

Meeting Date: 2/4/2014

Report Type: Consent

Report ID: 2014-00074

Title: Fiscal Year 2012/13 Child Development Program Audit Report

Location: Citywide

Issue: The Fiscal Year (FY) 2012/13 Child Development Program Audit Report has been prepared to present the financial results of the 4th R Child Development Program for the fiscal year that ended June 30, 2013.

Recommendation: Receive and file.

Contact: Dennis Kauffman, Operations Manager, (916) 808-5843, Department of Finance

Presenter: None

Department: Finance

Division: Accounting Division

Dept ID: 06001311

Attachments:

1-Description/Analysis

2-Child Development Audit 2013

City Attorney Review

Approved as to Form
Steve Itagaki
1/28/2014 9:09:42 AM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
1/21/2014 10:23:58 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 1/24/2014 4:14:12 PM

Description/Analysis

Issue Detail: The Fiscal Year (FY) 2012/13 Child Development Program Audit Report has been prepared to present the financial results of the 4th R Child Development Program for the fiscal year that ended June 30, 2013.

Policy Considerations: This report is consistent with the City's fiscal transparency and accountability principles.

Economic Impacts: None.

Environmental Considerations: None.

Sustainability: Not Applicable.

Commission/Committee Action: None.

Rationale for Recommendation: It is in the best interest of the City Council to receive and file the FY2012/13 Child Development Program Audit Report for the following reasons:

- This report is required by the California Department of Education and includes information necessary to comply with the California Department of Education Audit Guide.
- The public accounting firm of Macias Gini & O'Connell, LLP, has audited the 4th R Child Development Program's FY2012/13 financial statements and has rendered its unqualified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Macias Gini & O'Connell, LLP reported one audit finding in the FY2012/13 Child Development Program Audit Report regarding amounts owed by families that had not previously been recognized in the programs' financial statements. To address the finding, the City recorded the amounts owed at June 30, 2013, and is in the process of documenting and implementing a reconciliation process for FY2013/14. The Audit Report also provides the status of a prior year audit finding that has been resolved.

Financial Considerations: There are no financial considerations associated with this report.

Local Business Enterprise (LBE): No goods or services are being purchased under this report.

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**

Independent Auditor's Reports,
Financial Statements and Supplementary Information

For the Fiscal Year Ended June 30, 2013

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**
For the Fiscal Year Ended June 30, 2013

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CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
General Information
For the Fiscal Year Ended June 30, 2013

Agency: City of Sacramento - Child Development Program

Project Numbers: 34-2192-00-2

Type of Agency: Municipal Government

Address: City Hall
915 I Street, 4th Floor
Sacramento, CA 95814

Accountant: Dennis Kauffman, Jr., Accounting Division
City Hall
915 I Street, 4th Floor
Sacramento, CA 95814

Telephone: (916) 808-5843

Period Covered: July 1, 2012 - June 30, 2013

Number of Days of Agency Operation: 247 days

Scheduled Hours of Operation Each Day: 7:00 a.m. Opening
6:00 p.m. Closing
Open 11 hours

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Council Members
City of Sacramento
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Child Development Program (Program), an enterprise fund of the City of Sacramento, California, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control as it relates to the Program. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Child Development Program, an enterprise fund of the City of Sacramento, California, as of June 30, 2013, and the changes in financial position and cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Child Development Program, an enterprise fund of the City of Sacramento, California, and do not purport to, and do not, present fairly the financial position of the City of Sacramento, California as of June 30, 2013, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying supplementary information on pages 13 to 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements in conformity with the *California Department of Education Audit Guide* issued by the California Department of Education and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013 on our consideration of the City’s internal control over financial reporting as it relates to the Program 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sacramento’s internal control over financial reporting and compliance as it relates to the Child Development Program.

