

**FIRST 5 ALAMEDA COUNTY
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2009**

 **Patel &
Associates**
Certified Public Accountant

**FIRST 5 ALAMEDA COUNTY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2009**

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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, 2009, which collectively comprise First 5 Alameda County's basic financial statements as listed in table of contents. These financial statements are the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, 2009, 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 16, 2009, 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 9 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 an opinion 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.

Palm & Associates
Oakland, California
September 16, 2009

FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009

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, 2009. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements (beginning on page 10).

FINANCIAL HIGHLIGHTS

- The assets of First 5 Alameda County exceeded its liabilities at the close of the fiscal year by \$50,130,794. Of this amount, \$50,035,289 is consisted of cash and investments and is available to meet First 5 Alameda County's ongoing operating activities.
- First 5 Alameda County's net assets decreased by \$3,500,393 during the fiscal year. This was in line with First 5 Alameda County's financial projection primarily due to the expected excess of expenditures over revenues as a result of a declining revenue source.
- During 2008-09, total First 5 Alameda County revenues were \$21,807,094, a decrease of \$3,078,345 from the prior year. Total expenses were \$25,307,487, an increase of \$244,625 from the prior year.
- Revenues from the Proposition 10 tobacco tax were \$15,938,842, a decrease of \$1,003,883 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The First 5 Alameda County financial statements include the statement of net assets, statement of activities and the statement of revenues, expenses and changes in fund balance – budget and actual. Also included are the notes to the financial statements.

The statement of net assets provides information about the financial position of First 5 Alameda County as a whole on the full accrual basis, similar to that used in the private sector. The statement of activities provides information about the First 5 Alameda County's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of First 5 Alameda County's functions/programs.

The statement of activities explains in detail the change in net assets for the year. All First 5 Alameda County's assets and liabilities are current (generally within 12 months).

The statement of revenues, expenses and changes in fund balance – budget and actual presents First 5 Alameda County's budget comparisons between the original budget and the final amended budget compared with actual resource inflows and outflows.

The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in the financial statements.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

STATEMENT OF NET ASSETS

The net assets of First 5 Alameda County decreased by \$3,500,393 from the prior year. The composition of net assets as of June 30, 2009 and 2008 is shown in the following table:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Cash and investments	\$ 50,035,289	\$ 49,438,414	\$ 596,875
Receivables	3,471,415	6,022,220	(2,550,805)
Prepaid expenses	17,240	53,311	(36,071)
Fixed assets	11,976	20,751	(8,775)
	<hr/>	<hr/>	<hr/>
Total assets	53,535,920	55,534,696	(1,998,776)
	<hr/>	<hr/>	<hr/>
Accrued payroll	208,302	562,790	(354,488)
Other accrued liabilities	3,196,824	1,340,719	1,856,105
	<hr/>	<hr/>	<hr/>
Total liabilities	3,405,126	1,903,509	1,501,617
	<hr/>	<hr/>	<hr/>
Net assets	\$ 50,130,794	\$ 53,631,187	\$ 3,500,393
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Fiscal year 2008-09 is the third 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 \$40,283,902 as of June 30, 2009. Fees charged by money managers totaled \$50,006 in 2008-09, compared to \$60,646 in the prior year, a difference of \$10,640. Recent economic indicators show that the economic recovery would slow and the unemployment rate is likely to continue to increase. This uniquely challenging economic environment may affect the future performance of the portfolio. Investment Earnings decreased from \$2,815,138 in 2007-08 to \$2,326,967 in 2008-09, a decrease of \$488,171.

The decrease in Receivables is mainly due to the timely receipt of payments by funders, most significantly the AB212 funding of approximately \$1.8 million in 2007-08 from the Alameda County General Services Agency (GSA) and approximately \$836,000 from First 5 California for the School Readiness program. In 2008-09, approximately \$1 million funding from GSA and \$700,000 from First 5 California were received before the close of the fiscal year.

