
FIRST 5 ALAMEDA COUNTY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2008

**FIRST 5 ALAMEDA COUNTY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008**

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INDEPENDENT AUDITOR'S 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, 2008, 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 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 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 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 the major fund of First 5 Alameda County, as of June 30, 2008, 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 September 15, 2008, 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 on pages 3 through 8 is not a required part of the basic financial statements, but is a supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting 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 opinions on the financial statements that collectively comprise First 5 Alameda County's basic financial statements. The supplementary information in the table of contents is presented for purpose 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.

Patricia A. Ascarelli
Oakland, California
September 15, 2008

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

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, 2008. 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, 2008, First 5 Alameda County implemented the third year of programs outlined in the Every Child Counts 2005-09 Strategic Plan. Fiscal year 2007-08 was First 5 Alameda County's eighth year of program implementation.

- During 2007-08, total First 5 Alameda County revenues were \$24,885,440, a decrease of \$338,478 from the prior year. Total expenses were \$24,800,862, an increase of \$419,120 from the prior year.
- Revenues from the Proposition 10 Tobacco tax were \$16,942,725 a decrease of \$602,087 from the prior year, consistent with the projection of a declining revenue source.
- During 2007-08, \$9,074,047 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 developmental delay; and families from neighborhoods with low performing schools. Of those funds, \$6,369,875 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 2007-08, \$7,979,414 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, \$6,233,268 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 2007-08, \$3,752,160 was expended on Community Grants to expand and enhance services provided by community and public agencies to families with children age 0-5. The 2007-09 grant cycle of forty-six grants completed the first year of the grant term. Of the total amount, \$3,219,773 was awarded directly to community service providers. The remainder was expended for technical assistance to providers and compliance monitoring.
- During 2007-08, \$2,140,925 was expended for support strategies including cultural access services, expanded services to school districts to facilitate the transition to kindergarten, training, child development consultation and tobacco education. Of the total amount, \$903,188 was paid directly to providers of services. The remainder was paid for internally administered services in these program areas.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

- During 2007-08, \$1,500,383 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 oversee the completion of selected external evaluations.
- During 2007-08, \$615,933 was expended for Administration. The amount is 2.5% of the total expenses figure of \$24,800,862 and within the cap of 10% established by the First 5 Alameda County Commission.
- First 5 Alameda County works with outside money managers to maximize the investment earnings of our Children's Sustainability Fund portfolio. At the end of the first quarter of 2007-08, First 5 Alameda County terminated the contracts of the three original outside money managers and retained two new outside money managers. Earnings during the period were \$2,815,138.
- The Cash and Investments Note 2 provides a detailed summary of investment status, and is compliant with GASB 40 investment disclosure requirements.
- 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 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).

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

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Financial Analysis

The most significant events affecting the comparability of First 5 Alameda County's financial statements for the year ended June 30, 2008 to the prior year are highlighted below.

Funds for the monthly allocation of Proposition 10 Tobacco tax decreased from \$17,544,812 in 2006-07 to \$16,942,725 in 2007-08, a difference of \$602,087, or 3.4%. The revenue decline was anticipated. The average decline in Alameda County from 2001-02 through 2007-08 is 4.3% 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 the birth rate changes in the other counties.

Funds from Grants decreased from \$2,664,418 in 2006-07 to \$2,211,534 due to the receipt of additional CARES funding in 2006-07 that was earned in 2005-06 but received after the availability period.

Funds from federal Fiscal Leveraging decreased from \$1,309,499 in 2006-07 to \$957,868 in 2007-08 due to a timing issue related to the early receipt of Targeted Case Management (TCM) funds in 2006-07 which decreased the amount received in 2007-08.

Fiscal year 2007-08 is the second full year of investment of funds outside of the Alameda County Treasury's investment pool. The investments outside of the County pool have grown from a \$34,000,000 initial investment to a fair market value of \$38,227,902 as of June 30, 2008. At the end of the first quarter, the contracts with the three initial money managers were terminated and two new money managers were retained. Fees charged by money managers totaled \$60,646 in 2007-08, compared to \$140,736 in the prior year, a difference of \$80,090. The savings is a result of lower fees charged by the new money managers. Markets were volatile all year precipitated by the mortgage crisis. Investment Earnings increased from \$2,568,328 in 2006-07 to \$2,815,138 in 2007-08, an increase of \$246,810.

