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**FIRST 5 ALAMEDA COUNTY**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**FIRST 5 ALAMEDA COUNTY  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2011**

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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, 2011, 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 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.

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, 2011, 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.

As discussed in Note 1 to the basic financial statements, effective July 1, 2010, First 5 Alameda County adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2011, 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.

*P. Minerva Associates*  
Oakland, California  
September 22, 2011

**FIRST 5 ALAMEDA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

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, 2011. 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**

- At the end of the Fiscal Year (FY) 2010-2011, First 5 Alameda County had assets of \$44 million and liabilities of \$27.3 million. A significant part of the liabilities was the \$23.6 million set aside to meet obligations to the State of California, under Assembly Bill 99. The assets consist mainly of \$39.8 million in cash and investments. Net assets of \$16.7 million are available to meet First 5 Alameda County's ongoing operating expenses.
- During 2010-11, First 5 Alameda County revenues totaled \$17 million, a decrease of \$4.4 million from the prior year. Excluding the provision for AB99, total expenses were \$23.6 million, a decrease of \$1 million from the prior year.
- Revenue from the Proposition 10 tobacco tax measure were \$14.2 million a decrease of nearly \$0.3 million 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. Notes to the financial statements are also included.

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 a little over \$30 million from the prior year. The composition of net assets as of June 30, 2011 and 2010 is shown in the following table:

	<u>FY 2011</u>		<u>FY 2010</u>		<u>Change</u>
Cash and investments	\$ 39,771,999	\$	46,445,535	\$	(6,673,536)
Receivables	4,101,561		3,643,683		457,878
Prepaid expenses	32,582		38,500		(5,918)
Capital assets	94,398		106,256		(11,858)
	<hr/>		<hr/>		<hr/>
Total assets	44,000,540		50,233,974		(6,233,434)
	<hr/>		<hr/>		<hr/>
Accrued payroll	207,901		284,830		(76,929)
Other accrued liabilities	3,494,785		3,021,942		472,843
Due to State under AB99	23,579,000				23,579,000
	<hr/>		<hr/>		<hr/>
Total liabilities	27,281,686		3,306,772		23,974,914
	<hr/>		<hr/>		<hr/>
Net assets	\$ 16,718,854	\$	46,927,202	\$	(30,208,348)
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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, and the designation of the \$23.5 million due to the State by the end of FY 2011-12, as a liability.

Fiscal year 2010-11 is the fifth 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 million initial investment to a fair market value of \$37.1 million as of June 30, 2011. Fees charged by money managers totaled \$51,055 in 2010-11, compared to \$27,110 in the prior year, a difference of \$23,945. Recent economic indicators show that the economic recovery has slowed and that 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 \$1,471,102 in 2009-10 to \$679,203 in 2010-11, a decrease of \$791,899 due to the prevailing low interest rate climate.

The increase in Receivables is mainly due to accrual of revenue at year end. The increase in accrued liabilities is primarily due to the timing of payments to contractors that bill on a quarterly basis.

## STATEMENT OF ACTIVITIES

During the year ended June 30, 2011, First 5 Alameda County's net assets decreased \$30.2 million from the prior year. This change in net assets is shown in the following table:

	<u>FY 2011</u>	<u>FY 2010</u>	<u>Change</u>
Total program revenues	\$ 2,084,415	\$ 3,215,741	\$ (1,131,326)
Total program expenses	<u>23,673,820</u>	<u>24,652,229</u>	<u>978,409</u>
Program loss	(21,589,405)	(21,436,488)	(152,917)
Transfer to State AB99	(23,579,000)		(23,579,000)
General revenues	<u>14,960,457</u>	<u>18,232,896</u>	<u>(3,272,439)</u>
Change in net assets	(30,208,348)	(3,203,592)	(27,004,756)
Net assets, beginning of year	<u>46,927,202</u>	<u>50,130,794</u>	<u>(3,203,592)</u>
Net assets, end of year	<u>\$ 16,718,854</u>	<u>\$ 46,927,202</u>	<u>\$ (30,208,348)</u>

Total Program Revenues refer to revenues that are restricted for specific program use, such as MediCal Administrative Activities (MAA). The decrease in Program Revenues is primarily due to timing; in 2009-10 First 5 Alameda County received two years' worth of MAA revenues for almost \$1,060,853 compared with \$757,725 in 2010-2011.