Maclean Meiri & O’Connell LLP

Sacramento, California
November 8, 2013

FINANCIAL STATEMENTS

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Statement of Net Position
June 30, 2013

ASSETS

Current assets:

Cash and investments held by City	\$ 98,147
Accounts receivable, net	176,536
Prepaid expenses, current portion	7,867
	282,550

Noncurrent assets:

Restricted assets:

Restricted cash and investments held by City	35,076
Prepaid expenses	175,033
Capital assets	
Buildings and improvements	1,545,892
Less: accumulated depreciation	(716,768)
Capital assets, net	829,124

Total noncurrent assets	1,039,233
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Total assets	1,321,783
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LIABILITIES

Current liabilities:

Accounts payable	54,441
Wages and employee benefits payable	178,584
Payable to State Department of Education	49,621
Unearned revenue	35,076
Accrued claims and judgements	11,000
Current portion of compensated absences	13,323
Current portion of loans payable	20,000
Total current liabilities	362,045

Noncurrent Liabilities:

Compensated absences	280,804
Loans payable	20,000
Unfunded OPEB obligation	157,000
Total noncurrent liabilities	457,804

Total liabilities	819,849
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NET POSITION

Net investment in capital assets	789,124
Unrestricted	(287,190)
Total net position	\$ 501,934

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

<u>Operating revenues:</u>		
Government contracts		\$ 576,365
Subsidized parent fees		62,335
Unsubsidized parent fees		5,327,207
Miscellaneous		36,094
Total operating revenues		<u>6,002,001</u>
 <u>Operating expenses:</u>		
2000	Classified salaries	4,011,071
3000	Employee benefits	1,245,553
4000	Books and supplies	332,552
5000	Services and other operating expenses	449,497
	Depreciation	77,293
Total operating expenses		<u>6,115,966</u>
Operating loss		(113,965)
 Nonoperating revenues:		
	Interest income	1,720
Change in net position		(112,245)
Total net position, beginning of year		<u>614,179</u>
Total net position, end of year		<u>\$ 501,934</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2013

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,294,558
Receipts from State Department of Education	614,778
Payments to suppliers	(769,245)
Payments to employees	<u>(5,283,559)</u>
Net cash used in operating activities	<u>(143,468)</u>
Cash flows from capital and related financing activities:	
Repayment of construction loan	<u>(20,000)</u>
Cash flows from investing activities:	
Interest received	<u>1,720</u>
Net decrease in cash and cash equivalents	(161,748)
Cash and cash equivalents - beginning of year	294,971
Cash and cash equivalents - end of year	<u>\$ 133,223</u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and investments held by City	\$ 98,147
Restricted cash and investments held by City	35,076
Total cash and cash equivalents	<u>\$ 133,223</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	<u>\$ (113,965)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	77,293
Change in assets and liabilities:	
Accounts receivable	(131,078)
Due from State Department of Education	25,825
Prepaid expenses	7,866
Accounts payable	4,938
Wages and employee benefits payable	(24,959)
Payable to State Department of Education	6,204
Unfunded OPEB obligation	35,000
Accrued claims and judgements	11,000
Compensated absences	(47,976)
Unearned revenue	6,384
Total adjustments	<u>(29,503)</u>
Net cash used in operating activities	<u>\$ (143,468)</u>

See accompanying notes to the financial statements.

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

General

The City of Sacramento (City) administers the Child Development Program (Program). The Program provides school age childcare services and is funded by grants from the California State Department of Education (State) and parent fees. The accompanying financial statements present only the Child Development Program, an enterprise fund of the City, and are not intended to present fairly the financial position or changes in financial position or cash flows of the City in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The financial statements of the Program are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned. Expenses are recognized in the accounting period in which the liability is incurred, regardless of the timing of related cash flows.