The increase in Other Accrued Liabilities is the result of a smaller than typical than usual number of accrued payments in 2007-08. The amount in 2008-09 is typical and is consisted of payments from contractors that bill on a quarterly basis.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

STATEMENT OF ACTIVITIES

During the year ended June 30, 2009, First 5 Alameda County's net assets decreased \$3,500,393 from the prior year. This change in net assets is shown in the following table:

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Change</u>
Total program revenues	\$ 1,998,829	\$ 3,340,271	\$ (1,351,442)
Total program expenses	<u>25,307,487</u>	<u>25,062,862</u>	<u>244,625</u>
Program loss	(23,318,658)	(21,722,591)	(1,596,067)
General revenues	<u>19,818,265</u>	<u>21,545,165</u>	<u>(1,726,900)</u>
Change in net assets	(3,500,393)	(177,426)	(3,322,967)
Net assets, beginning of year	<u>53,631,187</u>	<u>53,808,613</u>	<u>(177,426)</u>
Net assets, end of year	<u>\$ 50,130,794</u>	<u>\$ 53,631,187</u>	<u>\$ (3,500,393)</u>

Total Program Revenues refer to revenues that are restricted for specific program use, such as MediCal Administrative Activities (MAA). The decrease in Program Revenues is primarily to the timing of receipt of the MAA revenues. In 2007-08 First 5 Alameda County received two years' worth of MAA revenues for almost \$800,000 while no revenues were received at all in 2008-09 despite the timely submission of almost \$400,000 in invoices.

The 2008-09 Total Program Expenses increased by \$244,625 from the prior year. This is due to the expansion of the Children's Screening, Assessment, Referral and Treatment (SART) program in the Support Strategies division to promote standardized developmental and social emotional screening to children identified with areas of concern in their developmental functioning.

Total General Revenues decreased by \$1,726,900. These include decreases in Tobacco Tax funding of approximately \$1 million, State School Readiness of approximately \$200,000 and Investment revenue of approximately \$500,000.

Funds for the monthly allocation of Proposition 10 Tobacco tax decreased from \$16,942,725 in 2007-08 to \$15,938,842 in 2008-09, a difference of \$1,003,883, or 5.9%. The revenue decline was anticipated. The average decline in Alameda County from 2001-02 through 2008-09 is 3% per year. Tobacco taxes are allocated to counties proportional to the number of births in each county. In addition to the Alameda County birth rate, Tobacco tax allocations are affected by a variety of factors including statewide tobacco sales, tax collection methods, and birth rate changes in the other counties.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL**

The increase in total revenues of \$1,642,234 between First 5 Alameda County’s original and final budgets was mainly due to the confirmation of the State AB212 funds from Alameda County Planning Council for stipends and training for school age child care providers.

COMPARISON OF BUDGET TO ACTUAL

The following schedule compares the revenues and expenses for the current fiscal year to budget.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Prop 10 Tobacco tax	\$ 15,772,394	\$ 15,938,842	\$ 166,448
Sustainability fund	6,592,043		(6,592,043)
Interagency income	1,422,310	1,233,752	(188,558)
Grants	2,033,307	2,067,123	33,816
Fiscal leveraging	545,000	225,000	(320,000)
Investment income	1,637,500	2,326,967	689,467
Miscellaneous income		15,411	15,411
Total revenues	<u>\$ 28,002,554</u>	<u>\$ 21,807,095</u>	<u>\$ (6,195,459)</u>
Expenditures			
Personnel	7,303,755	6,562,779	740,976
Program contracts/grants/MOUs	18,578,777	16,819,369	1,759,408
Training	1,033,295	852,045	181,250
General expenses	<u>1,121,726</u>	<u>1,022,519</u>	<u>99,207</u>
Total expenditures	<u>\$ 28,037,553</u>	<u>\$ 25,256,712</u>	<u>\$ 2,780,841</u>
(Deficiency) of revenues over expenditures	<u>\$ (34,999)</u>	<u>\$ (3,449,617)</u>	<u>\$ (3,414,618)</u>

Tobacco tax was budgeted at \$15,772,394. The projection was reduced to reflect the 2008-09 actual trend based on the first six months of revenue received. The actual receipt of revenue was \$15,938,842, which is 1% above the budget projection.