The 2010-11 Total Program Expenses decreased by nearly \$1 million 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 \$3.3 million. These include decreases in Tobacco Tax funding of approximately \$0.3 million and Investment revenue of approximately \$0.8 million.

Funds for the monthly allocation of Proposition 10 Tobacco tax decreased from \$14.5 million in 2009-10 to \$14.2 million in 2010-11, a difference of \$0.3 million or 2%. The revenue decline was less than anticipated, in spite of the ongoing recession. The average decline in Alameda County Prop 10 Tobacco Tax Revenue from 2001-02 through 2010-11 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 of \$327,000 between First 5 Alameda County’s original and final budgets was primarily due to the receipt of a CARES PLUS grant from First 5 California and the increased use of sustainability funds to balance contract expenses.

**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	\$ 14,238,817	\$ 238,817
Sustainability fund	9,351,546	30,208,348	20,856,802
Interagency income	998,111	1,154,409	156,298
Grants	790,359	275,012	(515,347)
Fiscal leveraging	508,000	654,596	146,596
Investment income	863,000	679,203	(183,797)
Miscellaneous income	<u>42,436</u>	<u>42,436</u>	<u>42,436</u>
Total revenues	<u>\$ 26,511,016</u>	<u>\$ 47,252,821</u>	<u>\$ (20,741,805)</u>
Expenditures			
Personnel	\$ 8,086,112	\$ 7,055,491	\$ (1,030,621)
Program contracts/grants/MOUs	16,316,329	15,059,123	(1,257,206)
Transfer to State AB99		23,579,000	23,579,000
Training	904,861	636,078	(268,783)
General expenses	<u>1,203,714</u>	<u>960,147</u>	<u>(243,567)</u>
Total expenditures	<u>\$ 26,511,016</u>	<u>\$ 47,289,839</u>	<u>\$ 20,778,823</u>
(Deficiency) of revenues over expenditures	<u>\$</u>	<u>\$ (37,018)</u>	<u>\$ (37,018)</u>

Tobacco tax was budgeted at \$14 million. The actual receipt of revenue was nearly \$14.3 million, which is 1.7% above the budget projection.

It was projected that \$9.35 million would be needed from the Sustainability Fund for FY 2010-11. 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. However, \$30.2 million of Sustainability Funds was needed - \$6.7 million to cover operating needs and \$23.5 million to be transferred to the State of California under AB99 in June 2012. This is the third year that funds budgeted from the Sustainability Fund have actually been needed and used.



Fiscal leveraging includes \$757,725 received for MAA (MediCal Administrative Activities) revenue in 2011 and \$103,129 that was transferred to a community partner for Targeted Case Management under a fiscal agency agreement, resulting in a net inflow of \$654,596.

