



FIRST 5 ALAMEDA COUNTY
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
Year Ended June 30, 2006

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

**FIRST 5 ALAMEDA COUNTY
Year Ended June 30, 2006**

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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, 2006, 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, 2006, 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.

As described in note 1 to the basic financial statements, First 5 Alameda County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006, 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.



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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
September 26, 2006

FIRST 5 ALAMEDA COUNTY
Management's Discussion & Analysis
For the Year Ended June 30, 2006

This Management's Discussion & Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 Alameda County for the year ended June 30, 2006. 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 ended June 30, 2006, First 5 Alameda County implemented the second year of programs outlined in the Every Child Counts 2005-09 Strategic Plan. Fiscal year 2005-06 was First 5 Alameda County's sixth full year of program implementation.

- During 2005-06, total First 5 Alameda County revenues were \$25,399,124 a decrease of \$1,937,896 from the prior year. Total expenses were \$23,552,539, an increase of \$1,302,676 from prior year.
- Revenues from the Proposition 10 tobacco tax were \$18,808,743, a decrease of \$1,141,258 from the prior year, consistent with the projection of a declining revenue source.
- During 2005-06, \$17,130,955 in grants and contracts was paid to agencies for services to children age 0-5 and their families.
- To maximize earnings from investments and thereby increase services to children, \$34,000,000 was invested outside of the Alameda County investment pool. The first report on investments was presented to the First 5 Alameda County Commission for the quarter ended March 31, 2006. Approximately \$12,000,000 continues to be invested in the Alameda County investment pool.
- As of June 30, 2006, First 5 Alameda County has an unrealized loss of \$291,802, due to a decline in the market value of the investment portfolio. The Cash and Investments Note 2 provides a detailed summary of investment status, and is compliant with GASB 40 investment disclosure requirements.

Overview of the Financial Statements

The First 5 Alameda County financial statements include the government-wide financial statements: the statements of net assets and activities; and the fund financial statements: the balance sheet, the statement of revenues, expenditures and changes in fund balance, and the statement of revenues, expenditures and changes in fund balance – budget and actual. Also included are the notes to the financial statements.

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

FIRST 5 ALAMEDA COUNTY
Management's Discussion & Analysis
For the Year Ended June 30, 2006

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, 2006 to the prior year are highlighted below.

The investment of \$34,000,000 outside of the Alameda County Treasury's investment pool is the most significant change in the First 5 Alameda County financial position. This process required the active involvement of Commissioners and staff in the passage and amendment of the Investment Policy and the competitive bid process and subsequent hire of money managers and an investment advisor. In addition, staff engaged in the development of internal controls for investments; the implementation of the subsidiary ledger for investments; development of reporting formats and frequencies compliant with the Investment Policy; and the implementation of the investment disclosures compliant with GASB 40 requirements.

In addition, personnel benefits increased from \$1,048,327 to \$1,393,158, due to a 3% increase in the Employer contribution to the Alameda County Employees' Retirement Association (ACERA) and increases in health and dental plan costs.

FIRST 5 ALAMEDA COUNTY
Management's Discussion & Analysis
For the Year Ended June 30, 2006

Statement of Net Assets

The net assets of First 5 Alameda County increased by \$1,846,585 from the prior year. The composition of net assets as of June 30, 2006 and 2005 is shown in the following table:

	<i><u>FY 06</u></i>	<i><u>FY 05</u></i>	<i><u>Change Positive (Negative)</u></i>
Cash and Investments	\$49,984,010	\$48,754,590	\$1,229,420
Receivables	5,093,516	5,021,309	72,207
Prepaid Expenses	24,501	22,414	2,087
Capital Assets	26,568	16,647	9,921
Total Assets	<u>55,128,595</u>	<u>53,814,960</u>	<u>1,313,635</u>
Accrued Payroll and Other			
Benefits	501,599	389,607	(111,992)
Other Accrued Liabilities	711,175	1,202,154	490,979
Deferred Revenue	48,333	202,296	153,963
Total Liabilities	<u>1,261,107</u>	<u>1,794,057</u>	<u>532,950</u>
Net Assets	<u>\$53,867,488</u>	<u>\$52,020,903</u>	<u>\$1,846,585</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 increase in Capital Assets is the result of the purchase of a new server and associated computer network equipment.