It was projected that \$6,592,043 will be needed from the Sustainability Fund. Sustainability Fund is First 5 Alameda County’s reserve fund which was set aside to cover expenditures and future costs as the expected declining tobacco tax revenue occur. Only \$3,502,634 of that allocation was needed, due to revenue being over projections and expenses being under spent. This is the second year that funds budgeted from the Sustainability Fund have actually been needed and used.

**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

In fiscal leveraging, the actual revenue for Targeted Case Management is \$225,000 after sharing revenue with a community partner. Almost \$400,000 in MAA invoices was submitted to the State Department of Health Care Services in March 2009 as required annually. No funds have been received to date.

Investment revenue was budgeted at \$1,637,500 and \$2,326,967 was reported, a difference of \$689,467 over the budget projection. See further discussion of investments on page 4.

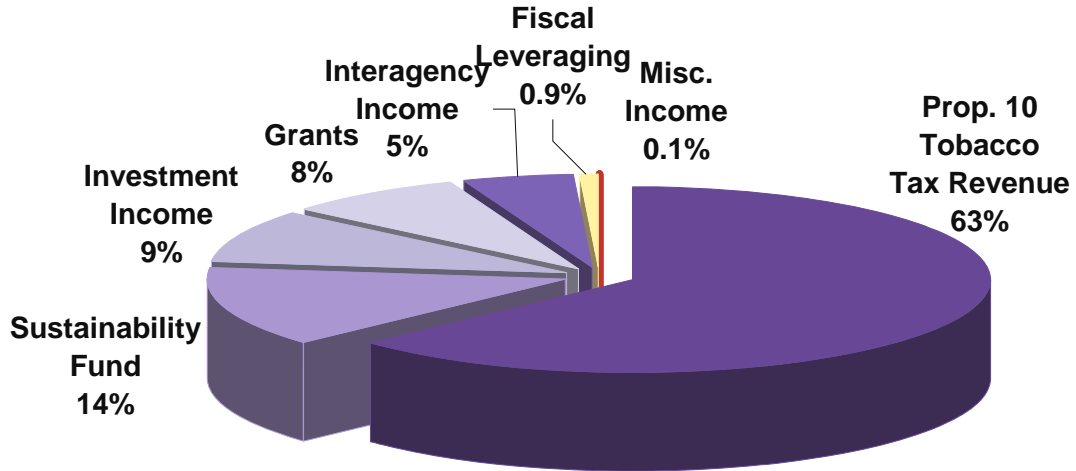
Personnel Salary and Benefits were budgeted at \$7,303,755 and actual expenses were \$6,562,779, a difference of \$740,976, or 10.1% below projections. This is primarily due to vacancies in several divisions, most notably Early Care and Education, Support Strategies and Administration.

Program Contracts/Grants/MOUs were budgeted at \$18,578,777, and actual expenses were \$16,819,369, a difference of \$1,759,408, or 9.5% below projections. The variance between budget and actual expenses are mainly due to:

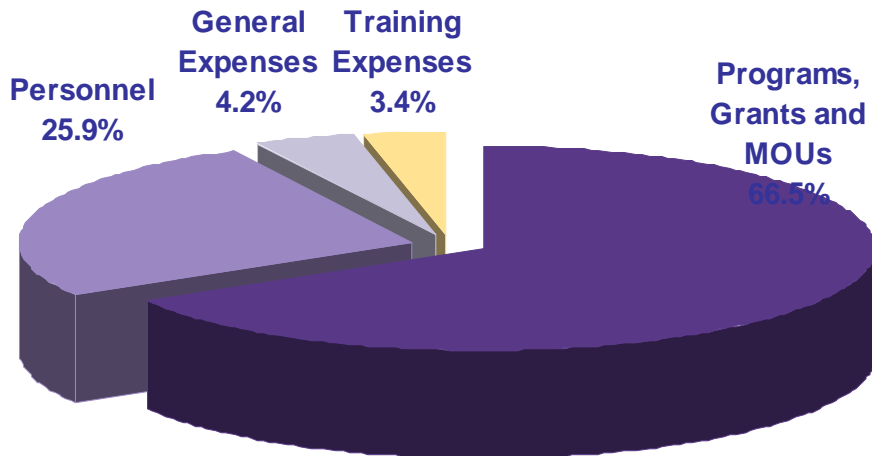
- Early Care and Education (ECE) division contracts line item being under spent by approximately \$500,000 due to staff turnover and vacancies at the community colleges, resulting in lower invoices for services and lower than anticipated Corps memberships eligible to receive National Association for the Education of Young Children memberships.
- Support Strategies division spent \$650,000 less than budget due to Alameda Alliance contract cancellation as a result of Alliance Healthy Kids Program closure, the Managed Risk Medical Insurance Board invoice paid was less than the budgeted amount from State First 5 and under spent funds for the SART Pathways database system.
- The difference of almost \$400,000 in the Community Grants division grants line item is the actual amount awarded to grantees. The budget was never revised to reflect actual awards approved by the Commission and paid to grantees.

Following are graphs of First 5 Alameda County's revenue by source and expenditures by category for 2008-09.

REVENUES BY SOURCES
2008-2009 ACTUAL REVENUES



EXPENDITURES BY CATEGORIES
2008-2009 ACTUAL EXPENDITURES



**FIRST 5 ALAMEDA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

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:

- First 5 Alameda County was engaged in a strategic planning process in 2008-09 and a new Strategic Plan was adopted for 2009-13. The 2009-13 Strategic Plan includes seven core strategies that integrate the many different services and supports focused on specific target populations and outcomes. Future spending will be affected by changes in program priorities and levels of funding as a result of a planned declining revenue stream.
- First 5 Alameda County's Prop 10 Tobacco Tax revenue budget includes a decreased tobacco tax allocation projection based on the passage of the federal tobacco tax which will fund the State Children's Health Insurance Program (SCHIP). Estimates received from First 5 California and the State Legislative Analysts' Office put the statewide projected decrease due to SCHIP at 8.16%. In addition, local First 5 agencies across the State recognize the effect of a sluggish economy on tobacco sales which may lead to declines on top of SCHIP and 2.34% was budgeted for this decline. Projected decline in Prop 10 tobacco tax revenue was 10.50%.
- An increase in Alameda County Employees' Retirement Association employer contribution rate has impacted a significant increase in First 5 Alameda County benefits expenses.
- Federal earmarks of \$400,000 and \$121,554 for the SART program and ECE division, respectively, reflect increase in grants revenue

All of the above factors were considered in preparing First 5 Alameda County's budget for fiscal year 2009-10.

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:

Patricia Zapanta
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, 2009

Assets:

Cash and investments (Note 2)	\$	50,035,289
Tobacco taxes receivable		2,781,994
Interest receivable		437,901
Other receivable		251,520
Prepaid expenses		17,240
Capital assets, net (Note 3)		<u>11,976</u>
 Total assets		 <u>53,535,920</u>

Liabilities:

Accrued payroll		208,302
Accrued vacation		318,690
Employee benefits payable		65,408
Accounts payable and accrued liabilities		<u>2,812,726</u>
 Total liabilities		 <u>3,405,126</u>

Net assets:

Invested in capital assets		11,976
Unrestricted		<u>50,118,818</u>
 Total net assets	 \$	 <u><u>50,130,794</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net Expenses</u>
Governmental activities:			
Family support services	\$ 9,985,549	\$ 591,474	\$ (9,394,075)
Early childhood education	6,629,308	1,322,655	(5,306,653)
Community grants	3,169,761		(3,169,761)
Support strategies	3,184,025		(3,184,025)
Evaluation and technical support	1,636,059	74,700	(1,561,359)
Administration	<u>702,785</u>		<u>(702,785)</u>
Total governmental activities	\$ <u>25,307,487</u>	\$ <u>1,988,829</u>	<u>(23,318,658)</u>
General revenues:			
Tobacco tax			15,938,842
Investment earnings			2,326,967
School readiness			1,537,045
Miscellaneous			<u>15,411</u>
Total general revenues			<u>19,818,265</u>
Change in net assets			(3,500,393)
Net assets - beginning			<u>53,631,187</u>
Net assets - ending			\$ <u><u>50,130,794</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY
BALANCE SHEET
JUNE 30, 2009**