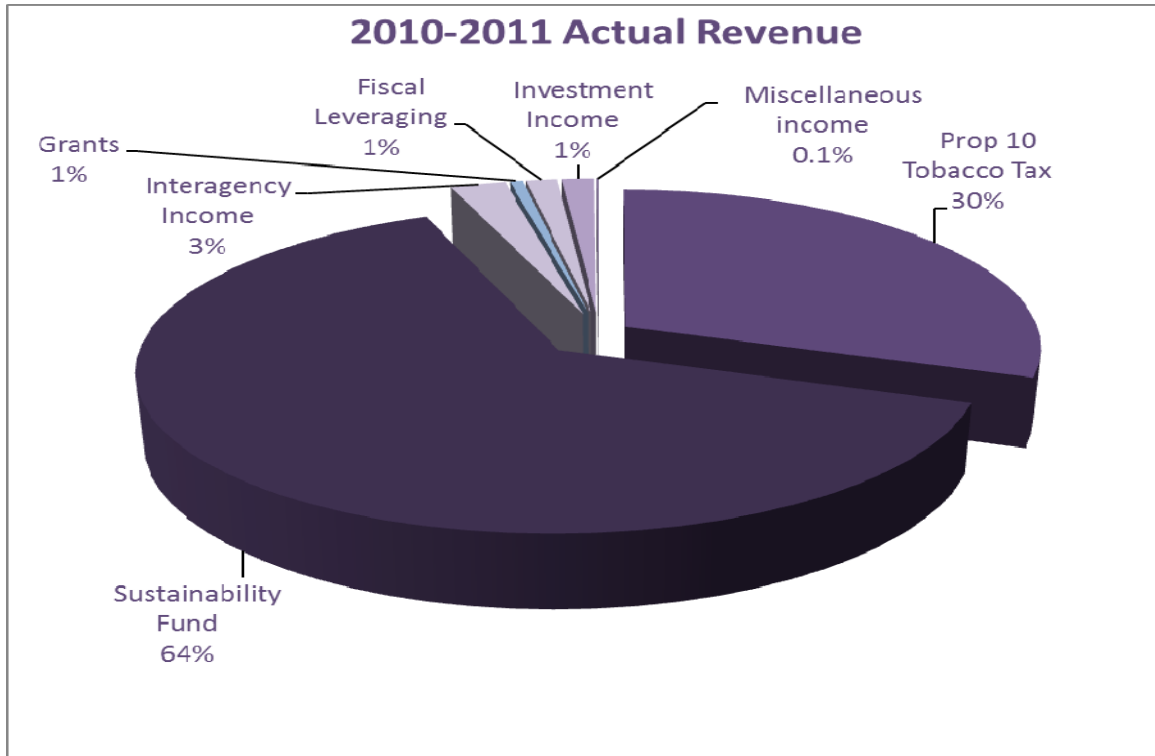
Investment revenue was budgeted at \$863,000 and \$679,203 was reported, a difference of \$183,797 under budget. See further discussion of investments on page 2

Personnel Salary and Benefits were budgeted at \$8 million and actual expenses were \$7 million, a difference of \$1 million, or nearly 13 % below projections. This was primarily due to reorganization that resulted in reduced staffing in several divisions, most notably Early Care and Education, Support Strategies and Administration.

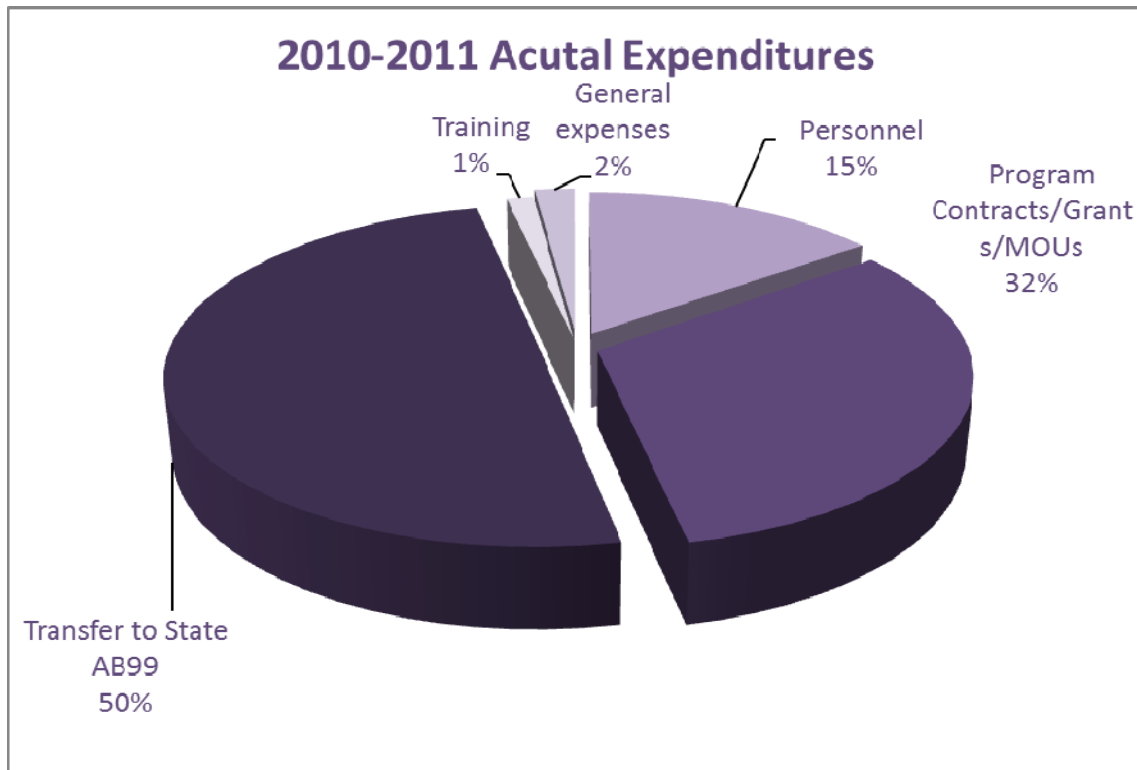
Program Contracts/Grants/MOUs were budgeted at \$16.3 million and actual expenses were \$15.1 million, a difference of \$1.2 million, or 7.7% below projections. The variance between budget and actual expenses were mainly due to federal grants and appropriations being under spent.

