FIRST 5 ALAMEDA COUNTY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

WILLIAMS, ADLEY & COMPANY, LLP

Certified Public Accountants
and
Management Consultants

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

FIRST 5 ALAMEDA COUNTY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

FIRST 5 ALAMEDA COUNTY
Year Ended June 30, 2007

Table of Contents

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants / Management Consultants

INDEPENDENT AUDITORS' REPORT

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, 2007, which collectively comprise First 5 Alameda County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of First 5 Alameda County's management. Our responsibility is to express opinions 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of First 5 Alameda County, as of June 30, 2007, and the respective changes in financial position thereof and the budgetary comparison for the general fund 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 October 5, 2007, 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.

1330 Broadway, Suite 1825 • Oakland, CA 94612-2517 • (510) 893-8114 • Fax (510) 893-2603
5 Thomas Mellon Circle, Suite 104 • San Francisco, CA 94134-2501 • (415) 656-1330 Fax (415) 467-6106
www.wacllp.com

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is 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 this information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise First 5 Alameda County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Williams, Adley & Company, LLP
Oakland, California
October 5, 2007

First 5 Alameda County
Management Discussion & Analysis
for End of Fiscal Year June 30, 2007

This Management 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, 2007. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Financial Highlights

During the fiscal year ending June 30, 2007, First 5 Alameda County implemented the second year of programs outlined in the Every Child Counts 2005-09 Strategic Plan. Fiscal year 2006-07 was First 5 Alameda County's seventh year of program implementation.

- During 2006-07, total First 5 Alameda County revenues were $24,520,407, an increase of $878,717 from the prior year. Total expenses were $24,579,282, an increase of $1,026,743 from prior year.
- Revenues from the Proposition 10 tobacco tax were $17,447,995, a decrease of $1,360,748 from the prior year, consistent with the projection of a declining revenue source.
- During 2006-07, $9,455,783 was expended for home- and clinic-based services for families with children aged 0-5. Target populations included families with newborns; families with children in the Neonatal Intensive Care Units (NICUs); teen parents; families with children at risk of abuse or neglect; and families from neighborhoods with low performing schools. Of those funds, $7,066,235 was paid directly to community providers. The remainder was expended on internally administered direct services to families and training, clinical consultation and technical assistance to providers.
- During 2006-07, $6,983,920 was expended to improve childcare for children aged 0-5 in Alameda County, including center-based and family childcare providers with a focus on both facility and program quality and child care provider training and education. Of those funds, $5,358,607 was paid directly to providers and contractors. The remainder was expended to administer quality enhancement and professional development programs for the child care field.
- During 2006-07, $3,811,263 was expended on Community Grants to expand and enhance services provided by community and public agencies to families with children age 0-5. The 2005-07 grant cycle was completed and an RFP for the 2007-09 cycle was released. Forty-six new grantees were selected through a competitive process. In addition, a one-time only grants opportunity awarded forty-four grants for capital improvement and information technology projects designed to enhance capacity to serve families with children age 0-5. Of the total amount, $3,438,540 was awarded directly to community agencies. The remainder was expended for technical assistance to providers and compliance monitoring.
- During 2006-07, $2,209,646 was expended for support strategies including cultural access services, expanded services to school districts to facilitate the transition to kindergarten, training and pediatric strategies. Of the total amount, $1,151,504 was paid directly to providers of services. The remainder paid for internally administered services in these program areas.
- During 2006-07, $1,455,596 was expended for Evaluation, including costs to: enhance, maintain and support ECChange, the cross-agency data system for family support case management documentation, tracking and outcomes reporting; enhance, maintain and support ECC-Online, the Grants, Training, Child Development Corps, Quality Improvement Initiative tracking and reporting system; to provide accountability monitoring, technical assistance and training; to generate the local and state annual reports; and to complete selected external evaluations.

- During 2006-07, $663,074 was expended for Administration. The amount is 2.7% of the total expenses figure of $24,579,282 and within the cap of 10% established by the First 5 Alameda County Commission.
- Fiscal year 2006-07 was the first full year of working with outside money managers to maximize the investment earnings of our Children's Sustainability Fund portfolio. Earnings during the period were $2,568,328.
- Note 6 shows the total expenses paid for Program Evaluation. The Note complies with the requirements of SB 35 and AB 109 Expanded Audit Guidelines.
- First 5 Alameda County implemented controls designed to ensure compliance with the SB 35 and AB 109 Expanded Audit Guidelines.

