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**FIRST 5 ALAMEDA COUNTY**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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 **Patel &**  
**Associates**  
Certified Public Accountant

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**FIRST 5 ALAMEDA COUNTY  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2010**

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**INDEPENDENT AUDITOR'S REPORT**

Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the accompanying financial statements of the governmental activities, and the major fund of First 5 Alameda County, as of and for the year ended June 30, 2010, which collectively comprise First 5 Alameda County's basic financial statements as listed in table of contents. These financial statements are the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of First 5 Alameda County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of First 5 Alameda County as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010, on our consideration of First 5 Alameda County's internal control over financial reporting 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 23 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise First 5 Alameda County's basic financial statements. The schedule of revenues and expenditures by fund source and fund balance of CCFC funds for First 5 Programs on page 24 is presented for purpose of additional analysis and is not a required part of the basic financial statements. The schedule of revenues and expenditures by fund source and fund balance of CCFC funds for First 5 Programs on page 24 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Palmieri & Associates*  
Oakland, California  
September 22, 2010

**FIRST 5 ALAMEDA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

This Management's Discussion & Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 Alameda County for the year ended June 30, 2010. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements (beginning on page 10).

**FINANCIAL HIGHLIGHTS**

- The assets of First 5 Alameda County exceeded its liabilities at the close of the fiscal year by \$46,927,202. Of this amount, \$46,445,535 is in cash and investments and is available to meet First 5 Alameda County's ongoing operating expenses.
- First 5 Alameda County's net assets decreased by \$3,203,592 during the fiscal year. This was in line with First 5 Alameda County's financial projection primarily due to the expected excess of expenditures over revenues as a result of a declining revenue source.
- During 2009-10, total First 5 Alameda County revenues were \$21,448,637, a decrease of \$358,457 from the prior year. Total expenses were \$24,652,229, a decrease of \$655,258 from the prior year.
- Revenues from the Proposition 10 tobacco tax were \$14,532,492 a decrease of \$1,406,350 from the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The First 5 Alameda County financial statements include the statement of net assets, statement of activities and the statement of revenues, expenses and changes in fund balance – budget and actual. Also included are the notes to the financial statements.

The statement of net assets provides information about the financial position of First 5 Alameda County as a whole on the full accrual basis, similar to that used in the private sector. The statement of activities provides information about the First 5 Alameda County's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of First 5 Alameda County's divisions.

The statement of activities explains in detail the change in net assets for the year. All First 5 Alameda County's assets and liabilities are current (generally within 12 months).

The statement of revenues, expenses and changes in fund balance – budget and actual presents First 5 Alameda County's budget comparisons between the original budget and the final amended budget compared with actual resource inflows and outflows.

The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in the financial statements.

## STATEMENT OF NET ASSETS

The net assets of First 5 Alameda County decreased by \$3,203,592 from the prior year. The composition of net assets as of June 30, 2010 and 2009 is shown in the following table:

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Cash and investments	\$ 46,445,535	\$ 50,035,289	\$ (3,589,754)
Receivables	3,643,683	3,471,415	172,268
Prepaid expenses	38,500	17,240	21,260
Fixed assets	106,256	11,976	94,280
	<hr/>	<hr/>	<hr/>
Total assets	50,233,974	53,535,920	(3,301,946)
	<hr/>	<hr/>	<hr/>
Accrued payroll	284,830	208,302	76,528
Other accrued liabilities	3,021,942	3,196,824	(174,882)
	<hr/>	<hr/>	<hr/>
Total liabilities	3,306,772	3,405,126	(98,354)
	<hr/>	<hr/>	<hr/>
Net assets	\$ 46,927,202	\$ 50,130,794	\$ (3,203,592)
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The decrease in First 5 Alameda County's Cash and Investments was a result of the spending of Sustainability Funds as budgeted.

Fiscal year 2009-10 is the fourth full year of investment of funds outside of the Alameda County Treasury's investment pool. The investments outside of the County pool have grown from a \$34,000,000 initial investment to a fair market value of \$41,782,250 as of June 30, 2010. Fees charged by money managers totaled \$27,110 in 2009-10, compared to \$50,006 in the prior year, a difference of \$22,896. Recent economic indicators show that the economic recovery is slow and the unemployment rate is unlikely to decrease significantly. This uniquely challenging economic environment may affect the future performance of the portfolio. Investment Earnings decreased from \$2,326,967 in 2008-09 to \$1,471,102 in 2009-10, a decrease of \$855,865.

The increase in Receivables is mainly due to slight increase in revenue that is accrued at year end. The decrease in Other Accrued Liabilities consists of payments to contractors that bill on a quarterly basis.