Following are graphs of First 5 Alameda County's revenue by source and expenditures by category for 2010-11

## REVENUES BY SOURCES



## EXPENDITURES BY CATEGORIES



## **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 was attributable to a new \$.62 per pack of cigarette federal State Children's Health Insurance Program (SCHIP) and the ongoing recession. FY 2010-11 Prop 10 tobacco tax receipts for First 5 Alameda County were 2% below the FY 2009-10 levels. The State of California Department of Finance projects tobacco tax revenues to continue to decline at an annual average rate of nearly 3.5% over the 2009-2013 time frame.

An increase in Alameda County Employees' Retirement Association employer contribution rate has resulted in an increase in First 5 Alameda County benefits expenses as well as continued increase in employee health insurance premiums.

First 5 Alameda County has recognized a current liability in FY 2010-2011 in the amount of \$23,579,000. This sum which needs to be transferred to the State of California under the requirements of Assembly Bill 99 becomes due and payable by June 30, 2012. This item of expenditure constitutes the single largest drop in the Sustainability Funds in the history of First 5 Alameda County, and poses a significant risk to operating cash flow in future years.

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. Due to the projected decline in tobacco tax revenues and the sharply lowered Sustainability fund balance, program reductions were instituted in July of 2011.

All of the above factors were considered in preparing First 5 Alameda County's budget for fiscal year 2011-12.

## **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, 2011**

**Assets:**

Cash and investments (Note 2)	\$ 39,771,999
Tobacco taxes receivable	2,574,754
Other receivables	1,345,657
Interest receivable	181,150
Prepaid expenses	32,582
Capital assets, net (Note 3)	<u>94,398</u>
Total assets	<u>44,000,540</u>

**Liabilities:**

Accrued payroll	207,901
Employee benefits payable	94,982
Accrued vacation	313,828
Accounts payable and accrued liabilities	3,085,975
Due to State under AB 99 (Note 7)	<u>23,579,000</u>
Total liabilities	<u>27,281,686</u>

**Net assets:**

Invested in capital assets	94,398
Unrestricted	<u>16,624,456</u>
Total net assets	<u>\$ 16,718,854</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net Expenses</u>
Governmental activities:			
Family support services	\$ 7,870,805	\$ 1,332,746	\$ (6,538,059)
Early childhood education	5,624,472	109,142	(5,515,330)
Community grants	2,973,911	122,597	(2,851,314)
Support strategies	4,461,127	392,776	(4,068,351)
Transfer to State per AB99	23,579,000		(23,579,000)
Evaluation and technical support	1,079,525	44,502	(1,035,023)
Administration	<u>1,663,980</u>	<u>82,252</u>	<u>(1,581,728)</u>
Total governmental activities	\$ <u>47,252,820</u>	\$ <u>2,084,015</u>	<u>(45,168,805)</u>
General revenues:			
Tobacco tax			14,238,817
Investment earnings			679,203
Miscellaneous			<u>42,437</u>
Total general revenues			<u>14,960,457</u>
Change in net assets			(30,208,348)
Net assets - beginning			<u>46,927,202</u>
Net assets - ending			\$ <u>16,718,854</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
BALANCE SHEET  
JUNE 30, 2011**