Overview of the Financial Statements

The First 5 Alameda County financial statements include the statement of net assets and statement of activities. Also included are the notes to the financial statements.

The statement of net assets provides information about the financial position of the 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 programs.

The statement of activities explains in detail the change in net assets for the year. Net assets are classified into three categories: invested in capital assets (net of related debt), restricted, and unrestricted. All First 5 Alameda County's assets and liabilities are current (generally within 12 months).

The fund financial statements provide information about First 5 Alameda County's financial activities using a shorter-term view to help determine whether there are more or fewer financial resources that can be spent in the near future to finance First 5 Alameda County's programs.

Notes to the financial statements provide additional information that is essential to a full understanding of the information provided in the financial statements.

Financial Analysis

The most significant events affecting the comparability of First 5 Alameda County's financial statements for the year ended June 30, 2007 to the prior year are highlighted below.

Funds for the monthly allocation of Proposition 10 Tobacco Tax decreased from $18,711,926 in 2005-06 to $17,544,812 in 2006-07, a difference of $1,167,114, or 6.2%. The revenue decline was anticipated, though this year's decline was larger than anticipated. Tobacco taxes are allocated to counties proportional to the number of births in each county. In addition to birth rate, Tobacco tax allocations are affected by a variety of factors including statewide tobacco sales, tax collection methods, and the birth rate changes in the other counties.

Funds from Grants increased from $2,202,644 in 2005-06 to $2,664,418 in 2006-07 due primarily to the receipt of additional CARES funding that was earned in 2005-06 but received after the availability period.

Funds from federal Fiscal Leveraging decreased from $1,808,007 in 2005-06 to $1,309,499 in 2006-07 as partner agencies assumed responsibility for their leveraging activities, consistent with First 5 Alameda County's goals of increasing program sustainability and systems change.

Fiscal year 2006-07 is the first full year of investment of funds of approximately $35,000,000 outside of the Alameda County Treasury's investment pool. The Investment Earnings increased from $892,468 in 2005-06 to $2,568,328 in 2006-07.

Salaries and benefits increased from $4,809,876 in 2005-06 to $5,457,606 in 2006-07 because numerous vacant positions were filled. In addition, there were increases in the employer share of medical and dental benefit costs. Finally, there was a 3% Cost of Living Adjustment approved in January 2007.

Statement of Net Assets

The net assets of First 5 Alameda County decreased by ($58,875) from the prior year. The composition of net assets as of June 30, 2007 and 2006 is shown in the following table:

	FY 07	FY 06	CHANGE POSITIVE (NEGATIVE)
Cash and Investments	$ 51,812,811	$ 49,984,010	$ 1,828,801
Receivables	3,688,055	5,093,516	(1,405,461)
Prepaid Expenses	11,361	24,501	(13,140)
Capital Assets	23,483	26,568	(3,085)
Total Assets	55,535,710	55,128,595	407,115
Accrued Payroll and Other Benefits	482,023	501,599	19,576
Other Accrued Liabilities	1,245,074	711,175	(533,899)
Deferred Revenue	0	48,333	48,333
Total Liabilities	1,727,097	1,261,107	(465,990)
Net Assets	$ 53,808,613	$ 53,867,488	$ (58,875)

The increase in the First 5 Alameda County's Cash and Investments was a result of the excess of revenues over expenditures.

The decrease in Receivables is a result of the decrease in the monthly tobacco tax allocation, resulting in a decrease in the amount of the May and June allocation receivable, and a large decrease in Other Receivables as compared to the prior year.

The increase in Other Accrued Liabilities is the result of a smaller than usual number of accrued payments in 2005-06. The amount for 2006-07 is typical and is comprised of payments from contractors that bill on a quarterly basis.

