,570	4,809,497	481,073
Operating services	1,045,760	951,337	94,423
Consultant services	215,000	128,168	86,832
Professional services	388,200	431,267	(43,067)
Other	158,831	66,353	92,478
Depreciation	<u>44,007</u>	<u>44,007</u>	<u>—</u>
Total operating expenses	<u>92,142,368</u>	<u>85,563,996</u>	<u>6,578,372</u>
Operating income	46,857,632	45,668,349	(1,189,283)
Nonoperating revenues:			
Interest income	<u>8,000,000</u>	<u>8,520,520</u>	<u>520,520</u>
Total nonoperating revenues	<u>8,000,000</u>	<u>8,520,520</u>	<u>520,520</u>
Change in net assets	<u>\$ 54,857,632</u>	<u>\$ 54,188,869</u>	<u>\$ (668,763)</u>

Report of Independent Auditors

**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 Children and Families Act**

Board of Commissioners
Los Angeles County Children and Families First - Proposition 10 Commission
Los Angeles, California

We have audited the financial statements of the Los Angeles County Children and Families First - Proposition 10 Commission (the "Commission") as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit was further made to determine that the Children and Families Act funds allocated to and received by the Commission were expended in conformance with applicable statutes, rules and regulations of the Children and Families Act.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as it relates to the California Children and Families Act 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.

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 Children and Families Act.



This report is intended for the information and use of the Board of Commissioners, management and the state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

PricewaterhouseCoopers LLP

August 13, 2004