The increase in Accrued Payroll and Other Benefits is a result of the accrual of 100% of a pay period in 2005-06, compared to 85% of the pay period of 2004-05 and the increase in the ACERA Employer rates in 2005-06.

The decrease in Other Accrued Liabilities is the result of a larger than usual number of accrued payments in 2004-05, mainly from contractors that bill on a quarterly basis.

The decrease in Deferred Revenue is the result of recognition of revenue in 2005-06 received in advance in 2004-05.

FIRST 5 ALAMEDA COUNTY
Management's Discussion & Analysis
For the Year Ended June 30, 2006

Statement of Activities

During the year ended June 30, 2006, First 5 Alameda County's net assets increased \$1,846,585 from the prior year. This change in net assets is shown in the following table:

	<u>FY 06</u>	<u>FY 05</u>	<u>Change</u>
Total Program Revenues	\$ 3,861,606	\$ 4,321,693	\$ (460,087)
Total Program Expenses	(23,552,539)	(22,249,863)	(1,302,676)
Net Program Expenses	(19,690,933)	(17,928,170)	(1,762,763)
General Revenues	21,537,518	23,015,327	(1,477,809)
Change in Net Assets	1,846,585	5,087,157	(3,240,572)
Net Assets, Beginning of Year	52,020,903	46,933,746	5,087,157
Net Assets, End of Year	<u>\$ 53,867,488</u>	<u>\$ 52,020,903</u>	<u>\$ 1,846,585</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 decreased consistent with the projection of a declining revenue source. Fiscal leveraging decreased due to the continuing effort to shift leveraging activities from First 5 Alameda County to our partner agencies, consistent with our goal of building long term sustainability

During fiscal year 2006, First 5 Alameda County's expenses totaled \$23,552,539 on a projected budget of \$27,472,351. Salaries are budgeted at the top of the scale, resulting in savings. In addition, several positions were vacant for periods of time.

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:

- There will be a set of "one time only" grant awards made to increase infrastructure and information technology capacity of qualified organizations serving children age 0- 5 and their families. This disbursement is not expected to repeat in future years.
- Consistent with implementation of First 5 Alameda County finance policies, budget control shifts to the program level from the cost center level. Budget approval will continue to occur at the cost center level.

FIRST 5 ALAMEDA COUNTY
Management's Discussion & Analysis
For the Year Ended June 30, 2006

- The first year of a “revenue sharing” strategy will be implemented, allowing partner agencies to keep Targeted Case Management (TCM) funds leveraged above a predetermined cap. The strategy was designed to provide additional incentive to leverage funds, and all additional revenues will be dedicated to original program.
- Fiscal leveraging funds are projected to decline in 2006-07 as partner agencies assume responsibility for their leveraging activities, consistent with First 5 Alameda County’s goals of increasing program sustainability and systems change.
- First 5 Alameda County will implement controls that are designed to ensure compliance with the SB 35 and AB 109 Expanded Audit Guidelines.

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
Statement of Net Assets
June 30, 2006**

	<u>Governmental Activities</u>
Assets	
Cash and Investments	\$ 49,984,010
Tobacco Taxes Receivable	3,439,155
Interest Receivable	265,603
Other Receivables	1,388,758
Prepaid Expenses	24,501
Capital Assets - Net	26,568
Total Assets	<u>55,128,595</u>
Liabilities	
Accrued Payroll	173,981
Accrued Vacation	254,884
Employee Benefits Payable	72,734
Other Accrued Liabilities	711,175
Deferred Revenue	48,333
Total Liabilities	<u>1,261,107</u>
Net Assets	
Invested in Capital Assets	26,568
Unrestricted	53,840,920
Total Net Assets	<u><u>\$ 53,867,488</u></u>

See accompanying notes to the basic financial statements.