The principal operating revenues of the Program are state apportionments, parent fees, and miscellaneous revenues. Operating expenses include costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

New Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* that was implemented by the Program during the fiscal year ended June 30, 2013. The City has determined that there was no impact on the financial statements, except for the deletion of the note disclosing the Program's election not to apply FASB statements subsequent to November 30, 1989.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes standards for reporting deferred inflows of resources, outflows of resources, and net position, was implemented by the Program during the fiscal year ended June 30, 2013. The only impact this standard had on the City's financial statements as it related to the Child Development Program was replacing the term 'net assets' with the term 'net position,' as well as the term 'invested in capital assets, net of related debt' with the term 'net investment in capital assets'.

Cash and Investments and Restricted Cash and Investments Held by City

All of the Program's cash and investments are included in the City's investment pool, which is described in the City's Comprehensive Annual Financial Report (CAFR). The City, as a charter city, has adopted its own investment guidelines, which are consistent with the requirements of the California Government Code. The City Council and City Treasurer provide oversight of the City's investment pool and reaffirm its investment policy on a quarterly basis. The estimated fair value of investments in the pool is based upon quoted market prices. The value of the pool shares that may be withdrawn at any time is determined

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments and Restricted Cash and Investments Held by City – (continued)

on an amortized cost basis, which is different than the fair value of the Program's position in the pool. The City's investment pool is not rated and has a weighted average maturity of 2.01 years as of June 30, 2013.

Restricted cash and investments is the amount of reserves held by the Program for center-based programs in accordance with an agreement with the State. Additional information regarding investment risk of the City's pool, including interest rate and credit risk, can be found in the City's CAFR.

Allowance for Doubtful Accounts

Management periodically reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts as necessary. Management considers factors such as historical experience, credit quality, and the age of the accounts receivable balances in determining the appropriate allowance. As of June 30, 2013, the Program's allowance for doubtful accounts was \$138,190.

Prepaid Expenses

Prepaid expenses include payments to Rio Linda Unified School District for the construction and use of a child care classroom facility at a Rio Linda school site. The expenses are being amortized over the 30-year life of the right-to-use agreement using the straight line method.

Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$20,000, and an estimated useful life greater than one year. Capital assets are recorded at historical cost. Depreciation of capital assets is provided on the straight-line method over estimated useful lives between 5 and 30 years.

Compensated Absences

Program employees accrue vacation, sick, holiday and compensatory time off benefits. Employees may accumulate vacation time up to 480 hours. Sick pay vests and may be accumulated until retirement. An employee with sixty or more days of accumulated sick leave at the end of a calendar year may elect to receive a 25% payment of any unused sick leave earned in the previous year. The amount of sick leave paid is deducted from the employee's total accumulation. Upon retirement, employees with a minimum of 20 years of City service have the option of converting their sick leave accumulation into California Public Employees' Retirement System (CalPERS) service credit hours, or receiving a cash payment of one-third of the vested accumulated sick leave. Employees who leave the City and are not retiring forfeit any remaining sick leave. The Program records unpaid accrued vacation and sick leave as an expense and related liability as the benefits are earned.

Unearned Revenue

Unearned revenue represents resources received from the State that the Program has not yet earned.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2013

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Claims and Judgments

Accrued claims and judgments represent the actuarially determined liability for the first year of salary continuation in the City's workers compensation program. This liability was reported in the prior year as wages and employee benefits payable.

Statement of Cash Flows

For purposes of the statement of cash flows, the Program considers cash and cash equivalents to include all pooled cash and investments, including restricted assets, as these pooled balances have the general characteristics of a demand deposit account.