Salaries and benefits increased from \$5,457,606 in 2006-07 to \$6,004,285 in 2007-08 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 2008.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Statement of Net Assets

The net assets of First 5 Alameda County decreased by \$177,426 from the prior year. The composition of net assets as of June 30, 2008 and 2007 is shown in the following table:

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Change</u>
Cash and investments	\$ 49,438,414	\$ 51,812,811	\$ (2,374,397)
Receivables	6,022,220	3,688,055	2,334,165
Prepaid expenses	53,311	11,361	41,950
Fixed assets	20,751	23,483	(2,732)
	<hr/>	<hr/>	<hr/>
Total assets	55,534,696	55,535,710	(1,014)
	<hr/>	<hr/>	<hr/>
Accrued payroll	562,790	482,023	80,767
Other accrued liabilities	1,340,719	1,245,074	95,645
	<hr/>	<hr/>	<hr/>
Total liabilities	1,903,509	1,727,097	176,412
	<hr/>	<hr/>	<hr/>
Net assets	\$ 53,631,187	\$ 53,808,613	\$ (177,426)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The decrease in First 5 Alameda County's Cash and Investments was a result of having a higher than typical amount of receivables as of June 30, 2008.

The increase in Receivables is a result of delays in payments by funders, most significantly the AB212 funding of approximately \$1.8 million from the Alameda County General Services Agency.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

Statement of Revenues, Expenses and Changes in Net Assets

During the year ended June 30, 2008, First 5 Alameda County's net assets decreased \$177,426 from the prior year. This change in net assets is shown in the following table:

	<u>FY 2008</u>	<u>FY 2007</u>	<u>Change</u>
Total program revenues	\$ 3,340,271	\$ 2,737,987	\$ 602,284
Total program expenses	<u>25,062,862</u>	<u>24,579,282</u>	<u>483,580</u>
Program loss	(21,722,591)	(21,844,295)	121,704
General revenues	<u>21,545,165</u>	<u>21,785,420</u>	<u>(240,255)</u>
Change in net assets	(177,426)	(58,875)	(118,551)
Net assets, beginning of year	<u>53,808,613</u>	<u>53,867,488</u>	<u>(58,875)</u>
Net assets, end of year	<u>\$ 53,631,187</u>	<u>\$ 53,808,613</u>	<u>\$ (177,426)</u>

Total Program Revenues refer to revenues that are restricted for specific program use, such as CARES funding. The 2007-08 Total Program Revenues increased by \$602,284 from the prior year. This can be primarily attributed to the receipt of a one-time augmentation to the AB212 funding for training and stipends for child care providers.

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, nearly 90%, are in Cash and Investments. 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.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008**

- First 5 Alameda County is engaged in a strategic planning process to develop the 2009-13 Strategic Plan. Future spending may be affected by changes in program priorities and levels of funding.
- First 5 Alameda County receives reimbursement from two funding sources, Medi-Cal Administrative Activities (MAA) and Targeted Case Management (TCM) that originate with the federal Title XIX Medi-Cal Program. The 2007-08 funds will undergo a single audit by March 31, 2009.
- The First 5 Alameda County Commission authorized a \$3 million allocation to be made in 2008-09 for state-funded child care providers whose state contract payments are delayed by the California state budget impasse. If needed, the payments will be made as repayable grants, to be repaid within three business days within receipt of the state contract funds. The repayable grants will be administered by the Low Income Investment Fund (LIIF).

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, 2008**

Assets:

Cash and investments (Note 2)	\$ 49,438,414
Tobacco taxes receivable	2,876,600
Interest receivable	417,881
Other receivables	2,727,739
Prepaid expenses	53,311
Capital assets, net (Note 3)	<u>20,751</u>
Total assets	<u>55,534,696</u>

Liabilities:

Accrued payroll	197,668
Accrued vacation	267,914
Employee benefits payable	97,208
Accounts payable and accrued liabilities	<u>1,340,719</u>
Total liabilities	<u>1,903,509</u>

Net assets:

Invested in capital assets	20,751
Unrestricted	<u>53,610,436</u>
Total net assets	<u>\$ 53,631,187</u>