**First 5 Alameda County
Statement of Activities
Year Ended June 30, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expenses)</u>
Governmental Activities			
Family Support Services	\$ 8,384,956	1,594,881	\$ (6,790,075)
Early Childhood Education	7,554,958	1,974,605	(5,580,353)
Community Grants	3,390,629	61,471	(3,329,158)
Support Strategies	1,405,498	89,604	(1,315,894)
Evaluation & Technical Support Administration	1,831,475	104,329	(1,727,146)
Total	<u>985,023</u>	<u>36,716</u>	<u>(948,307)</u>
	<u>\$ 23,552,539</u>	<u>3,861,606</u>	<u>(19,690,933)</u>
General Revenues:			
Tobacco Tax			18,808,743
Investment Earnings			891,559
School Readiness			1,564,125
State First 5 Grants			250,000
Miscellaneous			23,091
Total General Revenues			<u>21,537,518</u>
Change in Net Assets			1,846,585
Net Assets, July 1, 2005			52,020,903
Net Assets, June 30, 2006			<u>\$ 53,867,488</u>

See accompanying notes to the basic financial statements.

**First 5 Alameda County
Balance Sheet
June 30, 2006**

Assets

Cash and Investments	\$ 49,984,010
Tobacco Taxes Receivable	3,342,338
Interest Receivable	265,603
Other Receivable	1,388,758
Prepaid Expenses	24,501
Total Assets	<u>\$ 55,005,210</u>

Liabilities

Accrued Payroll	\$ 173,981
Accrued Vacation	254,884
Employee Benefits Payable	72,734
Other Accrued Liabilities	711,175
Deferred Revenue	655,028
Total Liabilities	<u>1,867,802</u>

Fund Balance

Unreserved Fund Balance	<u>53,137,408</u>
Total Liabilities and Fund Balance	<u>\$ 55,005,210</u>

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, 2006**

Total Governmental Fund Balance	\$ 53,137,408
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.	26,568
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred or not reported in the fund.	<u>703,512</u>
Net Assets of Governmental Activities	<u><u>\$ 53,867,488</u></u>

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, 2006

Revenues:	
Prop 10 Tobacco Tax	\$ 18,711,926
Interagency Income	1,057,475
Grants:	
State	1,853,052
Private	349,592
Sub-total	<u>2,202,644</u>
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	416,795
Targeted Case Management (TCM)	934,242
Title IV-E Pre-Placement Prevention Services	456,970
Sub-total	<u>1,808,007</u>
Investment Earnings	<u>892,468</u>
Miscellaneous Income	<u>23,091</u>
Total Revenues	<u><u>24,695,611</u></u>
Expenditures:	
Personnel:	
Salaries	2,787,021
Benefits	1,101,863
Sub-total	<u>3,888,884</u>
Service Delivery Personnel:	
Salaries	629,697
Benefits	291,295
Sub-total	<u>920,992</u>
Program Contracts/Grants/MOUs:	
Contracts	10,863,184
Grants	3,011,477
Child Dev Corps Stipends	2,894,984
Professional Services Contracts	361,310
Sub-total	<u>17,130,955</u>
Training Expenses:	
Copy/Printing	47,139
Equipment	2,466
Food/Hospitality	49,307
Honoraria	55,675
Postage	3,171
Professional Services	91,344
Space Rental	2,177
Supplies	198,801
Travel	17,481
Staff Development/Training	50,890
Sub-total	<u>518,451</u>
General Expenses:	
Communications	47,911
Copying/Printing	29,750
Equipment Leases/Rentals/Maintenance	38,201
Equipment Purchase	43,507
Insurance	100,816
Membership and Dues	13,670
Postage	21,634
Professional Services	152,148
Space Rental	526,729
Supplies	82,446
Travel	2,483
Bad Debts	26,955
Sub-total	<u>1,086,250</u>
Capital Outlay	<u>16,927</u>
Total Expenditures	<u><u>23,562,459</u></u>
Excess of Revenues over Expenditures	1,133,152
Fund Balance, Beginning of Year	<u>52,004,256</u>
Fund Balance, End of Year	<u><u>\$ 53,137,408</u></u>