NOTE B – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and improvements	\$ 1,545,892	\$ -	\$ -	\$ 1,545,892
Less accumulated depreciation	(639,475)	(77,293)	-	(716,768)
Capital assets, net	<u>\$ 906,417</u>	<u>\$ (77,293)</u>	<u>\$ -</u>	<u>\$ 829,124</u>

NOTE C – COMPENSATED ABSENCES

Changes in compensated absences during the fiscal year ended June 30, 2013 were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 342,103</u>	<u>\$ 284,791</u>	<u>\$ (332,767)</u>	<u>\$ 294,127</u>	<u>\$ 13,323</u>

NOTE D – LOANS PAYABLE

The loan payable to the California Department of Education is payable in annual installments of \$20,000 through August 1, 2015. The loan does not bear interest. Annual debt service requirements to maturity are as follows:

	Fiscal Years Ending June 30,	Principal
	2014	\$ 20,000
	2015	20,000
	Total	<u>\$ 40,000</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2013

NOTE D – LOANS PAYABLE (CONTINUED)

The following is a summary of the loans payable transactions for the fiscal year ended June 30, 2013:

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
\$ 60,000	\$ -	\$ (20,000)	\$ 40,000	\$ 20,000

NOTE E – OPERATING LEASES

As of June 30, 2013, the Program had a non-cancelable lease for its administrative office which expires on October 31, 2013. Future minimum lease payments are \$32,599 for the fiscal year ending June 30, 2014. Operating lease expense for the fiscal year ended June 30, 2013 was \$143,993.

NOTE F – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

The City provides post-retirement medical and dental benefits to retirees who retire directly from the City through a single-employer defined benefit OPEB plan (the Plan). To be eligible for the City paid benefits, retirees must be at least age 50 with 10 years of City service at retirement, or have 30 years of service with no age requirement. The Program’s employees participate in the City’s plan.

Funding Policy

The Plan’s funding policy provides for periodic contributions by the City. The contribution rate is determined on an annual basis by an independent actuary and authorized by the City Council. The contribution rate is based on the annual required contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The current ARC rate is 11.6 percent of annual covered payroll. Currently, the City is contributing to the plan on a pay-as-you-go basis.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2013

NOTE F – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost recorded by the Program is calculated by the City and represents an allocation of the total ARC of the City, adjusted for interest and other adjustments. The allocation is based upon the Program’s percentage share of the City’s yearly pay-as-you go costs. The Program’s OPEB obligation as of June 30, 2013 was calculated as follows:

Annual required contribution (ARC)	\$ 56,000
Interest on net OPEB obligation	6,000
Adjustment to annual required contribution	<u>(10,000)</u>
Annual OPEB cost (expense)	52,000
Contributions made	<u>(17,000)</u>
Increase in net OPEB obligation	35,000
Net OPEB obligation - Beginning of year	<u>122,000</u>
Net OPEB obligation - End of year	<u><u>\$157,000</u></u>

The Program’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 36,000	39%	\$ 89,000
June 30, 2012	50,000	33%	122,000
June 30, 2013	52,000	31%	157,000

Additional disclosure detail required by GASB Statement No. 45, regarding the City’s OPEB plan is presented in City’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013.

NOTE G – RETIREMENT PLAN

Plan Description

The City provides defined retirement benefits through CalPERS. CalPERS is an agent multiple-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of CalPERS’ annual financial report may be obtained from the CalPERS Executive Office at 400 Q Street, Sacramento, CA 95814. A separate report for the City’s plan within CalPERS is not available. The Program’s employees participate in the City’s plan with CalPERS.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2013

NOTE G – RETIREMENT PLAN (CONTINUED)

Funding Policy

Benefits are funded by contributions from members, the Program and earnings on investments. Members and Program contributions are a percentage of applicable member compensation. The Program’s contribution rates are actuarially determined on an annual basis. Program contribution requirements for the fiscal year ended June 30, 2013 were determined as part of the City’s June 30, 2010 actuarial valuation.

Annual Pension Cost

The Program’s contribution requirement for the fiscal year ended June 30, 2013 was \$340,993 or 12.844% of covered payroll. The following table shows the Program required contribution (annual pension cost) and the percentage contributed for the past three fiscal years:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 324,371	100%	-
June 30, 2012	314,986	100%	-
June 30, 2013	340,993	100%	-

Other information regarding the City’s CalPERS plan required by GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, and GASB 50, *Pension Disclosures* are available in the City’s CAFR for the fiscal year ended June 30, 2013.

