

Meeting Date: 2/10/2015

Report Type: Consent

Report ID: 2015-00091

Title: Fiscal Year 2013/14 Child Development Program Audit Report

Location: Citywide

Recommendation: Receive and file.

Contact: Russell Robertson, Accounting Manager, (916) 808-1712; Leyne Milstein, Director of Finance, (916) 808-8491, Department of Finance

Presenter: None

Department: Finance

Division: Accounting Division

Dept ID: 06001311

Attachments:

1-Description/Analysis

2-FY14 Child Development Program Audit Report

City Attorney Review

Approved as to Form

Gerald Hicks

2/4/2015 9:31:17 AM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein - 2/2/2015 3:52:26 PM

Description/Analysis

Issue: The Fiscal Year (FY) 2013/14 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, 2014.

Policy Considerations: This report is consistent with the City's fiscal transparency and accountability principles and is required by the State of California for receipt of program funds.

Environmental Considerations:

California Environmental Quality Act (CEQA): This recommendation does not constitute a "project" and is therefore exempt from the California Environmental Quality Act according to CEQA guidelines Section 15061 (b)(1) and 15378(b)(3).

Sustainability Considerations: Not applicable.

Commission/Committee Action: None.

Rationale for Recommendation: It is in the best interest of the City Council to receive and file the FY2013/14 Child Development Program Audit Report for the following reasons:

- This report is required by the California Department of Education (CDE) and includes information necessary to comply with the CDE Audit Guide.
- The public accounting firm of Vavrinek, Trine, Day & Co., LLP, has audited the 4th R Child Development Program's FY2013/14 financial statements and has rendered its unmodified opinion that the financial statements are fairly presented in accordance with generally accepted accounting principles.
- The auditors verified that the recommendation for the prior year audit finding has been implemented and no reporting errors were found for FY2013/14.

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

Local Business Enterprise (LBE): Not applicable.

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
(an enterprise fund of the City of Sacramento, California)**

Independent Auditors' Reports,
Financial Statements and Supplementary Information

For the Fiscal Year Ended June 30, 2014

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**
For the Fiscal Year Ended June 30, 2014

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CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
General Information
For the Fiscal Year Ended June 30, 2014

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: Russell Robertson, Accounting Division
City Hall
915 I Street, 4th Floor
Sacramento, CA 95814

Telephone: (916) 808-1712

Period Covered: July 1, 2013 - June 30, 2014

Number of Days of Agency Operation: 249 days

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



INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
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 (City), as of and for the year ended June 30, 2014, 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.

Auditors' 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. 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, as of June 30, 2014, and the changes in financial position and, cash flows thereof for the 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, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the Program's financial statements. The supplementary information presented on pages 14 to 24 as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures in conformity with the *California Department of Education Audit Guide* issued by the California Department of Education, including comparing and reconciling such information 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 supplementary 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 October 30, 2014, on our consideration of the City's internal control over financial reporting as it relates to the Child Development Program and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance as it relates to the Child Development Program.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
October 30, 2014

FINANCIAL STATEMENTS

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Statement of Net Position
June 30, 2014

ASSETS

Current assets:

Cash and investments held by City	\$ 53,246
Accounts receivable, net	189,153
Due from State Department of Education	55,962
Prepaid expenses	7,228
Intangible asset, current portion	7,867
Total current assets	313,456

Noncurrent assets:

Restricted assets:	
Restricted cash and investments held by City	35,396
Intangible asset	167,166
Capital assets:	
Buildings and improvements	1,545,892
Less: accumulated depreciation	(794,061)
Capital assets, net	751,831
Total noncurrent assets	954,393
Total assets	1,267,849

LIABILITIES

Current liabilities:

Accounts payable	162,554
Wages and employee benefits payable	199,926
Unearned revenue	58,336
Accrued claims and judgments	13,000
Current portion of compensated absences	17,618
Current portion of loans payable	20,000
Total current liabilities	471,434

Noncurrent Liabilities:

Compensated absences	276,055
Net OPEB obligation	192,000
Total noncurrent liabilities	468,055
Total liabilities	939,489

NET POSITION

Net investment in capital assets	731,831
Unrestricted	(403,471)
Total net position	\$ 328,360

