



AGENDA ITEM: 13
DATE OF MEETING: April 21, 2010
ACTION: X
INFORMATION: _____

**ANNUAL REPORT AND SCHOOL READINESS GUIDELINES FOR
IMPLEMENTATION BEGINNING WITH FISCAL YEAR 2010-11**

SUMMARY OF REQUEST

Staff presents the proposed First 5 California Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11 for adoption by the State Commission.

BACKGROUND

The California Children and Families Act of 1998 (the Act), at Health and Safety Code Section 130150(a), states:

. . . [O]n or before November 1 of each year, each county commission shall submit its audit and report to the state commission for inclusion in the state commission's consolidated report required in subdivision (b). Each commission shall submit its report in a format prescribed by the state commission if the state commission approves that format in a public meeting prior to the fiscal year during which it is to be used by the county commissions. The state commission shall develop the format in consultation with the county commissions.

In February 2006, First 5 California introduced its County Annual Report Submittal Guidelines to First 5 county commissions. The Guidelines listed First 5 county commission data reporting requirements for supporting First 5 California's compliance with the Act. The development of these Guidelines resulted from collaborative efforts with the Evaluation Technical Advisory Committee, which included representatives from First 5 California, the First 5 Association of California, and one county commission representative from each of the six First 5 regions. Since Fiscal Year 2006-07, the First 5 California Annual Report has been developed using data collected under the new Guidelines.

First 5 California has renamed the *County Annual Report Submittal Guidelines* to *First 5 Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11*. The proposed revised Guidelines include the following changes:

County Revenue and Expenditure Summary (AR-1) Overview: This section has been replaced in its entirety to incorporate the new financial fund balance reporting and governmental fund type definitions detailed in Statement No. 54 issued by the Governmental Accounting Standards Board (GASB).

- 1. County Revenue and Expenditure Summary (AR-1) Overview and Attachment I:** Additional text has been incorporated into this section to establish a requirement for a Supplemental Schedule of First 5 California Funding for counties receiving funds from First 5 California. The contents of the supplemental report are detailed in the AR-1 Instructions, and an example of the supplemental report is included in the Guidelines as Attachment 1.
- 2. County Demographic Worksheet (AR-2) Overview:** There is an update to the instructions for reporting the Most Compelling Service Outcome data.

Below are details related to the proposed changes to the First 5 California Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11.

A. New financial fund balance reporting and governmental fund type definitions detailed in Statement No. 54 issued by the Governmental Accounting Standards Board (GASB)

In February 2009, the GASB released *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements in this Statement are effective for financial statements for periods beginning after June 15, 2010. California must apply these standards beginning with FY 2010-11.

Background

According to GASB publication No. 267-B released in February 2009, the National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraphs 118-121, established the fund balance classifications for governmental funds. Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, retained those classification requirements. Research conducted after implementation of Statement No. 34, however, found considerable differences in how governments interpret and apply the standards for fund balance reporting. The differences existed, in part, because certain terms were not well defined, which affected the amounts that were reported as reserved and unreserved fund balances. Consequently, many users have been receiving inconsistent and noncomparable information which reduced its usefulness and led to confusion as to what the information presented in fund balance reporting actually communicated. These concerns were exacerbated by two additional factors. First, different interpretations of certain aspects of the definitions of governmental fund types reduced the comparability of the governmental fund financial statements, because the funds used

and the purposes for using them varied significantly from government to government. Second, the introduction of restricted net assets under Statement No. 34 led to confusion regarding its relationship to reserved fund balance.

Statement No. 54 Objective

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied; and to improve the usefulness, including the understandability, of governmental fund balance information. This Statement provides more clearly defined categories to make the nature and extend of the constraints placed on a government’s fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users better understand the purposes for which governments have chosen to use particular funds for financial reporting.

Fund Balance Reporting

Fund balances for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The table below represents the fund balance reporting categories currently used, as established in Statement No. 34, and the new fund balance reporting categories established in Statement No. 54.

Fund Balance Reporting Categories	
Statement No. 34 (former)	Statement No. 54 (proposed)
<ul style="list-style-type: none"> ▪ Reserved for Encumbrances ▪ Reserved for Obligations ▪ Reserved Funds Not Yet Obligated ▪ Funds Reserved for First 5 California Initiatives ▪ Unreserved-Designated ▪ Unreserved-Undesignated 	<ul style="list-style-type: none"> ▪ Nonspendable ▪ Restricted ▪ Committed ▪ Assigned ▪ Unassigned

The First 5 California Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11 document provides details for each of the Statement 54 Fund Balance Reporting Categories referenced above.

Governmental Fund Type Definitions

Governmental fund types include the general fund, special revenue fund, capital projects fund, debt service fund, and permanent fund. The definitions in Statement No. 54 added clarification of these fund types to reduce uncertainty about which resources can or should be reported in the respective fund types.

B. Supplemental Schedule of First 5 California Funding

In addition to the First 5 California Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11, First 5 California released to county commissions supplemental guidelines through the Management Memo process for use in preparing annual audits. These supplemental guidelines advised county commissions of their requirement to submit a supplemental summary schedule of First 5 California expenditures by fund source and net assets of First 5 California funds for each program or activity. The summary required the reporting of the following information for each program or project:

- Revenue received from First 5 California funds for each program or activity,
- Expenditures of First 5 California and other local cash matching funds (county Commission and local funds) per program or activity, and
- Net assets of First 5 California funds per program or activity at the end of the fiscal year.

First 5 California temporarily suspended the supplemental schedule pending a statutory review to release supplemental reporting guidelines without State Commission review. During this review period, county commissions receiving First 5 California funds were required to continue to report financial information consistent with the respective Request for Application, Request for Funding, and/or the Funding Terms and Conditions for funding. First 5 California has determined that supplementary schedule of state fund reporting shall be incorporated into the annual reporting guidelines reviewed and approved by the State Commission. This is the first opportunity for the supplementary expenditure report to be incorporated into the Annual Report and School Readiness Guidelines.

C. Most Compelling Service Outcome Change

Eliminated discretionary language for reporting the most compelling service outcome data and required the reporting of this information on an annual basis.

Background

In October 2006, the State Commission approved revisions and updates to First 5 California's Guidelines for fiscal year 2006-07. After the release of the fiscal year 2006-07 annual report, First 5 California staff asked county commissions to voluntarily submit to First 5 California compelling service outcomes. First 5 California used the compelling service outcome information to respond to legislative and public inquiries for additional outcome data. The information submitted by the counties in fiscal year 2007-08 proved to be extremely useful and descriptive service outcome data. First 5 California staff and the Evaluation Technical Advisory Committee agreed that the compelling service outcome data would become a required component of the Guidelines and the Annual Report data submission beginning in fiscal year 2010-11.

STAFF RECOMMENDATION

Staff recommends the State Commission approve the Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11.

ATTACHMENTS

Attachment 1: First 5 California Annual Report and School Readiness Guidelines for Implementation Beginning with Fiscal Year 2010-11