Statement of Revenues, Expenses and Changes in Net Assets

During the year ended June 30, 2007, First 5 Alameda County's net assets decreased $58,875 from the prior year. This change in net assets is shown in the following table:

	FY 07	FY 06	CHANGE POSITIVE (NEGATIVE)
Total Program Revenues	$ 2,734,987	$ 3,861,606	$ (1,126,619)
Total Program Expenses	24,579,282	23,552,539	(1,026,743)
Program Loss	(21,844,295)	(19,690,933)	(2,153,362)
General Revenues	21,785,420	21,537,518	247,902
Change in Net Assets	(58,875)	1,846,585	(1,905,460)
Net Assets, Beginning of Year	53,867,488	52,020,903	1,846,585
Net Assets, End of Year	$ 53,808,613	$ 53,867,488	$ (58,875)

Total Program Revenues refer to revenues that are restricted for specific program use, such as CARES funding. The 2006-07 Total Program Expenses increased by $1,026,743 from the prior year. This can be primarily attributed to the award of 44 grants totaling $835,000, on a one time only basis, to 0-5 providers for capital improvement and information technology enhancements.

Total General Revenues were similar in the current and prior fiscal years. These include the Tobacco Tax funding and other unrestricted funds.

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:

- A significant portion of total assets, over 90%, are in Cash and Investments. First 5 Alameda County employs money managers to assist with investment portfolio management. It is important to note that the current market volatility due to weakening of the subprime mortgage market may have an effect on future investment earnings.
- Fiscal leveraging funds are projected to decline in 2007-08 as partner agencies assume responsibility for their leveraging activities, consistent with First 5 Alameda County's goals of increasing program sustainability and systems change. In addition, a portion of funds for 2006-07 activities was received in 2006-07, which will decrease the revenue in 2007-08.

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:

Rebecca Gebhart
Director, Finance & Administration
First 5 Alameda County
1100 San Leandro Blvd. Suite 120
San Leandro, CA 94577

First 5 Alameda County
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and Investments	$ 51,812,811
Tobacco Taxes Receivable	2,972,278
Interest Receivable	389,989
Other Receivables	325,788
Prepaid Expenses	11,361
Capital Assets - Net	23,483
Total Assets	55,535,710
Liabilities	
Accrued Payroll	151,487
Accrued Vacation	274,863
Employee Benefits Payable	55,673
Accounts Payable and Accrued Liabilities	1,245,074
Total Liabilities	1,727,097
Net Assets	
Invested in Capital Assets	23,483
Unrestricted	53,785,130
Total Net Assets	$ 53,808,613

See accompanying notes to the basic financial statements.

First 5 Alameda County
Statement of Activities
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expenses)
Governmental Activities			
Family Support Services	$ 9,455,783	1,100,588	$ (8,355,195)
Early Childhood Education	6,983,920	1,369,736	(5,614,184)
Community Grants	3,811,263	72,063	(3,739,200)
Support Strategies	2,209,646	65,762	(2,143,884)
Evaluation & Technical Support	1,455,596	95,147	(1,360,449)
Administration	663,074	31,691	(631,383)
Total	$ 24,579,282	2,734,987	(21,844,295)
General Revenues:			
Tobacco Tax			17,447,995
Investment Earnings			2,568,328
School Readiness			1,696,494
State First 5 Grants			22,531
Miscellaneous			50,072
Total General Revenues			21,785,420
Change in Net Assets			(58,875)
Net Assets, July 1, 2006			53,867,488
Net Assets, June 30, 2007			$ 53,808,613

See accompanying notes to the basic financial statements.

First 5 Alameda County
Balance Sheet
June 30, 2007

Assets		
Cash and Investments	$	51,812,811
Tobacco Taxes Receivable		2,972,278
Interest Receivable		389,989
Other Receivable		325,788
Prepaid Expenses		11,361
Total Assets	$	55,512,227
Liabilities		
Accrued Payroll	$	151,487
Accrued Vacation		274,863
Employee Benefits Payable		55,673
Accounts Payable and Accrued Liabilities		1,245,074
Total Liabilities		1,727,097
Fund Balance		
Reserved for:		
Encumbrances		4,852,948
Obligations		23,640,066
Unreserved:		
Designated for Local Initiatives & Program Sustainability		17,892,116
Undesignated		7,400,000
Total Fund Balances		53,785,130
Total Liabilities and Fund Balance	$	55,512,227

See accompanying notes to the basic financial statements.