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The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		Operating Grants and Contributions	Net Expenses
Governmental activities:			
Family support services	\$ 9,074,047	\$ 580,135	\$ (8,493,912)
Early childhood education	7,979,414	2,307,703	(5,671,711)
Community grants	3,752,160	173,972	(3,578,188)
Support strategies	2,140,925	94,947	(2,045,978)
Evaluation and technical support	1,500,383	126,015	(1,374,368)
Administration	<u>615,933</u>	<u>57,499</u>	<u>(558,434)</u>
Total governmental activities	\$ <u>25,062,862</u>	\$ <u>3,340,271</u>	<u>(21,722,591)</u>
General revenues:			
Tobacco tax			16,942,725
Investment earnings			2,815,138
School readiness			1,734,354
State First 5 grants			23,759
Miscellaneous			<u>29,189</u>
Total general revenues			<u>21,545,165</u>
Change in net assets			(177,426)
Net assets - beginning			<u>53,808,613</u>
Net assets - ending			\$ <u><u>53,631,187</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY
BALANCE SHEET
JUNE 30, 2008**

Assets:

Cash and investments	\$ 49,438,414
Tobacco taxes receivable	2,876,600
Interest receivable	417,881
Other receivable	2,727,739
Prepaid expenses	<u>53,311</u>
 Total assets	 \$ <u><u>55,513,945</u></u>

Liabilities:

Accrued payroll	\$ 197,668
Employee benefits payable	97,208
Accounts payable and accrued liabilities	<u>1,340,719</u>
 Total liabilities	 <u>1,635,595</u>

Fund balance:

Reserved for:	
Encumbrances	16,337,527
Obligations	2,161,246
Unreserved:	
Designated for local initiatives and program sustainability	28,778,177
Undesignated	<u>6,601,400</u>
 Total fund balance	 <u>53,878,350</u>
 Total liabilities and fund balance	 \$ <u><u>55,513,945</u></u>

The accompanying notes are an integral part of these financial statements

FIRST 5 ALAMEDA COUNTY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total governmental fund balance	\$ 53,878,350
Amounts reported in governmental activities in the statement of net assets are difference because:	
Accrued vacation not treated as an expenditure in governmental funds	(267,914)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	20,751
Total net assets - governmental activities	\$ <u><u>53,631,187</u></u>

The accompanying notes are an integral part of these financial statements

FIRST 5 ALAMEDA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

REVENUES:	
Prop 10 Tobacco tax	\$ 16,942,725
Interagency income	1,928,982
Grants:	
State	2,211,534
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	787,917
Targeted Case Management (TCM)	(15,012)
Title IV - E Pre-Placement Prevention Services	184,963
Sub-total	<u>957,868</u>
Investment income	2,815,138
Miscellaneous income	29,193
Total revenues	<u>24,885,440</u>
EXPENDITURES:	
Personnel:	
Salaries	3,145,849
Benefits	1,907,834
Sub-total	<u>5,053,683</u>
Service Delivery Personnel:	
Salaries	950,602
Sub-total	<u>950,602</u>
Program Contracts/Grants/MOU's:	
Contracts	12,960,551
Grants	3,146,253
Child Development Corps Stipends	709,460
Professional services contracts	121,705
Training stipends	56,920
Sub-total	<u>16,994,889</u>
Training Expenses:	
Copy/Printing	31,870
Equipment	2,154
Food/Hospitality	73,919
Honoraria	28,457
Postage	19,320
Professional services	42,181
Space rental	2,994
Supplies	362,002
Travel	21,928
Staff development/training	45,612
Su-total	<u>630,437</u>
General Expenses:	
Communications	32,503
Copying/Printing	24,993
Equipment leases/rentals/maintenance	44,088
Equipment purchase	114,360
Insurance	75,171
Membership and dues	15,271
Postage	871
Professional services	237,060
Space rental	600,178
Supplies	10,486
Travel	1,719
Sub-Total	<u>1,156,700</u>
Capital outlay	5,909
Total expenditures	<u>24,792,220</u>
Excess of revenues over expenditures	93,220
Fund balance - beginning of year	<u>53,785,130</u>
Fund balance - end of year	<u>\$ 53,878,350</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, 2008**