## STATEMENT OF ACTIVITIES

During the year ended June 30, 2010, First 5 Alameda County's net assets decreased \$3,203,592 from the prior year. This change in net assets is shown in the following table:

	<u>FY 2010</u>	<u>FY 2009</u>	<u>Change</u>
Total program revenues	\$ 3,215,741	\$ 1,988,829	\$ 1,226,912
Total program expenses	<u>24,652,229</u>	<u>25,307,487</u>	<u>(655,258)</u>
Program loss	(21,436,488)	(23,318,658)	(1,882,170)
General revenues	<u>18,232,896</u>	<u>19,818,265</u>	<u>(1,585,369)</u>
Change in net assets	(3,203,592)	(3,500,393)	(296,801)
Net assets, beginning of year	<u>50,130,794</u>	<u>53,631,187</u>	<u>(3,500,393)</u>
Net assets, end of year	<u>\$ 46,927,202</u>	<u>\$ 50,130,794</u>	<u>\$ (3,203,592)</u>

Total Program Revenues refer to revenues that are restricted for specific program use, such as MediCal Administrative Activities (MAA). The increase in Program Revenues is primarily due to the timing of receipt of the MAA revenues. In 2009-10 First 5 Alameda County received two years' worth of MAA revenues for \$1,060,853 while no revenues were received at all in 2008-09 despite the timely submission of almost \$400,000 in invoices.

The 2009-10 Total Program Expenses decreased by \$655,258 from the prior year. This is due to the decrease in expenditures for large programs such as the Child Development Corps.

Total General Revenues decreased by \$1,585,369. These include decreases in Tobacco Tax funding of approximately \$1.4 million and Investment revenue of \$855,865.

Funds for the monthly allocation of Proposition 10 Tobacco tax decreased from \$15,938,842 in 2008-09 to \$14,532,492 in 2009-10, a difference of \$1,406,350, or 8.8%. The revenue decline was greater than anticipated due to the new federal tobacco tax and the ongoing recession. The average decline in Alameda County from 2001-02 through 2009-10 was 3% per year. Tobacco taxes are allocated to counties proportional to the number of births in each county. In addition to the Alameda County birth rate, Tobacco tax allocations are affected by a variety of factors including statewide tobacco sales, tax collection methods, and birth rate changes in the other counties.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL**

The increase in total revenues of \$1,097,004 between First 5 Alameda County’s original and final budgets was mainly due to the confirmation of the State AB212 funds from Alameda County Planning Council for stipends and training for school age child care providers.

**COMPARISON OF BUDGET TO ACTUAL**

The following schedule compares the revenues and expenditures for the current fiscal year to the final budget.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Prop 10 Tobacco tax	\$ 14,000,000	\$ 14,532,492	\$ 532,492
Sustainability fund	6,947,507		(6,947,507)
Interagency income	2,225,983	1,464,249	(761,734)
Grants	2,777,240	2,509,139	(268,101)
Fiscal leveraging	350,000	1,189,679	839,679
Investment income	1,125,000	1,471,102	346,102
Miscellaneous income	120,568	281,976	161,408
Total revenues	<u>\$ 27,546,298</u>	<u>\$ 21,448,637</u>	<u>\$ (6,097,661)</u>
Expenditures			
Personnel	\$ 7,687,976	\$ 6,918,676	\$ 769,300
Program contracts/grants/MOUs	17,884,250	16,261,438	1,622,812
Training	902,135	492,015	410,120
General expenses	1,106,895	1,066,629	40,266
Total expenditures	<u>\$ 27,581,256</u>	<u>\$ 24,738,758</u>	<u>\$ 2,842,498</u>
(Deficiency) of revenues over expenditures	<u>\$ (34,958)</u>	<u>\$ (3,290,121)</u>	<u>\$ (3,255,163)</u>

Tobacco tax was budgeted at \$14,000,000. The projection was reduced to reflect the 2009-10 actual trend based on the first six months of revenue received. The actual receipt of revenue was \$14,532,492, which is 3.8% above the budget projection.

It was projected that \$6,947,507 would be needed from the Sustainability Fund. The Sustainability Fund is First 5 Alameda County’s reserve fund which was set aside to cover expenditures and future costs as the expected decline of tobacco tax revenue occurs. Only \$3,290,121 of that allocation was needed, due to revenue being over projections and expenses being under spent. This is the third year that funds budgeted from the Sustainability Fund have actually been needed and used.

In fiscal leveraging, the actual revenue for Targeted Case Management is \$103,129 after sharing revenue with a community partner. \$1,060,853 was received towards MAA (MediCal Administrative Activities) revenue in 2010.