First 5 Alameda County
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2007

Total Governmental Fund Balance	$	53,785,130
Amounts reported in governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.		23,483
Net Assets of Governmental Activities	$	53,808,613

See accompanying notes to the basic financial statements.

First 5 Alameda County
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2007

Revenues:	
Prop 10 Tobacco Tax	$ 17,544,812
Interagency Income	1,086,789
Grants:	
State	2,638,721
Private	25,697
Sub-total	2,664,418
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	467,638
Targeted Case Management (TCM)	465,012
Title IV-E Pre-Placement Prevention Services	376,849
Sub-total	1,309,499
Investment Income	2,568,328
Miscellaneous Income	50,072
Total Revenues	25,223,918
Expenditures:	
Personnel:	
Salaries	3,113,102
Benefits	1,162,090
Sub-total	4,275,192
Service Delivery Personnel:	
Salaries	797,679
Benefits	384,735
Sub-total	1,182,414
Program Contracts/Grants/MOUs:	
Contracts	12,960,786
Grants	3,218,074
Child Dev Corps Stipends	609,130
Professional Services Contracts	272,764
Training Stipends	202,759
Sub-total	17,263,513
Training Expenses:	
Copy/Printing	50,448
Equipment	4,735
Food/Hospitality	82,842
Honoraria	64,750
Postage	14,626
Professional Services	50,439
Space Rental	2,799
Supplies	220,778
Travel	17,908
Staff Development/Training	56,094
Sub-total	565,419
General Expenses:	
Communications	37,048
Copying/Printing	11,626
Equipment Leases/Rentals/Maintenance	32,207
Equipment Purchase	108,052
Insurance	89,864
Membership and Dues	8,551
Postage	2,767
Professional Services	343,097
Space Rental	561,732
Supplies	86,331
Travel	3,163
Sub-total	1,284,438
Capital Outlay	5,220
Total Expenditures	24,576,196
Excess of Revenues over Expenditures	647,722
Fund Balance, Beginning of Year	53,137,408
Fund Balance, End of Year	$ 53,785,130

See accompanying notes to the basic 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, 2007

Net Change in Governmental Fund Balance	$	647,722
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.		(3,085)
Some payments received increase the fund balance because they provide current financial resources. However, in the government-wide financial statements, the cash inflows result in a decrease to the receivables.		(703,512)
Change in Net Assets of Governmental Activities	$	(58,875)

See accompanying notes to the basic financial statements.

First 5 Alameda County
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
Year Ended June 30, 2007