Assets:

Cash and investments	\$ 50,035,289
Tobacco taxes receivable	2,781,994
Interest receivable	437,901
Other receivable	251,520
Prepaid expenses	<u>17,240</u>
Total assets	<u>\$ 53,523,944</u>

Liabilities:

Accrued payroll	\$ 208,302
Employee benefits payable	65,408
Accounts payable and accrued liabilities	<u>2,812,726</u>
Total liabilities	<u>3,086,436</u>

Fund balance:

Reserved for:	
Encumbrances	10,871,261
Obligations	5,319,994
Unreserved:	
Designated for local initiatives and program sustainability	29,004,853
Undesignated	<u>5,241,400</u>
Total fund balance	<u>50,437,508</u>
Total liabilities and fund balance	<u>\$ 53,523,944</u>

FIRST 5 ALAMEDA COUNTY
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total governmental fund balance	\$ 50,437,508
Amounts reported in governmental activities in the statement of net assets are difference because:	
Accrued vacation not treated as an expenditure in governmental funds	(318,690)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	11,976
Total net assets - governmental activities	\$ <u><u>50,130,794</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, 2009

REVENUES:

Prop 10 Tobacco tax	\$ 15,938,842
Interagency income	1,233,752
Grants:	
ECE federal funding	141,764
State	1,925,359
Fiscal leveraging:	
Targeted Case Management (TCM)	<u>225,000</u>
Sub-total	<u>225,000</u>
Investment income	2,326,967
Miscellaneous income	<u>15,411</u>
Total revenues	<u>21,807,095</u>

EXPENDITURES:

Personnel:	
Salaries	3,639,074
Benefits	<u>1,892,691</u>
Sub-total	<u>5,531,765</u>
Service delivery personnel:	
Salaries	<u>1,031,014</u>
Sub-total	<u>1,031,014</u>
Program contracts/grants/MOU's:	
Contracts	13,328,658
Grants	2,473,188
Child development corps stipends	813,200
Professional services contracts	174,326
Training stipends	<u>29,997</u>
Sub-total	<u>16,819,369</u>
Training expenses:	
Copy/printing	59,521
Equipment	846
Food/hospitality	87,843
Honoraria	74,267
Postage	16,281
Professional services	86,445
Space rental	3,391
Supplies	442,031
Travel	37,537
Staff development/training	<u>43,883</u>
Su-total	<u>852,045</u>
General expenses:	
Communications	35,121
Copying/printing	1,322
Equipment leases/rentals/maintenance	35,180
Equipment purchase	18,055
Insurance	87,046
Membership and dues	18,910
Postage	192
Professional services	221,078
Space rental	592,800
Supplies	2,083
Travel	<u>1,957</u>
Sub-total	<u>1,013,744</u>
Total expenditures	<u>25,247,937</u>
Excess of revenues over expenditures	(3,440,842)
Fund balance - beginning of year	<u>53,878,350</u>
Fund balance - end of year	<u>\$ 50,437,508</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, 2009

Net change in governmental fund balance	\$ (3,440,842)
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.	(8,775)
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(50,776)</u>
Change in net assets of governmental activities	\$ <u><u>(3,500,393)</u></u>