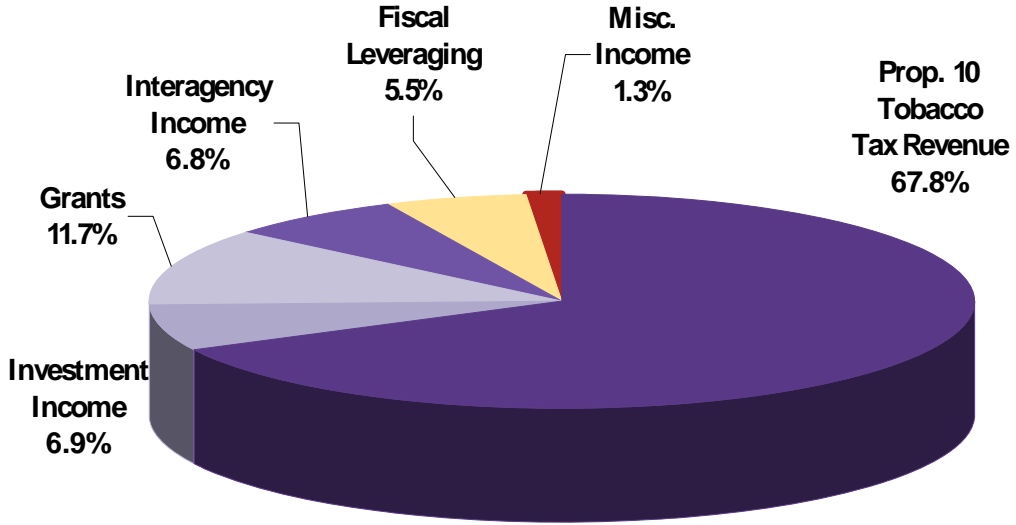
Investment revenue was budgeted at \$1,125,000 and \$1,471,102 was reported, a difference of \$346,102 over the budget projection. See further discussion of investments on page 4.

Personnel Salary and Benefits were budgeted at \$7,687,976 and actual expenses were \$6,918,676, a difference of \$769,300, or 10 % below projections. This is primarily due to vacancies in several divisions, most notably Early Care and Education, Support Strategies and Administration.

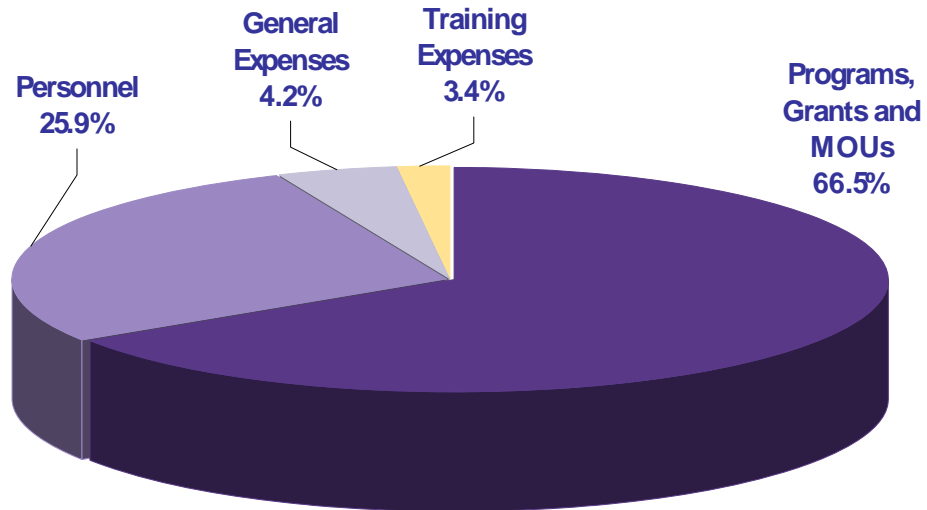
Program Contracts/Grants/MOUs were budgeted at \$17,884,250, and actual expenses were \$16,261,438, a difference of \$1,622,812, or 9.07% below projections. The variance between budget and actual expenses is mainly due to the Support Strategies division spending \$1,183,457 less than budget due to under spent funds for the two Substance Abuse Mental Health Services Administration (SAMHSA) federal grants and under spent Tobacco tax funds for the Screening, Assessment, Referral and Treatment (SART) program. Both SAMHSA award agreements took longer than expected to execute thus delaying hiring which accounts for the underspending. In addition, the Family Support Services, Early Care and Education and Evaluation & Technology divisions were each underspent in their respective Program Contracts/Grants/MOUs line items.