NOTE H – CONTINGENCIES

The Program has received state and federal funding for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, management of the Program believes that any required reimbursements will not be material.

NOTE I – RISK MANAGEMENT

The City is exposed to various risks of loss related to workers’ compensation, torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City self-insures and/or carries commercial insurance. Earthquake damage is not included in the property insurance coverage carried by the City.

All funds of the City participate in the program and make payments to the Risk Management Internal Service Fund based on estimates of the amounts needed to pay operating costs, insurance premiums, and prior and current year claims.

SUPPLEMENTAL INFORMATION

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
 Schedule of Federal and State Awards
 For the Fiscal Year Ended June 30, 2013

Grantor	Federal CFDA Number	Grantor's Number	Award Amount			Expenses		
			Federal	State	Total	Federal	State	Total
Department of Health and Human Services Passed through California Department of Education: Child Care and Development Fund (CCDF), Cluster CCDF General Center Child Care	93.575/93.596	CCTR-2202	\$ 355,081	\$ 346,439	\$ 701,520	\$ 304,730	\$ 271,635	\$ 576,365

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

	<u>CDE Contract CCTR-2202</u>	<u>Non CDE Sites</u>	<u>Total</u>
<u>Revenue and Support</u>			
Federal apportionment	\$ 304,730	-	\$ 304,730
State apportionment	271,635	-	271,635
Subsidized parent fees	62,335	-	62,335
Unsubsidized parent fees	2,000,843	3,326,364	5,327,207
Interest income	-	1,720	1,720
Miscellaneous	17,086	19,008	36,094
Total revenue and support	<u>2,656,629</u>	<u>3,347,092</u>	<u>6,003,721</u>
<u>Expenses</u>			
2000 Classified salaries	2,217,787	1,793,284	4,011,071
3000 Employee benefits	691,415	554,138	1,245,553
4000 Books and Supplies	159,487	173,065	332,552
5000 Services and other operating expenses	183,301	266,196	449,497
Depreciation	-	77,293	77,293
Total expenses	<u>3,251,990</u>	<u>2,863,976</u>	<u>6,115,966</u>
Change in Net Position	<u>\$ (595,361)</u>	<u>\$ 483,116</u>	<u>\$ (112,245)</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Expenses by State Categories
For the Fiscal Year Ended June 30, 2013

	<u>CCTR-2202</u>
<u>Expenses</u>	
2000 Classified salaries	\$ 2,217,787
3000 Employee benefits	691,415
4000 Books and supplies	159,487
5000 Services and other operating expenses	183,301
Total expenses claimed for reimbursement	<u><u>\$ 3,251,990</u></u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Equipment Expenses
For the Fiscal Year Ended June 30, 2013

	CCTR-2202
<u>Unit Cost Under \$7,000 Per Item</u>	
None	\$ -
Subtotal	-
 <u>Unit Cost Over \$7,500 Per Item with prior Written Approval</u>	
Computer	-
Subtotal	-
 <u>Unit Cost Over \$7,500 Per Item without prior Written Approval</u>	
None	-
Subtotal	-
 Total	\$ -

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Expenses for Renovations and Repairs
For the Fiscal Year Ended June 30, 2013

	CCTR-2202
<u>Unit Cost Under \$10,000 Per Item</u>	
None	\$ -
Subtotal	-
 <u>Unit Cost \$10,000 or More Per Item With Prior Written Approval</u>	
None	-
Subtotal	-
 <u>Unit Cost \$10,000 or More Per Item Without Prior Written Approval</u>	
None	-
Subtotal	-
 Total	 \$ -

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Administrative Costs
For the Fiscal Year Ended June 30, 2013