**Assets:**

Cash and investments	\$ 39,771,999
Tobacco taxes receivable	2,574,754
Interest receivable	181,150
Other receivables	1,345,657
Prepaid expenses	<u>32,582</u>
Total assets	<u>\$ 43,906,142</u>

**Liabilities:**

Accrued payroll	\$ 207,901
Employee benefits payable	94,982
Accounts payable and accrued liabilities	3,085,975
Due to State under AB 99	<u>23,579,000</u>
Total liabilities	<u>26,967,858</u>

**Fund balance:**

Nonspendable:	
Non-spendable	32,582
Committed:	
Program contracts	14,905,702
Assigned	<u>2,000,000</u>
Total fund balance	<u>16,938,284</u>
Total liabilities and fund balance	<u>\$ 43,906,142</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, 2011**

Total governmental fund balance	\$ 16,938,284
Amounts reported in governmental activities in the statement of net assets are different because:	
Accrued vacation not treated as an expenditure in governmental funds	(313,828)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>94,398</u>
Total net assets - governmental activities	<u>\$ 16,718,854</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, 2011**

**REVENUES:**

Prop 10 Tobacco tax	\$ 14,238,817
Interagency income	1,154,409
Grants:	
Federal	208,870
State	66,142
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	757,725
Targeted Case Management (TCM)	<u>(103,129)</u>
Sub-total	<u>654,596</u>
Investment income	679,203
Miscellaneous income	<u>42,436</u>
Total revenues	<u>17,044,473</u>

**EXPENDITURES:**

Personnel:	
Salaries	4,893,066
Benefits	<u>2,162,425</u>
Sub-total	<u>7,055,491</u>
Program Contracts/Grants/MOU's:	
Contracts	11,219,257
Grants	2,621,367
Child Development Corps Stipends	972,700
Professional services contracts	222,379
Training stipends	23,420
Transfer to State per AB99	<u>23,579,000</u>
Sub-total	<u>38,638,123</u>
Training expenses:	
Copy/printing	107,993
Food/hospitality	39,290
Honoraria	45,507
Postage	8,416
Professional services	83,412
Space rental	114
Supplies	274,613
Travel	58,927
Staff development/training	<u>17,806</u>
Sub-total	<u>636,078</u>
General expenses:	
Communications	37,816
Copying/printing	1,228
Equipment leases/rentals/maintenance	31,919
Equipment purchase	33,653
Insurance	42,494
Membership and dues	20,676
Postage	1,396
Professional services	123,189
Space rental	640,957
Travel	<u>1,926</u>
Sub-total	<u>935,254</u>
Total expenditures	<u>47,264,946</u>
Deficiency of revenues over expenditures	(30,220,473)
Fund balance - beginning of year	<u>47,158,757</u>
Fund balance - end of year	<u>\$ 16,938,284</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, 2011**

Net change in governmental fund balance	\$ (30,220,473)
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.	(11,858)
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>23,983</u>
Change in net assets of governmental activities	<u><u>\$ (30,208,348)</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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, 2011**

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

**Fund Equity** – First 5 Alameda County has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010. The objectives of the Statement are 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. The 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. Following is a description of the Commission's fund balance classifications:

- **Nonspendable** – Includes amounts that cannot be spent because they are either (a) not in spendable form (inventories, prepaid amounts, etc.) or (b) legally or contractually required to be maintained intact (such as the corpus of principal of a permanent fund).
- **Restricted** – Includes amounts with constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of First 5 Alameda County Board. Those committed amounts cannot be used for any other purpose unless First 5 Alameda County Board removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts. First 5 Alameda County establishes grants allocation amounts for specific program and/or recipient by formal Commission Board vote.
- **Assigned** – Includes amounts First 5 Alameda County intends to be used for specific purposes that are neither restricted nor committed.

First 5 Alameda County applies restricted resources first when an expense is incurred for purposes for which both restricted and other funds are available, then First 5 Alameda County applies amounts to the committed fund balance followed by assigned and then unassigned amounts.

**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.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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.