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, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Prop 10 Tobacco Tax	\$ 19,250,411	19,250,411	18,711,926	(538,485)
Sustainability Fund	1,617,222	2,312,448	—	(2,312,448)
Interagency Income	898,278	1,047,078	1,057,475	10,397
Grants:				
State	1,597,875	2,486,748	1,853,052	(633,696)
Private	—	356,000	349,592	(6,408)
Sub-total	1,597,875	2,842,748	2,202,644	(640,104)
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	400,000	400,000	416,795	16,795
Targeted Case Management (TCM)	400,000	400,000	934,242	534,242
Title IV-E Pre-Placement Prevention Services	200,000	200,000	456,970	256,970
Sub-total	1,000,000	1,000,000	1,808,007	808,007
Investment Earnings	660,000	660,000	892,468	232,468
Miscellaneous Income	—	—	23,091	23,091
Total Revenues	25,023,786	27,112,685	24,695,611	(2,417,074)
Expenditures				
Personnel:				
Salaries	2,961,963	3,055,413	2,787,021	268,392
Service Delivery Personnel	1,053,191	1,053,191	629,697	423,494
Benefits	1,606,062	1,766,700	1,393,158	373,542
Sub-total	5,621,216	5,875,304	4,809,876	1,065,428
Program Contracts/Grants/MOUs:				
Contracts	11,687,938	12,653,712	10,863,184	1,790,528
Grants	5,313,344	6,166,217	5,906,461	259,756
Professional Services Contracts	892,331	754,331	361,310	393,021
Sub-total	17,893,613	19,574,260	17,130,955	2,443,305
Training Expenses:				
Copy/Printing	89,100	89,100	47,139	41,961
Equipment	8,700	8,700	2,466	6,234
Food/Hospitality	85,600	85,600	49,307	36,293
Honoraria	75,000	75,000	55,675	19,325
Postage	22,755	22,755	3,171	19,584
Professional Services	97,200	97,200	91,344	5,856
Space Rental	28,500	28,500	2,177	26,323
Supplies	244,900	293,460	198,801	94,659
Travel	24,000	24,000	17,481	6,519
Staff Development/Training	58,700	58,700	50,890	7,810
Sub-total	734,455	783,015	518,451	264,564
General Expenses:				
Communications	30,341	50,341	47,911	2,430
Copying/Printing	40,000	40,001	29,750	10,251
Equipment Leases/Rentals/Maintenance	29,997	29,997	38,201	(8,204)
Equipment Purchase	60,000	90,000	43,507	46,493
Insurance	89,999	89,999	100,816	(10,817)
Membership and Dues	15,003	15,003	13,670	1,333
Postage	13,001	13,001	21,634	(8,633)
Professional Services	243,999	303,999	152,148	151,851
Space Rental	525,429	525,429	526,729	(1,300)
Supplies	70,002	70,002	82,446	(12,444)
Travel	5,000	5,000	2,483	2,517
Bad Debts	—	—	26,955	(26,955)
Depreciation	—	7,000	7,006	(6)
Capital Outlay	—	—	16,927	(16,927)
Sub-total	1,122,771	1,239,772	1,110,183	129,589
Total Expenditures	25,372,055	27,472,351	23,569,465	3,902,886
Excess (Deficiency) of Revenues over Expenditures	(348,269)	(359,666)	1,126,146	1,485,812
Fund Balance, Beginning of Year	348,269	359,666	—	—
Fund Balance, End of Year	\$ 0	—	1,126,146	1,485,812
Excess of Revenues over Expenditures			1,126,146	
Depreciation			7,006	
GAAP Basis			1,133,152	
Revenue Accruals			(4,996,699)	
Expenditure Accruals			1,212,774	
Budgetary (Cash) Basis			\$ (2,650,773)	

See accompanying notes to the basic financial statements.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006 (Continued)

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/>.

Implementation of New Accounting Principle – First 5 Alameda County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 40.