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget-Positive (Negative)
Revenues:				
Prop 10 Tobacco Tax	$ 18,091,108	17,580,758	17,544,812	(35,946)
Sustainability Fund	4,111,528	4,870,478	—	(4,870,478)
Interagency Income	927,141	927,141	1,086,789	159,648
Grants:				
State	2,524,592	2,524,592	2,638,721	114,129
Private	—	8,000	25,697	17,697
Sub-total	2,524,592	2,532,592	2,664,418	131,826
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	400,000	400,000	467,638	67,638
Targeted Case Management (TCM)	225,000	225,000	465,012	240,012
Title IV-E Pre-Placement Prevention Services	100,000	100,000	376,849	276,849
Sub-total	725,000	725,000	1,309,499	584,499
Investment Earnings	800,000	800,000	2,568,328	1,768,328
Miscellaneous Income	—	—	50,072	50,072
Total Revenues	27,179,369	27,435,969	25,223,918	(2,212,051)
Expenditures				
Personnel:				
Salaries	3,052,303	3,123,519	3,113,102	10,417
Service Delivery Personnel	1,121,141	1,121,141	797,679	323,462
Benefits	1,794,581	1,825,203	1,546,825	278,378
Sub-total	5,968,025	6,069,863	5,457,606	612,257
Program Contracts/Grants/MOUs:				
Contracts	13,894,014	13,479,994	12,960,786	519,208
Grants	4,464,018	5,044,018	4,029,963	1,014,055
Professional Services Contracts	996,331	976,331	272,764	703,567
Sub-total	19,354,363	19,500,343	17,263,513	2,236,830
Training Expenses:				
Copy/Printing	105,430	99,930	50,448	49,482
Equipment	8,700	8,700	4,735	3,965
Food/Hospitality	82,800	86,300	82,842	3,458
Honoraria	105,370	128,870	64,750	64,120
Postage	24,155	22,655	14,626	8,029
Professional Services	48,700	53,700	50,439	3,261
Space Rental	15,500	15,500	2,799	12,701
Supplies	338,900	338,900	220,778	118,122
Travel	35,500	42,500	17,908	24,592
Staff Development/Training	63,000	63,000	56,094	6,906
Sub-total	828,055	860,055	565,419	294,636
General Expenses:				
Communications	31,600	40,000	37,048	2,952
Copying/Printing	22,999	22,999	11,626	11,373
Equipment Leases/Rentals/Maintenance	40,000	40,000	32,207	7,793
Equipment Purchase	130,002	130,002	108,052	21,950
Insurance	90,000	90,000	89,864	136
Membership and Dues	15,999	15,999	8,551	7,448
Postage	5,001	5,000	2,767	2,233
Professional Services	350,969	350,969	343,097	7,872
Space Rental	543,884	543,884	561,732	(17,848)
Supplies	50,001	50,001	86,331	(36,330)
Travel	3,000	3,000	3,163	(163)
Depreciation	8,504	8,504	8,305	199
Capital Outlay	—	—	5,220	(5,220)
Sub-total	1,291,959	1,300,358	1,297,963	2,395
Total Expenditures	27,442,402	27,730,619	24,584,501	3,146,118
Excess (Deficiency) of Revenues over Expenditures	$ (263,033)	(294,650)	639,417	934,067

Excess of Revenues over Expenditures	639,417
Depreciation	8,305
GAAP Basis	647,722
Revenue Accruals	(3,688,055)
Expenditure Accruals	1,727,097
Budgetary (Cash) Basis	$ (1,313,236)

See accompanying notes to the basic financial statements.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2007

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 First 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), Medi-Cal Administrative Activities (MAA), and Title 4-E. 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 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 are 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.

NOTE 2: CASH AND INVESTMENTS

Governmental Accounting Standards Board (GASB) Statement No. 40 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, 2007:

	Investment Maturities in Years					
	Less than 1	1-5	6-10	Total Fair Value	Moody's Credit Rating	Portfolio Allocation
Cash and cash deposits:				$ 2,254,829	NA	4.4%
Investments						
Investment in County pool	$ 13,784,109	—	—	13,784,109	Not rated	26.6%
Money market mutual funds	1,138,800	—	—	1,138,800	Not rated	2.2%
U.S. Treasury obligations	6,069,870	12,094,402	—	18,164,272	Aaa	35.0%
Federal agency securities	2,603,158	5,981,736	—	8,584,894	Aaa	16.6%
Collateralized mortgage obligations	—	96,301	—	96,301	Not rated	.2%
Corporate bonds and notes	2,795,085	4,816,915	177,606	7,789,606	See below	15.0%
Total investments	26,391,022	22,989,354	177,606	49,557,982		95.6%
Total cash and investments				$ 51,812,811		100.0%

The corporate bonds and notes were rated by Moody's at June 30, 2007 as follows:

A1	$	2,198,530
A2		962,594
Aa1		757,579
Aa2		1,649,725
Aa3		1,392,156
Aaa		829,022
Total	$	7,789,606

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 arising from rising interest rates, First 5 Alameda County's investment policy limits the average portfolio maturity to three years, and the maximum maturity of any security to six years.

First 5 Alameda County's 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.

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 and (c) securities that, at the time of purchase, are rated 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 Standard and Poors 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 has $13,784,109 invested in the County of Alameda Treasurer's investment pool at June 30, 2007. The County's investment policy limits the investment maximum average maturity to two years; the weighted average maturity of the County investment pool as of June 30, 2007 was approximately one year. 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 of First 5 Alameda County's bank deposits was $2,254,829 at June 30, 2007 and the bank balance was $3,859,681. Of the bank balance, $100,000 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, 2006	Additions	June 30, 2007
Capital assets – Furniture and equipment	$ 37,178	5,220	$ 42,398
Less accumulated depreciation	(10,610)	(8,305)	(18,915)
Governmental activities capital assets, net	$ 26,568	(3,085)	$ 23,483

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.