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**

Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

Operating revenues:

Government contracts	\$ 495,719
Subsidized parent fees	50,265
Unsubsidized parent fees	5,532,300
Miscellaneous	49,155
Total operating revenues	<u>6,127,439</u>

Operating expenses:

2000 Classified salaries	4,014,555
3000 Employee benefits	1,326,794
4000 Books and supplies	294,062
5000 Services and other operating expenses	584,890
Depreciation	77,293
Total operating expenses	<u>6,297,594</u>

Operating loss (170,155)

Nonoperating revenues (expenses):

Interest income (expense) (3,419)

Change in net position (173,574)

Total net position, beginning of year 501,934

Total net position, end of year \$ 328,360

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

Cash flows from operating activities:	
Receipts from customers and users	\$ 5,619,103
Receipts from State Department of Education	413,396
Payments to suppliers	(770,200)
Payments to employees	<u>(5,283,461)</u>
Net cash used in operating activities	<u>(21,162)</u>
Cash flows from capital and related financing activities:	
Repayment of construction loan	<u>(20,000)</u>
Cash flows from investing activities:	
Interest paid	<u>(3,419)</u>
Net decrease in cash and cash equivalents	(44,581)
Cash and cash equivalents - beginning of year	<u>133,223</u>
Cash and cash equivalents - end of year	<u><u>\$ 88,642</u></u>
Reconciliation of cash and cash equivalents to the statement of net position:	
Cash and investments held by City	\$ 53,246
Restricted cash and investments held by City	<u>35,396</u>
Total cash and cash equivalents	<u><u>\$ 88,642</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating loss	<u>\$ (170,155)</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	77,293
Amortization of intangible asset	7,867
Change in assets and liabilities:	
Accounts receivable	(12,617)
Due from State Department of Education	(55,962)
Prepaid expense	(7,228)
Accounts payable	108,113
Wages and employee benefits payable	21,342
Payable to State Department of Education	(49,621)
Net OPEB obligation	35,000
Accrued claims and judgements	2,000
Compensated absences	(454)
Unearned revenue	<u>23,260</u>
Total adjustments	<u>148,993</u>
Net cash used in operating activities	<u><u>\$ (21,162)</u></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, 2014

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

These statements are effective July 1, 2013.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that classify, as deferred outflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement did not have a material effect on the financial statements.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62*. This Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement did not have a material effect on the financial statements.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This statement did not have a material effect on the financial statements.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement improves accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This statement did not have a material effect on the financial statements.

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 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 2.27 years as of June 30, 2014. Additional information regarding investment risk of the City's pool, including interest rate and credit risk, can be found in the City's CAFR.

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.

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, 2014, the Program's allowance for doubtful accounts was \$88,823.

Intangible Asset

The intangible asset is from a shared facility use agreement where the Child Development Program made payments in 2006 of \$236,000 to Rio Linda Unified School District for the construction and use of a child care classroom facility at a Rio Linda school site. The program is allowed to operate the child care center and collect third party fees at the Regency Park School site based on the joint use agreement. 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.

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accrued Claims and Judgments

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

Net Position

When both restricted and unrestricted resources are available for use, it is the Program's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

Use of Estimates

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

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE B – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and improvements	\$ 1,545,892	\$ -	\$ -	\$ 1,545,892
Less accumulated depreciation	(716,768)	(77,293)	-	(794,061)
Capital assets, net	<u>\$ 829,124</u>	<u>\$ (77,293)</u>	<u>\$ -</u>	<u>\$ 751,831</u>

NOTE C – COMPENSATED ABSENCES

Changes in compensated absences during the fiscal year ended June 30, 2014 were as follows:

	Balance	Additions	Deletions	Balance	One Year
Compensated absences	<u>\$ 294,127</u>	<u>\$ 345,133</u>	<u>\$ (345,587)</u>	<u>\$ 293,673</u>	<u>\$ 17,618</u>

NOTE D – LOANS PAYABLE

The loan payable to the California Department of Education for the Sequoia classroom construction is payable in annual installments of \$20,000 through August 1, 2014. The loan does not bear interest. Annual debt service requirements to maturity are as follows:

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

The following is a summary of the loans payable transactions for the fiscal year ended June 30, 2014:

Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ (20,000)</u>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM**
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

NOTE E – OPERATING LEASES

As of June 30, 2014, the Program has a lease for its administrative office with the Sacramento County Office of Education which expires on June, 30, 2018. The Program can terminate the lease with at least six months notice to the lessor. Operating lease expenses for the fiscal year ended June 30, 2014 were \$133,164. The future lease payments for upcoming fiscal years are as follows:

Fiscal Year Ending June 30,	Future Minimum Lease Payments
2015	\$ 86,739
2016	94,516
2017	96,310
2018	98,105
Total	\$ 375,670

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
For the Fiscal Year Ended June 30, 2014

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, 2014 based off the June 30, 2013 valuation allocated to the Program was calculated as follows:

Annual required contribution (ARC)	\$	56,000
Interest on net OPEB obligation		6,000
Adjustment to annual required contribution		(10,000)
Annual OPEB cost (expense)		52,000
Contributions made		(17,000)
Increase in net OPEB obligation		35,000
Net OPEB obligation - Beginning of year		157,000
Net OPEB obligation - End of year	\$	192,000

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, 2012	\$ 50,000	33%	\$ 122,000
June 30, 2013	52,000	31%	157,000
June 30, 2014	52,000	33%	192,000

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, 2014.

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
For the Fiscal Year Ended June 30, 2014

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. Members of the City’s miscellaneous plan are required to contribute 8% and the Program is required to contribute 13.645% of applicable compensation. These contribution rates are actuarially determined on an annual basis. Program contribution requirements for the fiscal year ended June 30, 2014 were determined as part of the City’s June 30, 2011 actuarial valuation.

Annual Pension Cost

The Program’s contribution requirement for the fiscal year ended June 30, 2014 was \$379,757 or 13.645% 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, 2012	\$ 314,986	100%	\$ -
June 30, 2013	340,993	100%	-
June 30, 2014	379,757	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, 2014.

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.

SUPPLEMENTARY INFORMATION

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
 Schedule of Federal and State Awards
 For the Fiscal Year Ended June 30, 2014

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-3189	<u>\$ 341,270</u>	<u>\$ 377,671</u>	<u>\$ 718,941</u>	<u>\$ 235,050</u>	<u>\$ 260,669</u>	<u>\$ 495,719</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Combining Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	CDE Contract CCTR-3189	Non CDE Sites	Total
<u>Revenue and Support</u>			
Federal apportionment	\$ 235,050	\$ -	\$ 235,050
State apportionment	260,669	-	260,669
Subsidized parent fees	50,265	-	50,265
Unsubsidized parent fees	2,024,512	3,507,788	5,532,300
Interest income	-	(3,419)	(3,419)
Miscellaneous	10,091	39,064	49,155
Total revenue and support	<u>2,580,587</u>	<u>3,543,433</u>	<u>6,124,020</u>
<u>Expenses</u>			
2000 Classified salaries	2,009,949	2,004,606	4,014,555
3000 Employee benefits	632,037	694,757	1,326,794
4000 Books and Supplies	129,196	164,866	294,062
5000 Services and other operating expenses	256,041	328,849	584,890
Depreciation	-	77,293	77,293
Total expenses	<u>3,027,223</u>	<u>3,270,371</u>	<u>6,297,594</u>
Change in net position	<u>\$ (446,636)</u>	<u>\$ 273,062</u>	<u>\$ (173,574)</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Expenses by State Categories
For the Fiscal Year Ended June 30, 2014

<u>Expenses</u>	CDE Contract CCTR-3189
2000 Classified salaries	\$ 2,009,949
3000 Employee benefits	632,037
4000 Books and supplies	129,196
5000 Services and other operating expenses	256,041
Total expenses claimed for reimbursement	<u>\$ 3,027,223</u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Equipment Expenses
For the Fiscal Year Ended June 30, 2014

	<u>CDE Contract CCTR-3189</u>
<u>Unit Cost Under \$7,000 Per Item</u>	
None	\$ -
Subtotal	<u>-</u>
 <u>Unit Cost Over \$7,500 Per Item with prior Written Approval</u>	
None	<u>-</u>
Subtotal	<u>-</u>
 <u>Unit Cost Over \$7,500 Per Item without prior Written Approval</u>	
None	<u>-</u>
Subtotal	<u>-</u>
 Total	 <u><u>\$ -</u></u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Expenses for Renovations and Repairs
For the Fiscal Year Ended June 30, 2014