**NOTE 2: CASH AND INVESTMENTS**

The following is a summary of deposits and investments as of June 30, 2011:

	<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>2,074,516</u>	Not rated	5.2%
Investments:					
Investment in County pool	602,099		602,099	Not rated	1.5%
Money market mutual funds	13,881,719		13,881,719	Not rated	34.9%
U.S. Treasury obligations	2,532,440	2,092,441	4,624,881	Aaa	11.6%
Federal agency securities	3,472,674	9,284,188	12,756,862	Aaa	32.1%
Corporate bonds and notes	<u>1,982,244</u>	<u>3,849,678</u>	<u>5,831,922</u>	See below	<u>14.7%</u>
Total investments	<u>\$22,471,176</u>	<u>\$15,226,307</u>	<u>37,697,483</u>		<u>94.8%</u>
Total cash and investments			\$ <u>39,771,999</u>		<u>100%</u>

The corporate bonds and notes were rated by Moody’s at June 30, 2011 as follows:

A1	\$	115,926
A2		446,570
Aa1		526,992
Aa2		1,464,079
Aa3		645,498
Aaa		<u>2,632,857</u>
	\$	<u>5,831,922</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, 2011**

**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, 2011**

First 5 Alameda County has \$602,099 invested in the County of Alameda Treasurer’s investment pool at June 30, 2011. 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 bank balance of First 5 Alameda County’s bank deposit was \$3,253,377 at June 30, 2011. 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, 2010	Additions	June 30, 2011
Capital assets – furniture and equipment	\$ 153,957	\$ 13,035	\$ 166,992
Less accumulated depreciation	<u>(47,701)</u>	<u>(24,893)</u>	<u>(72,594)</u>
Governmental activities capital assets, net	<u>\$ 106,256</u>	<u>\$ (11,858)</u>	<u>\$ 94,398</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, 2011**

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, 2010 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, 2011, 62 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, 2011 and 2010 were \$661,104 and \$596,517, respectively; and employee contributions for the years ended June 30, 2011 and 2010 were \$353,177 and \$350,080, 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, 2011**

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, 2011.

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:

2012		\$	647,753
2013			<u>494,645</u>
Total minimum future rental payments		\$	<u><u>1,144,398</u></u>

**NOTE 6: PROGRAM EVALUATION COSTS**

First 5 Alameda County spent \$1,079,525 program evaluation during year ended June 30, 2011.

**NOTE 7: DUE TO STATE UNDER AB99**

On January 10, 2011, with an amendment on March 14, 2011, the California Legislature enacted Assembly Bill No. 99. With this bill, the State of California established the *Children and Families Health and Human Services Fund* in the State Treasury. The bill, effective immediately, establishes a legal obligation for First 5 Alameda County to pay into this fund, by June 30, 2012, 50% of First 5 Alameda County's recorded fund balance as of June, 30, 2010. First 5 Alameda County has recorded \$23,579,000 as a liability for this legal obligation.

**NOTE 8: EVALUATION OF SUBSEQUENT EVENTS**

The management of First 5 Alameda County reviewed the results of operations for the period of time from its year end June 30, 2011 through September 22, 2011, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.