Following are graphs of First 5 Alameda County's revenue by source and expenditures by category for 2009-10:

**REVENUES BY SOURCES**  
**2009-2010 ACTUAL REVENUES**



**EXPENDITURES BY CATEGORIES**  
**2009-2010 ACTUAL EXPENDITURES**



## **SUMMARY OF KNOWN FACTS, DECISIONS OR CONDITIONS**

The following are currently known facts, decisions or conditions that are expected to have a significant impact on the financial position or changes in financial position of First 5 Alameda County:

- The California Board of Equalization reports that overall tobacco tax revenue for fiscal year 2009-10 declined 8.1%, the steepest drop since a decline of 11.2% in 1999-2000. This steep decline is attributed to a new \$.66 per pack of cigarette federal State Children's Health Insurance Program (SCHIP) and the ongoing recession.
- First 5 Alameda County began a four year strategic plan in July of 2009. The 2009-13 Strategic Plan includes seven core strategies that integrate the many different services and supports focused on specific target populations and outcomes. At this time due to the steeper than projected decline in tobacco tax revenue, plans are being made for program reductions to begin in July of 2011.
- An increase in the Alameda County Employees' Retirement Association employer contribution rate will increase First 5 Alameda County benefits expenses and increases in employee health insurance premiums will continue to occur.
- Federal SAMHSA grants totaling \$948,717 as well as a \$207,900 grant for school readiness programs from the Thomas J. Long Foundation will contribute to a sustained increase in grants revenue.
- All of the above factors were considered in preparing First 5 Alameda County's budget for fiscal year 2010-11.

## **REQUESTS FOR INFORMATION**

The annual financial report is designed to provide a general overview of the First 5 Alameda County's finances and operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

<b>Mark Friedman</b> <b>Chief Executive Officer</b>
First 5 Alameda County 1100 San Leandro Blvd, Suite 120 San Leandro, CA 94577

**FIRST 5 ALAMEDA COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

**Assets:**

Cash and investments (Note 2)	\$ 46,445,535
Tobacco taxes receivable	2,554,890
Interest receivable	352,866
Other receivables	735,927
Prepaid expenses	38,500
Capital assets, net (Note 3)	<u>106,256</u>
Total assets	<u>50,233,974</u>

**Liabilities:**

Accrued payroll	284,830
Accrued vacation	337,811
Employee benefits payable	55,554
Accounts payable and accrued liabilities	<u>2,628,577</u>
Total liabilities	<u>3,306,772</u>

**Net assets:**

Invested in capital assets	106,256
Unrestricted	<u>46,820,946</u>
Total net assets	<u>\$ 46,927,202</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net Expenses</u>
Governmental activities:			
Family support services	\$ 8,594,658	\$ 1,405,606	\$ (7,189,052)
Early childhood education	6,774,713	1,154,638	(5,620,075)
Community grants	3,303,495	188,916	(3,114,579)
Support strategies	3,929,670	222,117	(3,707,553)
Evaluation and technical support	1,639,015	146,707	(1,492,308)
Administration	<u>410,678</u>	<u>97,757</u>	<u>(312,921)</u>
Total governmental activities	\$ <u>24,652,229</u>	\$ <u>3,215,741</u>	<u>(21,436,488)</u>
General revenues:			
Tobacco tax			14,532,492
Investment earnings			1,471,102
School readiness			1,931,663
State First 5 grants			15,663
Miscellaneous			<u>281,976</u>
Total general revenues			<u>18,232,896</u>
Change in net assets			(3,203,592)
Net assets - beginning			<u>50,130,794</u>
Net assets - ending			\$ <u><u>46,927,202</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
BALANCE SHEET  
JUNE 30, 2010**

**Assets:**

Cash and investments	\$ 46,445,535
Tobacco taxes receivable	2,554,890
Interest receivable	352,866
Other receivables	735,927
Prepaid expenses	<u>38,500</u>
 Total assets	 \$ <u><u>50,127,718</u></u>

**Liabilities:**

Accrued payroll	\$ 284,830
Employee benefits payable	55,554
Accounts payable and accrued liabilities	<u>2,628,577</u>
 Total liabilities	 <u>2,968,961</u>

**Fund balance:**

Reserved for:	
Encumbrances	13,459,479
Obligations	2,760,446
Unreserved:	
Designated for local initiatives and program sustainability	27,735,239
Undesignated	<u>3,203,593</u>
 Total fund balance	 <u>47,158,757</u>
 Total liabilities and fund balance	 \$ <u><u>50,127,718</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2010**

Total governmental fund balance	\$ 47,158,757
Amounts reported in governmental activities in the statement of net assets are difference because:	
Accrued vacation not treated as an expenditure in governmental funds	(337,811)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>106,256</u>
Total net assets - governmental activities	\$ <u><u>46,927,202</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED JUNE 30, 2010**