Net change in governmental fund balance	\$ 93,220
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.	(2,732)
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.	(267,914)
Change in net assets of governmental activities	<u>\$ (177,426)</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 -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Prop 10 Tobacco tax	\$ 17,141,300	\$ 17,141,300	\$ 16,942,725	\$ (198,575)
Sustainability fund	4,367,775	4,309,733		(4,309,733)
Interagency income	1,001,841	2,083,982	1,928,982	(155,000)
Grants:				
State	2,279,000	2,291,225	2,211,534	(79,691)
Private				
Sub-total	<u>2,279,000</u>	<u>2,291,225</u>	<u>2,211,534</u>	<u>(79,691)</u>
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	400,000	400,000	787,917	387,917
Targeted Case Management (TCM)	225,000	225,000	(15,012)	(240,012)
Title IV - E Pre-Placement Prevention Services	25,000	25,000	184,963	159,963
Sub-total	<u>650,000</u>	<u>650,000</u>	<u>957,868</u>	<u>307,868</u>
Investment income	1,678,700	1,678,700	2,815,138	1,136,438
Miscellaneous income			29,193	29,193
Total revenues	<u>27,118,616</u>	<u>28,154,940</u>	<u>24,885,440</u>	<u>(3,269,500)</u>
EXPENDITURES:				
Personnel:				
Salaries	3,550,250	3,938,974	3,145,849	793,125
Service delivery personnel	1,208,514	1,109,044	950,602	158,442
Benefits	2,046,269	2,170,647	1,907,834	262,813
Sub-total	<u>6,805,033</u>	<u>7,218,665</u>	<u>6,004,285</u>	<u>1,214,380</u>
Program Contracts/Grants/MOU's:				
Contracts	12,663,498	13,836,814	12,960,551	876,263
Grants	4,722,425	4,131,800	3,912,633	219,167
Professional services contracts	668,464	623,464	121,705	501,759
Sub-total	<u>18,054,387</u>	<u>18,592,078</u>	<u>16,994,889</u>	<u>1,597,189</u>
Training Expenses:				
Copy/Printing	111,000	113,000	31,870	81,130
Equipment	7,600	7,600	2,154	5,446
Food/Hospitality	100,950	106,450	73,919	32,531
Honoraria	92,950	95,950	28,457	67,493
Postage	25,055	25,555	19,320	6,235
Professional services	58,500	93,500	42,181	51,319
Space rental	11,000	12,500	2,994	9,506
Supplies	381,051	433,750	362,002	71,748
Travel	73,025	74,525	21,928	52,597
Staff development/training	66,300	67,300	45,612	21,688
Su-total	<u>927,431</u>	<u>1,030,130</u>	<u>630,437</u>	<u>399,693</u>
General Expenses:				
Communications	37,575	37,575	32,503	5,072
Copying/Printing	20,002	20,002	24,993	(4,991)
Equipment leases/rentals/maintenance	40,020	40,020	44,088	(4,068)
Equipment purchase	159,359	159,359	114,360	44,999
Insurance	95,997	95,997	75,171	20,826
Membership and dues	25,001	25,001	15,271	9,730
Postage	5,000	5,000	871	4,129
Professional services	345,999	345,999	237,060	108,939
Space rental	574,068	599,068	600,178	(1,110)
Supplies	52,745	10,047	10,486	(439)
Travel	4,000	4,000	1,719	2,281
Depreciation	6,999	6,999	8,642	(1,643)
Capital outlay			5,909	(5,909)
Sub-Total	<u>1,366,765</u>	<u>1,349,067</u>	<u>1,171,251</u>	<u>177,816</u>
Total expenditures	<u>27,153,616</u>	<u>28,189,940</u>	<u>24,800,862</u>	<u>3,389,078</u>
Excess/(deficiency) of revenues over expenditures	\$ <u>(35,000)</u>	\$ <u>(35,000)</u>	84,578	\$ <u>119,578</u>
			Excess of Revenues over Expenditures	84,578
			Depreciation	8,642
			GAAP Basis	\$ <u>93,220</u>

The accompanying notes are an integral part of these financial statements

FIRST 5 ALAMEDA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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), 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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.

FIRST 5 ALAMEDA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

The following is a summary of deposits and investments as of June 30, 2008:

	<u>Investment Maturities in Years</u>			Total Fair Value	Moody's Credit Rating	Portfolio Allocation
	Less than 1	1-5	6-10			
Cash and cash deposits:	\$	\$	\$	\$ <u>3,514,506</u>	Not rated	<u>7.1%</u>
Investments:						
Investment in County pool	7,696,006			7,696,006	Not rated	15.6%
Money market mutual funds	364,305			364,305	Not rated	0.7%
U.S. Treasury obligations	4,326,102	13,160,248		17,486,350	Aaa	35.4%
Federal agency securities	704,592	11,219,690		11,924,282	Aaa	24.1%
Collateralized mortgage obligations	65,427		863,304	928,731	Not rated	1.9%
Corporate bonds and notes	<u>1,802,519</u>	<u>5,721,715</u>	<u> </u>	<u>7,524,234</u>	See below	<u>15.2%</u>
Total investments	\$ <u>14,958,951</u>	\$ <u>30,101,653</u>	\$ <u>863,304</u>	<u>45,923,908</u>		<u>92.9%</u>
Total cash and investments				\$ <u>49,438,414</u>		<u>100%</u>

The corporate bonds and notes were rated by Moody's at June 30, 2008 as follows:

A1	\$ 1,812,242
A2	926,720
A3	113,935
Aa1	236,337
Aa2	982,727
Aa3	1,222,602
Aaa	<u>2,229,671</u>
	\$ <u>7,524,234</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.