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 audit report and December 31, 2006 financial statements may be obtained by writing to Alameda County Employees' Retirement Association, 475 14th 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, 2007, 54 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 statue 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, 2007 and 2006 were $533,073 and $479,038, respectively; and employee contributions for the years ended June 30, 2007 and 2006 were $283,654 and $259,679, respectively.

NOTE 5: COMMITMENTS AND CONTINGENT LIABILITIES

First 5 Alameda County has received funds from various Federal, state and local grant 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 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, workers' compensation, employee liability; fidelity, and property coverage. There were no settlements or claims during the year ended June 30, 2007.

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

Year ending June 30:		
2008	$	574,061
2009		591,329
2010		609,054
2011		627,277
2012		646,149
2013		551,828
Total minimum future rental payments	$	3,599,698

NOTE 6: PROGRAM EVALUATION COSTS

First 5 Alameda County spent $1,455,596 on program evaluation during year ended June 30, 2007.

First 5 Alameda County
Schedule of Revenues and Expenditures by Fund Source and Fund Balance of CCFC Funds for First 5 Programs
Year Ended June 30, 2007

		School Readiness Program		Retention Incentives (CARES)		Health Access	
		CCFC Funds	County and Other Local Funds	CCFC Funds	County and Other Local Funds	CCFC Funds	County and Other Local Funds
REVENUES							
Retention Incentives-Child Development Corps	$	—	—	276,920	1,107,679	—	—
School Readiness		1,696,494	1,696,535	—	—	—	—
Health Access for All		—	—	—	—	22,531	67,977
Total Revenues		1,696,494	1,696,535	276,920	1,107,679	22,531	67,977
EXPENDITURES - Current:							
Salaries & Employee Benefits		680,777	292,620	50,204	200,817	—	—
Contracts		621,632	987,051	117,805	471,220	22,531	67,977
Grants		375,000	314,520	—	—	—	—
Grants (for Stipends)		—	—	94,604	378,415	—	—
Professional Services Contracts		—	50,806			—	—
Training Expense		19,085	51,538	30	120	—	—
Space Rental		—	—	—	—	—	—
General		—	—	14,277	57,107	—	—
Total Expenditures		1,696,494	1,696,535	276,920	1,107,679	22,531	67,977
Excess of Revenues over Expenditures		—	—	—	—	—	—
Beginning Fund Balance		—	—	—	—	—	—
Ending Fund Balance	$	—	—	—	—	—	—

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants / Management Consultants

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*

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, 2007, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated October 5, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 that are required to be reported under *Government Auditing Standards.*

1330 Broadway, Suite 1825 • Oakland, CA 94612-2517 • (510) 893-8114 • Fax (510) 893-2603
5 Thomas Mellon Circle, Suite 104 • San Francisco, CA 94134-2501 • (415) 656-1330 Fax (415) 467-6106
www.wacllp.com

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

This report is intended solely for the information and use of the First 5 Alameda County Commission, management, First 5 California, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP
Oakland, California
October 5, 2007

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants / Management Consultants

Independent Auditors' Report on State Compliance

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, 2007, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon, dated October 5, 2007.

Our audit was conducted 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.; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the California Children and Families 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 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.

Description	Audit Guide Procedures	Procedures Performed
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict of Interest	3	Yes
County Ordinance	10	Yes
Long-range Financial Plans	2	Yes
Financial Condition of First 5	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 California Children and Families Program.

1330 Broadway, Suite 1825 • Oakland, CA 94612-2517 • (510) 893-8114 • Fax (510) 893-2603
5 Thomas Mellon Circle, Suite 104 • San Francisco, CA 94134-2501 • (415) 656-1330 Fax (415) 467-6106
www.wacllp.com

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

This report is intended solely for the information of the County Board of Supervisors, the First 5 Alameda County Commission, management, First 5 California, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

Oakland, California
October 5, 2007