FIRST 5 ALAMEDA COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES:				
Prop 10 Tobacco tax	\$ 16,712,800	\$ 15,772,394	\$ 15,938,842	\$ 166,448
Sustainability fund	5,459,052	6,592,043		(6,592,043)
Interagency income	74,700	1,422,310	1,233,752	(188,558)
Grants:				
Federal	263,318	263,318	141,764	(121,554)
State	1,546,195	1,769,989	1,925,359	155,370
Sub-total	<u>1,809,513</u>	<u>2,033,307</u>	<u>2,067,123</u>	<u>33,816</u>
Fiscal leveraging:				
Medi-Cal Administrative Activities (MAA)	320,000	320,000		(320,000)
Targeted Case Management (TCM)	225,000	225,000	225,000	
Sub-total	<u>545,000</u>	<u>545,000</u>	<u>225,000</u>	<u>(320,000)</u>
Investment income	1,637,500	1,637,500	2,326,967	689,467
Miscellaneous income	121,755		15,411	15,411
Total revenues	<u>26,360,320</u>	<u>28,002,554</u>	<u>21,807,095</u>	<u>(6,195,459)</u>
EXPENDITURES:				
Personnel:				
Salaries	3,938,974	3,975,676	3,639,074	336,602
Service delivery personnel	1,174,411	1,131,845	1,031,014	100,831
Benefits	2,198,756	2,196,234	1,892,691	303,543
Sub-total	<u>7,312,141</u>	<u>7,303,755</u>	<u>6,562,779</u>	<u>740,976</u>
Program contracts/grants/MOU's:				
Contracts	12,740,004	14,305,623	13,328,658	976,965
Grants	3,799,500	3,849,500	3,316,385	533,115
Professional services contracts	423,654	423,654	174,326	249,328
Sub-total	<u>16,963,158</u>	<u>18,578,777</u>	<u>16,819,369</u>	<u>1,759,408</u>
Training expenses:				
Copy/printing	109,000	109,000	59,521	49,479
Equipment	7,350	7,350	846	6,504
Food/hospitality	112,150	112,150	87,843	24,307
Honoraria	107,500	107,500	74,267	33,233
Postage	31,355	31,355	16,281	15,074
Professional services	85,500	85,500	86,445	(945)
Space rental	15,500	15,500	3,391	12,109
Supplies	401,100	426,100	442,031	(15,931)
Travel	72,540	72,540	37,537	35,003
Staff development/training	66,300	66,300	43,883	22,417
Su-total	<u>1,008,295</u>	<u>1,033,295</u>	<u>852,045</u>	<u>181,250</u>
General expenses:				
Communications	43,399	43,399	35,121	8,278
Copying/printing	19,996	19,996	1,322	18,674
Equipment leases/rentals/maintenance	41,702	41,702	35,180	6,522
Equipment purchase	35,001	35,001	18,055	16,946
Insurance	95,001	95,001	87,046	7,955
Membership and dues	24,998	24,998	18,910	6,088
Postage	5,000	5,000	192	4,808
Professional services	242,000	252,000	221,078	30,922
Space rental	591,331	591,331	592,800	(1,469)
Supplies			2,083	(2,083)
Travel	4,000	4,000	1,957	2,043
Depreciation	9,298	9,298	8,775	523
Sub-total	<u>1,111,726</u>	<u>1,121,726</u>	<u>1,022,519</u>	<u>99,207</u>
Total expenditures	<u>26,395,320</u>	<u>28,037,553</u>	<u>25,256,712</u>	<u>2,780,841</u>
(Deficiency) of revenues over expenditures	\$ <u>(35,000)</u>	\$ <u>(34,999)</u>	<u>(3,449,617)</u>	\$ <u>(3,414,618)</u>
			(3,449,617)	
			Depreciation	8,775
			GAAP Basis	\$ <u>(3,440,842)</u>

The accompanying notes are an integral part of these financial statements

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background - First 5 Alameda County was established in accordance with California Health and Safety Code Section 130140, which was enacted as a result of the passage of the California Children and Families Act of 1998 (Proposition 10). This act levies a 50-cent tax on tobacco products, of which 80 percent of the revenues are distributed to county commissions established specifically to fund programs for the purposes of promoting, supporting, and improving the early development of children from the prenatal stage to five years of age. Information on the Commission can be found on the Internet at <http://www.ackids.org/>.