<u>Category</u>	<u>Reimbursable Administrative Costs</u>	<u>CCTR - 2202</u>
2000	Classified salaries	\$ 279,462
3000	Employee benefits	101,950
4000	Books and supplies	18,127
5000	Services and other operating expenses	<u>88,260</u>
	Total	<u><u>\$ 487,799</u></u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Child Attendance
General Center Child Care
Project Number 34-2192-00-2 (CCTR-2202)
For the Fiscal Year Ended June 30, 2013

Report Period	Certified Families						Noncertified Families Total Adjusted Days of Enrollment
	Total Days of Operation	Total Days of Enrollment	Total Days of Attendance	Total Adjusted Days of Enrollment	Average Daily Enrollment	Percent of Attendance	
July	21	2,667	2,634	2,661	127	99%	7,852
August	23	2,529	2,495	2,255	98	99%	12,890
September	19	2,610	2,606	1,690	89	100%	5,732
October	23	3,128	3,116	2,039	89	100%	8,366
November	19	2,518	2,508	1,720	91	100%	6,781
December	18	2,287	2,283	1,568	87	100%	6,217
January	21	2,853	2,853	1,962	93	100%	7,274
February	19	2,750	2,404	1,839	80	87%	6,584
March	20	2,646	2,637	1,848	92	100%	5,834
April	22	2,958	2,955	1,892	86	100%	7,545
May	22	3,036	3,017	1,974	90	99%	13,561
June	20	2,527	2,491	2,255	113	99%	8,720
Totals, FY13	<u>247</u>	<u>32,509</u>	<u>31,999</u>	<u>23,703</u>	<u>95</u>	<u>98%</u>	<u>97,356</u>

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: City of Sacramento Vendor No. 2192

Fiscal Year Ended: June 30, 2013 Contract No. CCTR-2202

Independent Auditor's Name: Macias Gini & O'Connell LLP

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	-		-	1.700	-
Three-quarters-time	-		-	1.275	-
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	785		785	1.180	926.300
Full-time	7,885		7,885	1.000	7,885.000
Three-quarters-time	8,899		8,899	0.750	6,674.250
One-half-time	14,940		14,940	0.550	8,217.000
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	32,509	-	32,509		23,702.550
DAYS OF OPERATION	247	-	247		
<input type="checkbox"/> NO NONCERTIFIED CHILDREN - Check this box, omit page 2, and continue to Section III if no noncertified children were enrolled in the program					
DAYS OF ATTENDANCE	31,999	-	31,999		

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: City of Sacramento Vendor No. 2192

Fiscal Year Ended: June 30, 2013 Contract No. CCTR-2202

SECTION II - NONCERTIFIED CHILDREN Report all children who were not certified, but who were served at the same sites as certified children.	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
DAYS OF ENROLLMENT	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	-		-	1.700	-
Three-quarters-time	-		-	1.275	-
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	-		-	1.180	-
Full-time	43,023		43,023	1.000	43,023.000
Three-quarters-time	-		-	0.750	-
One-half-time	98,787	-	98,787	0.550	54,332.850
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	141,810	-	141,810		97,355.850

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: City of Sacramento Vendor No. 2192

Fiscal Year End: June 30, 2013 Contract No. CCTR-2202

Insert Any Commingled Contract No. _____

	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER FORM CDFS 9500	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
SECTION III - REVENUE			
RESTRICTED INCOME			
Child Nutrition Programs	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify): Field Trips	2,556		2,556
Subtotal	\$2,556	\$0	\$2,556
Transfer from Reserve Contract #	0		0
Contract #			0
Family Fees for Certified Children Contract #	59,779		59,779
Contract #			0
Interest Earned on Apportionments Contract #			0
Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children	1,854,815	63,752	1,918,567
Other (Specify): Fundraising/Field Trip/Enrollment Fees	99,362		99,362
TOTAL REVENUE	\$2,016,512	\$63,752	\$2,080,264