**REQUIRED SUPPLEMENTARY INFORMATION**

**FIRST 5 ALAMEDA COUNTY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Prop 10 Tobacco tax	\$ 14,000,000	\$ 14,000,000	\$ 14,238,817	\$ 238,817
Sustainability fund	9,174,546	9,351,546		(9,351,546)
Interagency income	998,111	998,111	1,154,409	156,298
Grants:				
Federal	485,798	485,798	208,870	(276,928)
State		150,000	66,142	(83,858)
Private	154,561	154,561		(154,561)
Sub-total	<u>640,359</u>	<u>790,359</u>	<u>275,012</u>	<u>(515,347)</u>
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	500,000	500,000	757,725	257,725
Targeted Case Management (TCM)			(103,129)	(103,129)
Title IV - E Pre-Placement Prevention Services	8,000	8,000		(8,000)
Sub-total	<u>508,000</u>	<u>508,000</u>	<u>654,596</u>	<u>146,596</u>
Investment income	863,000	863,000	679,203	(183,797)
Miscellaneous income			42,436	42,436
Total revenues	<u>26,184,016</u>	<u>26,511,016</u>	<u>17,044,473</u>	<u>(9,466,543)</u>
<b>EXPENDITURES:</b>				
Personnel:				
Salaries	5,424,411	5,424,411	4,893,066	531,345
Benefits	2,661,701	2,661,701	2,162,425	499,276
Sub-total	<u>8,086,112</u>	<u>8,086,112</u>	<u>7,055,491</u>	<u>1,030,621</u>
Program Contracts/Grants/MOU's:				
Contracts	11,945,515	12,197,515	11,219,257	978,258
Grants	3,588,046	3,588,046	3,617,487	(29,441)
Professional services contracts	455,768	530,768	222,379	308,389
Transfer to State per AB99			23,579,000	(23,579,000)
Sub-total	<u>15,989,329</u>	<u>16,316,329</u>	<u>38,638,123</u>	<u>(22,321,794)</u>
Training expenses:				
Copy/printing	99,700	99,700	107,993	(8,293)
Equipment	5,650	5,650		5,650
Food/Hospitality	89,650	89,650	39,290	50,360
Honoraria	79,180	79,180	45,507	33,673
Postage	20,230	20,230	8,416	11,814
Professional services	115,500	115,500	83,412	32,088
Space rental	7,750	7,750	114	7,636
Supplies	368,081	368,081	274,613	93,468
Travel	83,845	83,845	58,927	24,918
Staff development/training	35,275	35,275	17,806	17,469
Sub-total	<u>904,861</u>	<u>904,861</u>	<u>636,078</u>	<u>268,783</u>
General expenses:				
Communications	50,399	50,399	37,816	12,583
Copying/printing	25,996	25,996	1,228	24,768
Equipment leases/rentals/maintenance	35,406	35,406	31,919	3,487
Equipment purchase	88,194	88,194	33,653	54,541
Insurance	77,135	77,135	42,494	34,641
Membership and dues	29,997	29,997	20,676	9,321
Postage	1,501	1,501	1,396	105
Professional services	218,980	218,980	123,189	95,791
Space rental	657,266	657,266	640,957	16,309
Travel	4,000	4,000	1,926	2,074
Depreciation	14,840	14,840	24,893	(10,053)
Sub-total	<u>1,203,714</u>	<u>1,203,714</u>	<u>960,147</u>	<u>243,567</u>
Total expenditures	<u>26,184,016</u>	<u>26,511,016</u>	<u>47,289,839</u>	<u>(20,778,823)</u>
Deficiency of revenues over expenditures	\$ <u>                    </u>	\$ <u>                    </u>	\$ <u>(30,245,366)</u>	\$ <u>(30,245,366)</u>
			\$ (30,245,366)	
			Depreciation	24,893
			GAAP Basis	\$ <u>(30,220,473)</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, 2011**

	<u>CARES PLUS</u>
	<u>CCFC Funds</u>
<b>REVENUE:</b>	
Retention Incentives - Child Development Corps	\$ <u>66,142</u>
Total revenues	<u>66,142</u>
<b>EXPENDITURES - Current:</b>	
Salaries and employee benefits	
Salaries and employee benefits	63,192
Other	<u>2,950</u>
Total expenditures	<u>66,142</u>
Excess of revenues over expenditures	
Beginning fund balance	<u>                    </u>
Ending fund balance	\$ <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, 2011, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 22, 2011. 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*.

We noted certain matters that we reported to management of First 5 Alameda County in a separate letter dated September 22, 2011.

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.

*Patricia A. Assouline*  
Oakland, California  
September 22, 2011

**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 (the Commission), as of and for the year ended June 30, 2011 and have issued our report thereon dated September 22, 2011. 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. We have also audited First 5 Alameda County's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to First 5 Alameda County's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on First 5 Alameda County's compliance based on our audit.

We conducted our compliance audit 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 Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about First 5 Alameda County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of First 5 Alameda County's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine First 5 Alameda County'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

In our opinion, First 5 Alameda County complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2011.

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.

*Patricia A. Adams*  
 Oakland, California  
 September 22, 2011



**FIRST 5 ALAMEDA COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2011**

There were no findings reported in the current year.

**FIRST 5 ALAMEDA COUNTY  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2011**

There were no findings reported in the prior year.