<b>REVENUES:</b>	
Prop 10 Tobacco tax	\$ 14,532,492
Interagency income	1,464,249
Grants:	
Federal	121,554
State	2,179,686
Private	207,899
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	1,060,853
Targeted Case Management (TCM)	103,129
Title IV - E Pre-Placement Prevention Services	25,697
Sub-total	<u>1,189,679</u>
Investment income	1,471,102
Miscellaneous income	<u>281,976</u>
Total revenues	<u>21,448,637</u>
<b>EXPENDITURES:</b>	
Personnel:	
Salaries	3,657,163
Benefits	<u>2,125,046</u>
Sub-total	<u>5,782,209</u>
Service Delivery Personnel:	
Salaries	<u>1,136,467</u>
Sub-total	<u>1,136,467</u>
Program Contracts/Grants/MOU's:	
Contracts	12,053,746
Grants	3,039,755
Child Development Corps Stipends	854,265
Professional services contracts	284,397
Training stipends	29,275
Sub-total	<u>16,261,438</u>
Training expenses:	
Copy/printing	51,910
Equipment	276
Food/hospitality	48,994
Honoraria	26,447
Postage	11,124
Professional services	28,329
Space rental	1,498
Supplies	263,910
Travel	33,907
Staff development/training	25,620
Sub-total	<u>492,015</u>
General expenses:	
Communications	30,840
Equipment leases/rentals/maintenance	32,862
Equipment purchase	128,216
Insurance	77,244
Membership and dues	15,150
Postage	221
Professional services	132,146
Space rental	636,030
Travel	2,550
Sub-total	<u>1,055,259</u>
Total expenditures	<u>24,727,388</u>
Deficiency of revenues over expenditures	(3,278,751)
Fund balance - beginning of year	<u>50,437,508</u>
Fund balance - end of year	<u>\$ 47,158,757</u>

The accompanying notes are an integral part of these financial statements



**FIRST 5 ALAMEDA COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

Net change in governmental fund balance	\$ (3,278,751)
Amounts reported in governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeds the capital outlays in the current period.	94,280
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(19,121)</u>
Change in net assets of governmental activities	<u>\$ (3,203,592)</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background** - First 5 Alameda County was established in accordance with California Health and Safety Code Section 130140, which was enacted as a result of the passage of the California Children and Families Act of 1998 (Proposition 10). This act levies a 50-cent tax on tobacco products, of which 80 percent of the revenues are distributed to county commissions established specifically to fund programs for the purposes of promoting, supporting, and improving the early development of children from the prenatal stage to five years of age. Information on the Commission can be found on the Internet at <http://www.ackids.org/>.

**Government-wide financial statements** (i.e. the statement of net assets and the statement of activities) report information on all governmental activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which direct expenses of each program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Indirect expenses are allocated to programs based on the percentage of costs per program to total costs. Program revenues include grants and contributions that are restricted to meeting the operational requirements of a program. Tobacco taxes are reported as general revenues.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available within the current period or soon enough thereafter to pay liabilities of the current period. First 5 Alameda County uses a 60-day availability period for revenue recognition for all governmental fund revenues. All revenues are considered susceptible to accrual. Revenues include fiscal leveraging which consists of revenue from federal Title 19 funds for services to people who are eligible for or who receive Medi-Cal. Revenue is provided on a reimbursement basis for programs with eligible activities. Federal funding sources include Targeted Case Management (TCM), and Medi-Cal Administrative Activities (MAA). Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

When both restricted and unrestricted resources are available for use, it is First 5 Alameda County's policy to use restricted resources first.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

First 5 Alameda County uses a General Fund to account for all its activities.

**Fund balances** are reported using the definitions in the Government Finance Officers Association First 5 Financial Management Guide. Funds reserved for encumbrances include obligations based on executed contracts, including future payments due to providers of services to children and families, professional services contractors and leases. Funds reserved for obligations refer to situations in which the commission has authorized payments but contracts have not yet been executed. Unreserved funds designated for Local Initiatives and Program Sustainability are those authorized by a Long Range Financial Plan that was approved in a public hearing.

**Budget Basis of Accounting** – First 5 Alameda County prepares its budget on a cash basis. The actual results of operations as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual to provide a meaningful comparison of actual results with the budget. Budgetary control is at the cost center level. Appropriations lapse at fiscal year end. First 5 Alameda County made one budget amendment during the year.

**Capital Assets** – Capital assets, which consist of furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by First 5 Alameda County as assets with an initial, individual cost of more than \$5,000, and an estimated useful life of more than one year. Such assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives. The useful life for all capital assets is estimated to be 5 years.

**Compensated Absences** – It is First 5 Alameda County's policy to permit employees to accumulate earned but unused vacation, sick and paid time-off benefits. Vacation pay that is expected to be liquidated with available financial resources is reported as a liability of First 5 Alameda County.

**New Accounting Pronouncement** – In February 2009, the Governmental Standards Accounting Board (GASB) issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). 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 by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. First 5 Alameda County believes that the adoption of this Statement effective July 1, 2010 will not materially affect its financial statements.

**FIRST 5 ALAMEDA COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 2: CASH AND INVESTMENTS**

Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3 (March 2003)*, requires First 5 Alameda County to disclose the following investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also requires disclosure of deposit risks: custodial credit risk and foreign currency risk.

