

**FIRST 5 ALAMEDA COUNTY  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2005**

**FRIST 5 ALAMEDA COUNTY  
BASIC FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
JUNE 30, 2005**

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**First 5 Alameda County  
Statement of Net Assets  
June 30, 2005**

**ASSETS**

Cash and Investments (Note 2)	\$ 48,754,590
Tobacco Taxes Receivable	3,714,126
Other Receivables	1,307,183
Prepaid Expenses	22,414
Fixed Assets - Net	<u>16,647</u>
 Total Assets	 <u><u>53,814,960</u></u>

**LIABILITIES**

Accrued Payroll	134,783
Accrued Vacation	201,856
Employee Benefits Payable	52,968
Other Accrued Liabilities	1,202,154
Deferred Revenue	<u>202,296</u>
 Total Liabilities	 <u><u>1,794,057</u></u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	16,647
Reserved for:	
CARES	38,927
Unreserved (Note 5)	<u>51,965,329</u>
 Total Net Assets	 <u><u>52,020,903</u></u>
 Total Liabilities and Net Assets	 <u><u>\$ 53,814,960</u></u>

*The accompanying accountants' report and notes are an integral part of these financial statements.*

## **Independent Auditors' Report On Financial Statements**

First 5 Alameda County  
San Leandro, CA

We have audited the statement of net assets as of June 30, 2005 and statement of activities for the fiscal year ended June 30, 2005 of the First 5 Alameda County. These financial statements are the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, including those set forth in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit and reporting requirements set forth by the California Children and Families State Commission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 results of operations and changes in net assets of First 5 Alameda County for the twelve months ended June 30, 2005, in conformity with generally accepted accounting principles.

The Management's Discussion and analysis on pages 2 through 5 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of First 5 Alameda County taken as a whole. The accompanying supplementary information listed in the foregoing 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 our audit of the basic financial statements and in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Oakland, California  
September 19, 2005



**FIRST 5 ALAMEDA COUNTY**  
**Management's Discussion & Analysis**  
**For the Year Ended June 30, 2005**

This Management's Discussion & Analysis is intended to serve as a narrative overview and analysis of the financial activities of the First 5 Alameda County for the year ended June 30, 2005. The information presented here should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

**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).

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, 2005 to the prior year are highlighted below:

This is the first year that First 5 Alameda County operated independently from the County of Alameda. As a part of independence, internal systems were designed and implemented in the areas of financial accounting, payroll, human resources and risk management. Existing staff were retrained in the new systems, and one new employee was hired for Human Resources administrative support. Alameda County Charges for administrative services (\$355,000 in 2003-04) were eliminated.

Also related to independence from Alameda County was a reduction in payroll of \$2,349,241 as nursing personnel from two programs were shifted from First 5 Alameda County payroll to Alameda County. This shift was consistent with the longer range plan of integrating First 5 Alameda County-funded services into the on-going service delivery system of Alameda County, as part of an overall systems change agenda.

**FIRST 5 ALAMEDA COUNTY**  
**Management's Discussion & Analysis (Continued)**  
**For the Year Ended June 30, 2005**

**Statement of Net Assets**

The net assets of First 5 Alameda County increased by \$5,087,157 from the prior year. The composition of net assets as of June 30, 2005 and 2004, is shown in the following table:

	<u>FY05</u>	<u>FY04</u>	<u>Change</u>
Cash and Investments	\$ 48,754,590	\$ 45,485,338	\$ 3,269,252
Receivables	5,021,309	3,354,533	1,666,776
Prepaid Expenses	22,414	45,481	(23,067)
Fixed Assets	16,647	9,816	6,831
Total assets	<u>53,814,960</u>	<u>48,895,168</u>	<u>4,919,792</u>
Voucher Payable		6,525	(6,525)
Accrued Payroll	187,751	318,263	(130,512)
Accrued Vacation	201,856		201,856
Deferred Revenue	202,296	649,948	(447,652)
Long Term Payable to County		468,418	(468,418)
Other Accrued Liabilities	1,202,154	423,693	778,461
Due to Federal Agency		94,575	(94,575)
Total liabilities	<u>1,794,057</u>	<u>1,961,422</u>	<u>(167,365)</u>
Net assets	<u>\$ 52,020,903</u>	<u>\$ 46,933,746</u>	<u>\$ 5,087,157</u>

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

The \$1,666,776 increase in receivables is primarily due to the following:

- At June 30, 2005 the First 5 Alameda County had not yet collected \$875,000 of First 5 California CARES program funding.
- At June 30, 2005, the First 5 Alameda County had not yet collected \$170,000 from Tiburcio Vasquez Health Center and \$150,000 from The Perinatal Council for an advance until receipt of federal Targeted Case Management (TCM) reimbursements for services.

Total liabilities decreased by \$449,585. The Long Term Payable to Alameda County was paid in full during the year. Other accrued liabilities increased due to contracting more services.

**FIRST 5 ALAMEDA COUNTY**  
**Management's Discussion & Analysis (Continued)**  
**For the Year Ended June 30, 2005**

**Statement of Revenues, Expenses and Changes in Net Assets**

During the year ended June 30, 2005, First 5 Alameda County's net assets increased \$5,087,157 from the prior year. This change in net assets is shown in the following table:

	<u>FY 05</u>	<u>FY 04</u>	<u>Change</u>
Total Program Revenues	\$ 4,321,693	\$ 3,163,927	\$ 1,157,766
Total Program Expenses	22,249,863	23,455,756	(1,205,893)
Program Loss	(17,928,170)	(20,291,829)	2,363,659
General Revenues	23,015,327	21,797,307	1,218,020
Change in Net Assets	5,087,157	1,505,478	3,581,679
Net Assets, Beginning of Year	46,933,746	45,428,268	1,505,478
Net Assets, End of Year	<u>\$ 52,020,903</u>	<u>\$ 46,933,746</u>	<u>\$ 5,087,157</u>

A component of the change in the First 5 Alameda County's net assets is the difference between total revenues and total expenses. First 5 Alameda County receives the majority of its revenue from the State allocation of Proposition 10 funds (General Revenues). Revenues of First 5 Alameda County increased as a result of a one-time bankruptcy reimbursement (\$396,947), a revenue adjustment due to Board of Equalization error allocated to First 5 counties, and an increase in the tobacco tax allocation. Fiscal leveraging increased due to receipt of two years' of reimbursements (2002-03, 2003-04).