SECTION IV - REIMBURSABLE EXPENSES

<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries			0
2000 Classified Salaries	2,217,787		2,217,787
3000 Employee Benefits	691,415		691,415
4000 Books and Supplies	159,487		159,487
5000 Services and Other Operating Expenses	183,301		183,301
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment (program-related)			0
6500 Replacement Equipment (program-related)			0
Depreciation or Use Allowance			0
Start-Up Expenses (service level exemption)			0
Budget Impasse Credit Contract #			0
Contract #			0
Indirect Costs. Rate: 0.00% (Rate is Self-Calculating)			0
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$3,251,990	\$0	\$3,251,990
TOTAL ADMINISTRATIVE COSTS (included in section IV above)	\$487,799	\$0	\$487,799

FOR CDE-A&I USE ONLY:

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

- YES
- NO - Explain any discrepancies.

Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

- YES
- NO - Explain any discrepancies.

COMMENTS - If necessary, attach additional sheets to explain adjustments:

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit page 4 if there are no supplemental revenues or expenses to report.

AUDITED RESERVE ACCOUNT ACTIVITY REPORT

Agency Name: City of Sacramento

Fiscal Year End: June 30, 2013 Vendor No. 2192

Independent Auditor's Name: Macias Gini & O'Connell LLP

RESERVE ACCOUNT TYPE (Check One): <input type="checkbox"/> Center Based <input type="checkbox"/> Resource and Referral <input type="checkbox"/> Alternative Payment	COLUMN A	COLUMN B	COLUMN C
	PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	PER AUDIT

LAST YEAR:

1. Beginning Balance (must equal ending balance from Last Year's AUD 9530-A)	\$28,693	\$0	\$28,693
2. Plus Transfers from Contracts to Reserve Account (based on last year's post-audit CDFS 9530, Section IV):			
Contract No. CCTR2202	\$6,038	\$0	\$6,038
Contract No.			0
Total Transferred from Contracts to Reserve Account	6,038	0	6,038
3. Less Excess Reserve to be Billed (enter as a positive amount any excess amount calculated by CDFS on last year's post-audit CDFS 9530)	\$0		\$0
4. Ending Balance on Last Year's Post-Audit CDFS 9530	\$34,731	\$0	\$34,731

THIS YEAR:

5. Plus Interest Earned This Year on Reserve Funds (column A must agree with this year's CDFS 9530-A, Section II)	\$345	\$0	\$345
6. Less Transfers to Contracts from Reserve Account (column A amounts must agree with this year's CDFS 9530-A, Section III; and column C amounts must be reported on this year's AUD forms for respective contracts):			
Contract No. CCTR-2202	\$0	\$0	\$0
Contract No.			0
Total Transferred to Contracts from Reserve Account	0	0	0
7. Ending Balance on June 30, 2013 (column A must agree with this year's CDFS 9530-A, Section IV)	\$35,076	\$0	\$35,076

COMMENTS - If necessary, attach additional sheets to explain adjustments:

OTHER REPORT

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*

To the Honorable Mayor and Council Members
City of Sacramento
Sacramento, California

We have audited, in accordance with the 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, the financial statements of the Child Development Program (Program), an enterprise fund of the City of Sacramento, California, as of and for the year ended June 30, 2013, and the related notes to financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as it relates to the Program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control as it relates to the Program. Accordingly, we do not express an opinion on the effectiveness of the City's internal control as it relates to the Program.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of current year finding and recommendation, that we consider to be significant deficiency. Refer to item 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Program's Response to Finding

The Program's response to the finding identified in our audit is described in the accompanying schedule of current year finding and recommendation. The Program's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the City Council, management of the City of Sacramento, and the State Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Macie Mini & O'Connell LLP

Sacramento, California
November 8, 2013

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Current Year Finding and Recommendation
For the Fiscal Year Ended June 30, 2013

Item 2013-1 - Recording and Reconciling Accounts Receivable

Condition

During our analysis of the accounts receivable balances we noted that the financial statements did not properly reflect the accounts receivable and associated revenue related to families with outstanding balances owed as of June 30, 2013. However, after the issue was discovered, the financial statements have been updated to reflect the complete accounts receivable balances.