	<u>CDE Contract CCTR-3189</u>
<u>Unit Cost Under \$10,000 Per Item</u>	
None	\$ -
Subtotal	<u>-</u>
<u>Unit Cost \$10,000 or More Per Item With Prior Written Approval</u>	
None	-
Subtotal	<u>-</u>
<u>Unit Cost \$10,000 or More Per Item Without Prior Written Approval</u>	
None	-
Subtotal	<u>-</u>
Total	<u><u>\$ -</u></u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Reimbursable Administrative Costs
For the Fiscal Year Ended June 30, 2014

<u>Category</u>	<u>Reimbursable Administrative Costs</u>	<u>CDE Contract CCTR - 3189</u>
2000	Classified salaries	\$ 217,223
3000	Employee benefits	81,093
4000	Books and supplies	13,296
5000	Services and other operating expenses	<u>142,472</u>
	Total	<u><u>\$ 454,084</u></u>

CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Schedule of Child Attendance
General Center Child Care
Project Number 34-2192-00-2 (CCTR-3189)
For the Fiscal Year Ended June 30, 2014

Report Period	Certified Families						Noncertified Families
	Total Days of Operation	Total Days of Enrollment	Total Days of Attendance	Total Adjusted Days of Enrollment	Average Daily Enrollment	Percent of Attendance	Total Adjusted Days of Enrollment
July	22	2,784	2,780	2,787	127	100%	8,734
August	22	2,280	2,262	2,025	92	99%	13,002
September	20	2,503	2,497	1,567	78	100%	7,246
October	23	2,758	2,731	1,733	75	99%	8,923
November	18	2,256	2,248	1,527	85	100%	6,888
December	20	2,205	2,197	1,466	73	100%	7,557
January	21	2,255	2,246	1,432	68	100%	6,636
February	19	2,220	2,208	1,427	75	99%	7,187
March	20	2,419	2,414	1,536	77	100%	7,687
April	22	2,487	2,486	1,684	77	100%	8,402
May	21	2,625	2,212	1,646	78	84%	7,786
June	21	2,285	2,292	2,092	100	100%	5,520
Totals	<u>249</u>	<u>29,077</u>	<u>28,573</u>	<u>20,922</u>	<u>84</u>	<u>98%</u>	<u>95,568</u>

AUDITED ATTENDANCE AND FISCAL REPORT

for Child Development Programs

Agency Name: City of Sacramento Vendor No. 2192

Fiscal Year Ended: June 30, 2014 Contract No. CCTR 3189

Independent Auditor's Name: Vavrinek, Trine, Day & Co., 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	500	379	879	1.180	1,037.220
Full-time	4,619	1,565	6,184	1.000	6,184.000
Three-quarters-time	5,916	2,049	7,965	0.750	5,973.750
One-half-time	10,645	3,404	14,049	0.550	7,726.950
<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	21,680	7,397	29,077		20,921.920
DAYS OF OPERATION	185	64	249		
DAYS OF ATTENDANCE	21,583	6,990	28,573		

NO NONCERTIFIED CHILDREN - Check this box, omit page 2, and continue to Section III if no noncertified children were enrolled in the program

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, 2014 Contract No. CCTR 3189

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	21,736	-	21,736	1.000	21,736.000
Three-quarters-time	-	-	-	0.750	-
One-half-time	94,771	39,469	134,240	0.550	73,832.000
<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	116,507	39,469	155,976		95,568.000

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, 2014 Contract No. CCTR 3189

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	1,979		1,979
Subtotal	\$1,979	\$0	\$1,979
Transfer from Reserve			0
Contract #			0
Family Fees for Certified Children			0
CCTR Program	48,122		48,122
Contract # 3189			
CSPP Full-Day Program			0
Contract #			
CSPP Part-Day Program			0
Contract #			
Interest Earned on Apportionments			0
Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children	1,959,551		1,959,551
Head Start Program (EC § 8235(b))			0
Other (Specify): Field Trip; Annual Enrollment	75,216		75,216
TOTAL REVENUE	\$2,084,868	\$0	\$2,084,868