During fiscal year 2005, First 5 Alameda County disbursed \$22,249,410 on a projected budget of \$26,534,338. Salaries are budgeted at the top of the scale, resulting in savings. In addition, several positions were vacant for periods of time. Thirty five new grants were awarded to nonprofit and public agencies, totaling \$5,145,539, which will be distributed during 2005-06, 2006-07 and 2007-08.

**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:

It is anticipated that transfers of First 5 Alameda County funds of up to \$30,000,000 will be made from the Alameda County Treasury in 2005-06. The funds will be held in a custodial account and invested in various bond markets by qualified investment managers who have been selected through a competitive process. The goal is to increase investment earnings that will result in additional services to children aged 0-5 in Alameda County and their families.



**FIRST 5 ALAMEDA COUNTY**  
**Management's Discussion & Analysis (Continued)**  
**For the Year Ended June 30, 2005**

**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  
Finance and Administration Director  
First 5 Alameda County  
1100 San Leandro Blvd. Suite 120  
San Leandro, CA 94577

**FIRST 5 ALAMEDA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**NOTE 1: ORGANIZATION AND 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) are reported 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. Grant monies received by First 5 Alameda County prior to incurring eligible expenses are recorded as deferred revenue.

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. 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 30-day availability period for revenue recognition for all governmental fund revenues. All revenues are considered susceptible to accrual. 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.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2005**

**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 Balances - Budget and Actual (Budgetary Basis) 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. It included the creation of the Support Strategies cost center, the creation and elimination of expenditure line items relevant to independence, and a budget increase for 2003-2004 expenses paid in 2004-2005.

Encumbrance accounting is employed as an extension of the budgetary control process. Purchase orders and contracts outstanding at year end are reported as reservations of net assets and do not constitute expenses or liabilities because the commitments will be reappropriated and honored during the subsequent year.

**Capital Assets** – 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. Such assets are recorded at cost and depreciated using the straight line method over the estimated useful lives.

**Compensated Absences** – It is First 5 Alameda County’s policy to permit employees to accumulate earned but unused vacation, sick and holiday pay benefits. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as expenditure and a liability of First 5 Alameda County. Amounts not expected to be liquidated with expendable available financial resources are reported in the financial statements.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments at June 30, 2005 is composed of the following:

Union Bank of California	\$	10,303,032
Cash and investments in County pool		38,451,558
 Total	 \$	 <u>48,754,590</u>

The County pools cash from all funds, except for restricted funds, including those from First 5 Alameda County, to maximize investment yield and liquidity. All investments in the pool are carried at fair value, which is determined annually based on current market prices. Interest earned on pooled investments is allocated to the appropriate funds based on the average daily cash balance of each fund for the quarter in which the interest was earned.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2005**

Funds in the County pool are invested pursuant to investment policy established by the County Treasurer and approved by the Board of Supervisors. Authorized instruments in which the Treasurer can invest include debt issued by the County, U.S. Treasury securities, bankers acceptances, federal, state and local government securities, commercial paper, medium term notes, negotiable certificates of deposit, local agency investment fund, money market funds and mortgage backed securities. Credit risk information regarding the cash and investments held by the County Treasurer is included in the Comprehensive Annual Financial Report of Alameda County.

At fiscal year end June 30, 2005 cash balances held at Union Bank of California exceeded FDIC insured limits by \$10,203,032. Per California code (gov:53630-53638) Union Bank is required to collateralize the \$10,203,032.

**NOTE 3: 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 five participating special districts located in the County, including First 5 Alameda County, but 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, 2005 financial statements may be obtained by writing to Alameda County Employees' Retirement Association, 475 14<sup>th</sup> Street, Suite 1000, Oakland, CA 94612.

*Plan Membership.* All full-time regular First 5 Alameda County employees are required by statute to become members of ACERA. Safety membership includes employees who are in active law enforcement, probation officers and juvenile hall counselors. General membership includes all other eligible classifications. Currently, 51 First 5 Alameda County employees are members of ACERA, and all members are General members.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2005**

**NOTE 3: RETIREMENT PLAN (CONTINUED)**

*Funding Policy*

The employers and members contribute to ACERA based on rates recommended by an independent actuary and adopted by the Board of Retirement. Covered employees are required by statute to contribute toward their pensions. Member contribution rates are formulated on the basis of their 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 fiscal year ending June 30, 2005 were \$340,252 and employee contributions were \$220,624.

**NOTE 4: 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.

**NOTE 5: UNRESERVED NET ASSETS**

The Board of Commissioners has designated Unreserved net assets for future sustainability funds.

## **Supplemental Information**

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

First 5 Alameda County  
San Leandro, CA

We have audited the basic financial statements of the First 5 Alameda County, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 19, 2005. 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.

**Compliance**

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 grants, 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*.

**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 opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS* (CONTINUED)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts 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 a material weakness.

This report is intended for the information of the audit committee, management, federal, state, and local funding agencies. However, this report is a matter of public record and its distribution is not limited.

Oakland, California  
September 19, 2005