Cause

The Child Development Program uses EZ Care System to maintain student attendance records. It is an Access database with very limited report generation capabilities and this database does not interface with the general ledger. Based on current year observations, it appears that there was insufficient communication between the Child Development Program staff and the Accounting staff related to the responsibility of recording and monitoring the accounts receivable activity. Additionally, the Child Development Staff was not aware that this type of receivable had to be recorded in the general ledger since they were instructed by the State Department of Education to report revenue on a cash basis on the quarterly Attendance and Fiscal Reports. Despite these instructions, the Child Development Attendance & Fiscal Reporting & Reimbursement Procedures document published by the State requires accrual based accounting of revenues for noncertified participants.

Effect

As of June 30, 2013, the Child Development had \$223,797 in accounts receivable that were not recorded in the general ledger. This amount was offset by an allowance for uncollectible accounts of \$89,519.

Recommendation

The Program should improve the procedures involving the reconciliation of the accounts receivable subsidiary ledger (EZ Care) to the general ledger and strengthen the oversight and monitoring procedures, ensuring accurate reconciliations are being performed in a timely manner.

Management Response

Management is aware of the issue and agrees with the recommendation. The Child Development Program staff will review the Child Development Attendance & Fiscal Reporting & Reimbursement Procedures document and improve its monitoring and reconciliation procedures for the accounts receivable balances. Accounting staff will monitor the reconciliation procedures and verify the receivable balances are recorded properly at June 30, 2014.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Prior Year Finding and Recommendation
For the Fiscal Year Ended June 30, 2013

Item 2011-1 – Errors in the monthly and quarterly reports submitted to the State of California Department of Education

Condition

Six monthly and one quarterly Attendance and Fiscal Reports for Child Development Programs reports or CCTR reports submitted to the State of California Department of Education were not accurately prepared. Attendance numbers, fees collected, and expenses were incorrectly reported.

Criteria

Center based programs are required to report the number of days of enrollment, operations, and attendance; revenues and expenses on the CCTR report.

Effect

The effect of the condition is non-compliance with the requirements of the Child Development Program subjecting the program to disciplinary action from State of California Department of Education.

Cause

The Program Manager was not fully informed as to what information was to be reported to the State of California Department of Education and therefore included program and non-program related attendance, fees collected, and program expenses. A lack of oversight allowed this issue to continue until the third quarter of the fiscal year when an administrator of the program noticed the error.

Recommendation

We recommend the City design and implement procedures to perform a regular supervisory review of quarterly reports submitted to the State of California Department of Education to ensure compliance with Program requirements. In addition, the Program should provide appropriate training to staff to ensure that proper understanding of Program compliance requirements are understood.

Management Response

Management is aware of the issue and agrees with the recommendations. The City corrected the monthly and quarterly information in the final annual report submitted to the State of California Department of Education. Management will implement procedures to improve oversight of the reporting process and provide training to the program manager and staff on the State's compliance and reporting requirements.

2012 Status

This issue has not been resolved for the period ending June 30, 2012. During the year we identified several calculation errors for six monthly reports for the periods October 2011 through March 2012. The amount of expenses continued to be incorrectly reported on the CCTR reports submitted to the State of California Department of Education. To address the reporting errors, management submitted revised reports in September 2012.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Prior Year Finding and Recommendation (Continued)
For the Fiscal Year Ended June 30, 2013

2012 Management Response

Management is aware of the issue and agrees with the prior recommendations. Management has implemented changes to staffing and oversight of the reporting process for fiscal year 2012-13, and will provide training to the program manager and staff on the State's compliance and reporting requirements.

Current Year Status:

The issue has been resolved for the period ending June 30, 2013. During the current year MGO subjected the 4 quarterly reports to testing and verified that the reports were properly prepared and supported by the City's records.