The following is a summary of deposits and investments as of June 30, 2010:

	<u>Investment Maturities in Years</u>		<u>Total Fair Value</u>	<u>Moody's Credit Rating</u>	<u>Portfolio Allocation</u>
	<u>Less Than 1</u>	<u>1 – 5</u>			
Cash and cash deposits:	\$	\$	\$ <u>3,999,857</u>	Not rated	8.6%
Investments:					
Investment in County pool	663,428		663,428	Not rated	1.4%
Money market mutual funds	314,065		314,065	Not rated	0.7%
U.S. Treasury obligations	2,727,845	3,729,275	6,457,120	Aaa	13.9%
Federal agency securities	4,626,542	21,449,726	26,076,268	Aaa	56.2%
Corporate bonds and notes	<u>596,914</u>	<u>8,337,883</u>	<u>8,934,797</u>	See below	<u>19.2%</u>
Total investments	\$ <u>8,928,794</u>	\$ <u>33,516,884</u>	<u>42,445,678</u>		<u>91.4%</u>
Total cash and investments			\$ <u>46,445,535</u>		<u>100%</u>

The corporate bonds and notes were rated by Moody's at June 30, 2010 as follows:

A1	\$	349,548
A2		722,177
A3		308,892
Aa1		528,571
Aa2		2,534,955
Aa3		356,001
Aaa		<u>4,134,653</u>
	\$	<u>8,934,797</u>

**Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses from rising interest rates, First 5 Alameda County's investment policy limits the average portfolio maturity to three years. The investment policy states that First 5 Alameda County shall not directly purchase securities maturing more than six years from the date of purchase, unless matched to a specific cash flow.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. First 5 Alameda County’s investment policy limits investments to (a) U.S. Treasury obligations, (b) federal agency obligations (including notes issued by corporations under the Federal Deposit Insurance Corporation’s Temporary Liquidity Guarantee Program) and (c) securities that, at the time of purchase, are rated or collateralized as follows:

- Collateralized mortgage obligations - Planned Amortization Classes, Level 1, collateralized only by Government National Mortgage Association obligations
- Domestic corporate bonds and notes rated at least A by Standard and Poors (S&P) or A2 by Moody's
- Certificates of deposit, time deposits and banker's acceptances issued by the top 20 rated domestic banks ranked by total assets, rated at least B/C by the Thomson BankWatch, A-1 by S&P, or P-1 by Moody's
- Commercial paper rated A-1 by S&P or P-1 by Moody's
- Repurchase agreements collateralized by U. S. Treasury or government agency securities
- Local agency obligations rated A-1/P-1 short-term or Aa/AA long term

No more than 30% of the portfolio may be invested in each of the following categories of securities:

- Collateralized mortgage obligations
- Domestic corporate bonds and notes
- Negotiable certificates of deposit
- Bankers’ acceptances
- Commercial paper
- Repurchase agreements
- Reverse repurchase agreements
- State of California obligations
- Local agency obligations
- Any other obligation that does not bear the full faith and credit of the U.S. government or which is not fully collateralized or insured

No more than 70% of the total portfolio may be invested in all the foregoing instruments at any time.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. First 5 Alameda County’s investment policy limits the amount that may be invested in the securities of any one issuer to five percent of the portfolio, except for securities of the U.S. Treasury.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

First 5 Alameda County has \$663,428 invested in the County of Alameda Treasurer's investment pool at June 30, 2010. The County's investment policy limits the investment pool's maximum average maturity to two years. Authorized investments include debts issued by the County; U.S. Treasury securities; bankers' acceptances; federal, state and local government securities; commercial paper; medium-term corporate notes; negotiable certificates of deposit; state investment pool (Local Agency Investment Fund); money market and mutual funds; mortgage-backed obligations; repurchase agreements; and reverse repurchase agreements. Additional information regarding deposit custodial credit, interest and credit risks, and securities lending transactions of the County investment pool is presented in the notes of the County's basic financial statements.

**Custodial Credit Risk for Deposits** - Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. The carrying amount and bank balance of First 5 Alameda County's bank deposits was \$3,999,857 at June 30, 2010. Of the bank balance, \$250,000 was federally insured and the remainder was collateralized with securities held by the pledging financial institution's trust department in First 5 Alameda County's name.