SECTION IV - REIMBURSABLE EXPENSES

<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries			0
2000 Classified Salaries	2,009,949		2,009,949
3000 Employee Benefits	632,037		632,037
4000 Books and Supplies	129,196		129,196
5000 Services and Other Operating Expenses	256,041		256,041
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			0
Contract #			0
Contract #			0
Indirect Costs. Rate: 0.00% (Rate is Self-Calculating)			0
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$3,027,223	\$0	\$3,027,223
TOTAL ADMINISTRATIVE COSTS (included in section IV above)	\$454,084		\$454,084

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, Early Education and Support 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 ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: City of Sacramento Vendor No. 2192

Fiscal Year End: June 30, 2014 Contract No. CCTR 3189

Insert Any Commingled Contract Number _____

SECTION V - SUPPLEMENTAL REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER	AUDIT ADJUSTMENT INCREASE OR	CUMULATIVE FISCAL YEAR PER AUDIT
Enhancement Funding	\$0	\$0	\$0
Other (Specify):			0
Other (Specify):			0
Other (Specify):			0
TOTAL SUPPLEMENTAL REVENUE	\$0	\$0	\$0

SECTION VI - SUPPLEMENTAL EXPENSES

EXPENSES RELATED TO SUPPLEMENTAL REVENUE			
1000 Certificated Salaries	\$0	\$0	\$0
2000 Classified Salaries			0
3000 Employee Benefits			0
4000 Books and Supplies			0
5000 Services and Other Operating Expenses			0
6000 Equipment/Other Capital Outlay			0
Depreciation or Use Allowance			0
Indirect Costs			0
Other (Specify):			0
NONREIMBURSABLE EXPENSES			
6100-6500 Nonreimbursable Capital Outlay			0
Other: e.g., Entertainment Expenses			0
Other (Specify):			0
Other (Specify):			0
TOTAL SUPPLEMENTAL EXPENSES	\$0	\$0	\$0

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

AUDITED RESERVE ACCOUNT ACTIVITY REPORT

Agency Name: CITY OF SACRAMENTO

Fiscal Year End: June 30, 2014

Vendor No. 2192

Independent Auditor's Name: Vavrinek, Trine, Day & Co., LLP

RESERVE ACCOUNT TYPE (Check One): <input checked="" 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)	\$29,038	\$0	\$29,038
2. Plus Transfers from Contracts to Reserve Account (based on last year's post-audit CDFS 9530, Section IV):			
Contract No. CCTR - 2202	\$6,038	\$0	\$6,038
Contract No.			0
Total Transferred from Contracts to Reserve Account	6,038	-	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	\$0
4. Ending Balance on Last Year's Post-Audit CDFS 9530	\$35,076	\$0	\$35,076

THIS YEAR:

5. Plus Interest Earned This Year on Reserve Funds (column A must agree with this year's CDFS 9530-A, Section II)	\$320	\$0	\$320
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.	\$0	\$0	\$0
Contract No.			-
Total Transferred to Contracts from Reserve Account	-	-	-
7. Ending Balance on June 30, 2014 (column A must agree with this year's CDFS 9530-A, Section IV)	\$35,396	\$0	\$35,396

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

OTHER REPORT



**INDEPENDENT AUDITORS' 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**

Honorable Mayor and City Council
City of Sacramento
Sacramento, California

We have audited, 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, the financial statements of the Child Development Program (Program), an enterprise fund of the City of Sacramento, California (City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 30, 2014. Our audit report included an emphasis of matter paragraph stating the financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the City of Sacramento, California.

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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

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*.

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.

Vavrinik, Trine, Day & Co. LLP

Sacramento, California
October 30, 2014

**CITY OF SACRAMENTO
CHILD DEVELOPMENT PROGRAM
Summary Schedule of Prior Year Finding
For the Fiscal Year Ended June 30, 2014**

Summarized below is the current status of all audit findings reported in the prior year's audit:

Finding No.	Program	Status of Corrective Action
2013-1	Recording and Reconciling Accounts Receivable	Implemented.