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. 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. 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 THE FINANCIAL STATEMENTS
Year Ended June 30, 2006 (Continued)

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

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

The following is a summary of deposits and investments as of June 30, 2006:

	Investment Maturities in Years			Total Fair Value	Moody's Credit Rating	Portfolio Allocation
	Less than 1	1-5	5-10			
Cash and cash deposits:				\$ 3,917,217	NA	7.8%
Investments						
Investment in County pool	\$ 12,110,057	—	—	12,110,057	Not rated	24.2%
Money market mutual funds	1,305,994	—	—	1,305,994	Not rated	2.6%
U.S. Treasury obligations	3,639,098	13,544,393	494,530	17,678,021	AAA	35.4%
Federal agency securities	1,281,982	6,152,502	348,359	7,782,843	AAA	15.6%
Collateralized mortgage obligations	—	126,207	—	126,207	Not rated	.3%
Corporate bonds and notes	926,882	5,879,479	257,310	7,063,671	See below	14.1%
Total investments	<u>19,264,013</u>	<u>25,702,581</u>	<u>1,100,199</u>	<u>46,066,793</u>		<u>92.2%</u>
Total cash and investments				<u>\$ 49,984,010</u>		<u>100.0%</u>

**FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006 (Continued)**

The corporate bonds and notes were rated by Moody's at June 30, 2006 as follows:

A1	\$	2,435,714
A2		948,336
A3		170,626
AA1		546,441
AA2		988,166
AA3		1,510,232
AAA		<u>464,156</u>
 Total	 \$	 <u>7,063,671</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 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

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006 (Continued)

- 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 \$12,110,057 invested in the County of Alameda Treasurer's investment pool at June 30, 2006. 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, 2006 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 \$3,917,217 at June 30, 2006 and the bank balance was \$4,975,693. 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.

**FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006 (Continued)**

Note 3: CAPITAL ASSETS

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

	<u>July 1, 2005</u>	<u>Additions</u>	<u>June 30, 2006</u>
Capital assets – Furniture and equipment	\$ 20,251	16,927	\$ 37,178
Less accumulated depreciation	<u>(3,604)</u>	<u>(7,006)</u>	<u>(10,610)</u>
Governmental activities capital assets, net	<u>\$ 16,647</u>	<u>9,921</u>	<u>\$ 26,568</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 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 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. Currently, 51 First 5 Alameda County employees are members of ACERA, and all members are General members.

**FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006**

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, 2006 and 2005 were \$479,038 and \$340,252, respectively; and employee contributions for the years ended June 30, 2006 and 2005 were \$259,679 and \$220,624, 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, 2006.

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

Year ending June 30:		
2007	\$	553,554
2008		580,480
2009		592,662
2010		609,054
2011		627,277
2012-2013		<u>1,197,977</u>
Total minimum future rental payments	\$	<u>4,161,004</u>

NOTE 6: UNRESERVED FUND BALANCE

The Board of Commissioners has designated that unreserved fund balance be used for future sustainability funds.

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, 2006

	<u>School Readiness Program</u>		<u>Retention Incentives (CARES)</u>	
	<u>CCFC Funds</u>	<u>County and Other Local Funds</u>	<u>CCFC Funds</u>	<u>County and Other Local Funds</u>
REVENUES				
Retention Incentives-Child Development Corps	\$ —	—	606,696	2,426,784
School Readiness	1,564,125	3,240,113	—	—
Total Revenues	<u>1,564,125</u>	<u>3,240,113</u>	<u>606,696</u>	<u>2,426,784</u>
EXPENDITURES - Current:				
Salaries & Employee Benefits	965,000	471,425	—	—
Contracts	412,500	1,916,469	72,650	290,600
Grants	125,000	814,642	—	—
Grants (for Stipends)	—	—	572,973	2,350,205
Training Expense	5,000	9,381	—	—
Space Rental	56,625	28,196	—	—
Total Expenditures	<u>1,564,125</u>	<u>3,240,113</u>	<u>645,623</u>	<u>2,640,805</u>
Excess of Revenues over Expenditures	<u>—</u>	<u>—</u>	<u>(38,927)</u>	<u>(214,021)</u>
Beginning Fund Balance	<u>—</u>	<u>—</u>	<u>38,927</u>	<u>214,021</u>
Ending Fund Balance	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>



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, 2006, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 26, 2006. Our report on the basic financial statements was modified to indicate that First 5 Alameda County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. 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*.



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

Williams, Adley & Company, LLP
Oakland, California
September 26, 2006