**NOTE 3: CAPITAL ASSETS**

A summary of changes in capital assets recorded in governmental activities follows:

	July 1, 2009	Additions	June 30, 2010
Capital assets – furniture and equipment	\$ 48,307	\$ 105,650	\$ 153,957
Less accumulated depreciation	<u>(36,331)</u>	<u>(11,370)</u>	<u>(47,701)</u>
Governmental activities capital assets, net	<u>\$ 11,976</u>	<u>\$ 94,280</u>	<u>\$ 106,256</u>

**NOTE 4: RETIREMENT PLAN**

**Plan Description**

First 5 Alameda County provides retirement benefits through the Alameda County Employees' Retirement Association (ACERA). ACERA began operations on January 1, 1948, and is governed by the California Constitution, the County Employees Retirement Law of 1937 and the bylaws, procedures and policies adopted by the Board of Retirement. ACERA operates as a cost-sharing multiple-employer defined benefit plan for Alameda County and participating special districts located in the County, including First 5 Alameda County. ACERA is not under the control of the Alameda County Board of Supervisors.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

ACERA provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit and contribution provisions are established by state law and are subject to amendment only by an act of the State of California legislature. Alternative benefit and contribution schedules are permissible with the Board of Supervisors' approval. All risks and costs, including benefit costs, are shared by the participating entities. An actuarial valuation is performed annually for the system as a whole. ACERA's financial statements and required supplementary information are audited annually by independent auditors. The auditor's report and the December 31, 2009 financial statements may be obtained by writing to Alameda County Employees' Retirement Association, 475 14<sup>th</sup> Street, Suite 1000, Oakland, CA 94612.

*Plan Membership.* All full-time regular First 5 Alameda County employees are required by statute to become members of ACERA. Safety membership includes employees who are in active law enforcement, probation officers and juvenile hall counselors. General membership includes all other eligible classifications. As of June 30, 2010, 64 First 5 Alameda County employees are members of ACERA, and all members are General members.

**Funding Policy**

The employers and members contribute to ACERA based on rates recommended by an independent actuary and adopted by the ACERA Board of Retirement. Covered employees are required by statute to contribute toward their pensions. Member contribution rates are formulated on the basis of the date of entry and the actuarially calculated benefits. Member contributions are refundable upon termination from the retirement system.

Alameda County and special districts, including First 5 Alameda County, are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to their employees. Employer contributions for the years ended June 30, 2010 and 2009 were \$596,517 and \$544,724, respectively; and employee contributions for the years ended June 30, 2010 and 2009 were \$350,080 and \$330,570, respectively.

**NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES**

First 5 Alameda County has received funds from various Federal, state and local programs. It is possible that at some future date, funding sources may be discontinued if First 5 Alameda County was found not in compliance with any applicable grant requirements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, First 5 Alameda County does not expect such disallowed amount, if any, to materially affect the financial statements.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

First 5 Alameda County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. First 5 Alameda County has purchased commercial insurance coverage for general liability, directors and officers, workers' compensation, employee liability; fidelity, and property coverage. There were no settlements or claims during the year ended June 30, 2010.

First 5 Alameda County leases office space and equipments under operating leases. Total future minimum operating lease payments are as follows:

Year ending June 30:

2011	\$ 586,008
2012	646,149
2013	<u>551,828</u>
Total minimum future rental payments	<u>\$ 1,783,985</u>

**NOTE 6: PROGRAM EVALUATION COSTS**

First 5 Alameda County spent \$1,639,015 program evaluation during year ended June 30, 2010.