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:

FIRST 5 ALAMEDA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

- 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 \$7,696,006 invested in the County of Alameda Treasurer's investment pool at June 30, 2008. 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, 2008 was approximately 11 months. Authorized investments include 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,

FIRST 5 ALAMEDA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

interest and credit risks, and securities lending transactions of the County investment pool are 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 \$3,514,506 at June 30, 2008 and the bank balance was \$5,947,734. 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:

	<u>July 1, 2007</u>	<u>Additions</u>	<u>June 30, 2008</u>
Capital assets – furniture and equipment	\$ 42,398	\$ 5,909	\$ 48,307
Less accumulated depreciation	<u>(18,915)</u>	<u>(8,641)</u>	<u>(27,556)</u>
Governmental activities capital assets, net	<u>\$ 23,483</u>	<u>\$ (2,732)</u>	<u>\$ 20,751</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.

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

FIRST 5 ALAMEDA COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2007 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, 2008, 60 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, 2008 and 2007 were \$577,789 and \$533,073, respectively; and employee contributions for the years ended June 30, 2008 and 2007 were \$315,056 and \$283,654, 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 FINANCIAL STATEMENTS
JUNE 30, 2008

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, 2008.

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:	
2009	\$ 600,877
2010	618,197
2011	627,277
2012	646,149
2013	<u>551,828</u>
 Total minimum future rental payments	 \$ <u><u>3,044,328</u></u>

NOTE 6: PROGRAM EVALUATION COSTS

First 5 Alameda County spent \$1,500,383 on program evaluation during year ended June 30, 2008.

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, 2008

	<u>School Readiness Program</u>		<u>Retention Incentives (CARES)</u>		<u>Health Access</u>	
	<u>CCFC Funds</u>	<u>County and Other Local Funds</u>	<u>CCFC Funds</u>	<u>County and Other Local Funds</u>	<u>CCFC Funds</u>	<u>County and Other Local Funds</u>
REVENUE:						
Retention Incentives - Child Development Corps	\$	\$	\$ 453,421	\$ 2,267,105	\$	\$
School Readiness	1,734,354	1,634,354				
Health Access for All					23,759	95,971
Total Revenues	<u>1,734,354</u>	<u>1,634,354</u>	<u>453,421</u>	<u>2,267,105</u>	<u>23,759</u>	<u>95,971</u>
EXPENDITURES - Current:						
Salaries and Employee Benefits	713,923	377,491				
Contracts	545,807	320,263	61,329	306,645	23,759	95,971
Grants	251,855	875,000				
Grants (for Stipends)			392,092	1,960,460		
Training Expense	25,460	61,600				
Total Expenditures	<u>1,537,045</u>	<u>1,634,354</u>	<u>453,421</u>	<u>2,267,105</u>	<u>23,759</u>	<u>95,971</u>
Excess of revenues over expenditures	197,309					
Beginning fund balance						
Ending fund balance	<u>\$ 197,309</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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, 2008, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 15, 2008. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects First 5 Alameda County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of First 5 Alameda County's financial statements that is more than inconsequential will not be prevented or detected by First 5 Alameda County's internal control.

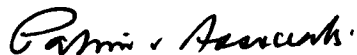
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by First 5 Alameda County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 instance of noncompliance that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the County Board of Supervisors, First 5 Alameda County Commission, others within the entity, 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.


Oakland, California
September 15, 2008

INDEPENDENT AUDITOR'S 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, 2008, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon, dated September 15, 2008.

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 First 5 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 state laws and regulations applicable to the following items:

<u>Description</u>	Audit Guide Procedures	Procedures <u>Performed</u>
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 state laws and regulations 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 state laws and regulations of the First 5 California (Children and Families) Program.

This report is intended solely for the information and use of the management, the County Board of Supervisors, the First 5 Alameda County Commission, 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.

Patricia A. Acuña

Oakland, California
September 15, 2008

**FIRST 5 ALAMEDA COUNTY
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2008**

There were no findings reported in the prior year.