**REQUIRED SUPPLEMENTARY INFORMATION**

**FIRST 5 ALAMEDA COUNTY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Prop 10 Tobacco tax	\$ 14,222,218	\$ 14,000,000	\$ 14,532,492	\$ 532,492
Sustainability fund	7,331,729	6,947,507		(6,947,507)
Interagency income	1,159,993	2,225,983	1,464,249	(761,734)
Grants:				
Federal	626,000	597,554	121,554	(476,000)
State	1,634,354	2,179,686	2,179,686	
Private			207,899	207,899
Sub-total	<u>2,260,354</u>	<u>2,777,240</u>	<u>2,509,139</u>	<u>(268,101)</u>
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	350,000	350,000	1,060,853	710,853
Targeted Case Management (TCM)			103,129	103,129
Title IV - E Pre-Placement Prevention Services			25,697	25,697
Sub-total	<u>350,000</u>	<u>350,000</u>	<u>1,189,679</u>	<u>839,679</u>
Investment income	1,125,000	1,125,000	1,471,102	346,102
Miscellaneous income		120,568	281,976	161,408
Total revenues	<u>26,449,294</u>	<u>27,546,298</u>	<u>21,448,637</u>	<u>(6,097,661)</u>
<b>EXPENDITURES:</b>				
Personnel:				
Salaries	3,735,735	3,997,644	3,657,163	340,481
Service delivery personnel	1,149,221	1,162,877	1,136,467	26,410
Benefits	2,442,479	2,527,455	2,125,046	402,409
Sub-total	<u>7,327,435</u>	<u>7,687,976</u>	<u>6,918,676</u>	<u>769,300</u>
Program Contracts/Grants/MOU's:				
Contracts	12,993,335	13,378,902	12,053,746	1,325,156
Grants	3,609,107	4,070,740	3,923,295	147,445
Professional services contracts	452,608	434,608	284,397	150,211
Sub-total	<u>17,055,050</u>	<u>17,884,250</u>	<u>16,261,438</u>	<u>1,622,812</u>
Training expenses:				
Copy/printing	99,500	88,700	51,910	36,790
Equipment	7,050	5,550	276	5,274
Food/Hospitality	115,150	114,900	48,994	65,906
Honoraria	69,000	56,480	26,447	30,033
Postage	23,230	20,630	11,124	9,506
Professional services	104,000	110,000	28,329	81,671
Space rental	7,750	8,950	1,498	7,452
Supplies	450,950	379,550	263,910	115,640
Travel	72,690	81,600	33,907	47,693
Staff development/training	68,050	35,775	25,620	10,155
Sub-total	<u>1,017,370</u>	<u>902,135</u>	<u>492,015</u>	<u>410,120</u>
General expenses:				
Communications	43,482	43,482	30,840	12,642
Copying/printing	6,127	6,127		6,127
Equipment leases/rentals/maintenance	40,567	40,567	32,862	7,705
Equipment purchase	25,176	55,176	128,216	(73,040)
Insurance	80,421	80,421	77,244	3,177
Membership and dues	25,072	24,998	15,150	9,848
Postage	1,523	1,523	221	1,302
Professional services	204,236	204,236	132,146	72,090
Space rental	608,530	636,060	636,030	30
Travel	4,000	4,000	2,550	1,450
Depreciation	10,305	10,305	11,370	(1,065)
Sub-total	<u>1,049,439</u>	<u>1,106,895</u>	<u>1,066,629</u>	<u>40,266</u>
Total expenditures	<u>26,449,294</u>	<u>27,581,256</u>	<u>24,738,758</u>	<u>2,842,498</u>
Deficiency of revenues over expenditures	\$ <u>          </u>	\$ <u>(34,958)</u>	\$ <u>(3,290,121)</u>	\$ <u>(3,255,163)</u>
		Deficiency of revenues over expenditures	\$ (3,290,121)	
		Depreciation	11,370	
		GAAP Basis	\$ <u>(3,278,751)</u>	

The accompanying notes are an integral part of these financial statements

**SUPPLEMENTARY INFORMATION**

**FIRST 5 ALAMEDA COUNTY**  
**SCHEDULE OF REVENUES AND EXPENDITURES BY FUND SOURCE AND FUND BALANCE OF CCFC**  
**FUNDS FOR FIRST 5 PROGRAMS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>School Readiness Program</u>		<u>Retention Incentives (CARES)</u>		<u>Health Access</u>
	<u>CCFC Funds</u>	County and Other Local Funds	<u>CCFC Funds</u>	County and Other Local Funds	<u>CCFC Funds</u>
<b>REVENUE:</b>					
Retention Incentives - Child Development Corps	\$	\$	\$	\$	\$
School Readiness	1,931,663	1,634,354	232,360	1,161,800	
Health Access for All					15,663
	<u>1,931,663</u>	<u>1,634,354</u>	<u>232,360</u>	<u>1,161,800</u>	<u>15,663</u>
Total revenues	<u>1,931,663</u>	<u>1,634,354</u>	<u>232,360</u>	<u>1,161,800</u>	<u>15,663</u>
<b>EXPENDITURES - Current:</b>					
Salaries and employee benefits					
Salaries and employee benefits	786,347	336,535	42,163	210,815	
Contracts	709,886	793,889	78,895	394,475	15,663
Grants	393,930	443,930			
Grants (for stipends)			111,302	556,510	
Training	41,500	60,000			
	<u>41,500</u>	<u>60,000</u>	<u>111,302</u>	<u>556,510</u>	<u>15,663</u>
Total expenditures	<u>1,931,663</u>	<u>1,634,354</u>	<u>232,360</u>	<u>1,161,800</u>	<u>15,663</u>
Excess of revenues over expenditures					
Beginning fund balance					
Ending fund balance	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>

**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**

Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the financial statements of the governmental activities, and the major fund of First 5 Alameda County as of and for the year ended June 30, 2010, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 22, 2010. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered First 5 Alameda County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First 5 Alameda County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of First 5 Alameda County's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether First 5 Alameda County's financial statements are free of 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*.

This report is intended solely for the information and use of the management, the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Wanda A. Asorevski*  
Oakland, California  
September 22, 2010

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the basic financial statements of First 5 Alameda County as of and for the year ended June 30, 2010, and have issued our report thereon, dated September 22, 2010.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

First 5 Alameda County's management is responsible for First 5 Alameda County's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the commission's compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Based on our audit we found that, for the items tested, First 5 Alameda County complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that First 5 Alameda County had not complied with the laws and regulations of the First 5 Program.

This report is intended solely for the information of the management, the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Perini & Associates*  
Oakland, California  
September 22, 2010



**FIRST 5 ALAMEDA COUNTY  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2010**

There were no findings reported in the prior year.