Government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all governmental activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which direct expenses of each program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Indirect expenses are allocated to programs based on the percentage of costs per program to total costs. Program revenues include grants and contributions that are restricted to meeting the operational requirements of a program. Tobacco taxes are reported as general revenues.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available within the current period or soon enough thereafter to pay liabilities of the current period. First 5 Alameda County uses a 60-day availability period for revenue recognition for all governmental fund revenues. All revenues are considered susceptible to accrual. Revenues include fiscal leveraging which consists of revenue from federal Title 19 funds for services to people who are eligible for or who receive Medi-Cal. Revenue is provided on a reimbursement basis for programs with eligible activities. Federal funding sources include Targeted Case Management (TCM), and Medi-Cal Administrative Activities (MAA). Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

When both restricted and unrestricted resources are available for use, it is First 5 Alameda County's policy to use restricted resources first.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual to provide a meaningful comparison of actual results with the budget. Budgetary control is at the cost center level. Appropriations lapse at fiscal year end. First 5 Alameda County made one budget amendment during the year.

Capital Assets – Capital assets, which consist of furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by First 5 Alameda County as assets with an initial, individual cost of more than \$5,000, and an estimated useful life of more than one year. Such assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives. The useful life for all capital assets is estimated to be 5 years.

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, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3 (March 2003)*, 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 THE FINANCIAL STATEMENTS
JUNE 30, 2009

The following is a summary of deposits and investments as of June 30, 2009:

	<u>Investment Maturities in Years</u>				
	<u>Less Than 1</u>	<u>1 – 5</u>	<u>Total Fair Value</u>	<u>Moody's Credit Rating</u>	<u>Portfolio Allocation</u>
Cash and cash deposits:	\$	\$	\$ 3,045,172	Not rated	6.1%
Investments:					
Investment in County pool	6,706,215		6,706,215	Not rated	13.4%
Money market mutual funds	1,606,401		1,606,401	Not rated	3.2%
U.S. Treasury obligations	3,445,167	5,854,696	9,299,863	Aaa	18.6%
Federal agency securities	3,454,311	20,443,535	23,897,846	Aaa	47.8%
Collateralized mortgage obligations	31,360		31,360	Not rated	0%
Corporate bonds and notes	<u>661,833</u>	<u>4,786,599</u>	<u>5,448,432</u>	See below	<u>10.9%</u>
Total investments	<u>\$ 15,905,287</u>	<u>\$ 31,084,830</u>	<u>46,990,117</u>		<u>93.9%</u>
Total cash and investments			<u>\$ 50,035,289</u>		<u>100%</u>

The corporate bonds and notes were rated by Moody's at June 30, 2009 as follows:

A1	\$	691,509
A2		478,358
A3		486,917
Aa1		167,491
Aa2		1,908,602
Aa3		172,157
Aaa		<u>1,543,398</u>
	<u>\$</u>	<u>5,448,432</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 THE FINANCIAL STATEMENTS
JUNE 30, 2009

- Collateralized mortgage obligations – Planned Amortization Classes, Level 1, collateralized only by Government National Mortgage Association obligations.
- Domestic corporate bonds and notes rated at least A by Standard and Poors (S&P) or A2 by Moody's.
- Certificates of deposit, time deposits and banker's acceptances issued by the top 20 rated domestic banks ranked by total assets, rated at least B/C by the Thomson BankWatch, A-1 by S&P, or P-1 by Moody's.
- Commercial paper rated A-1 by S&P or P-1 by Moody's.
- Repurchase agreements collateralized by U.S. Treasury or government agency securities.
- Local agency obligations rated A-1/P-1 short-term or Aa/AA long-term.

No more than 30% of the portfolio may be invested in each of the following categories of securities:

- Collateralized mortgage obligations
- Domestic corporate bonds and notes
- Negotiable certificates of deposit
- Bankers' acceptances
- Commercial paper
- Repurchase agreements
- Reverse repurchase agreements
- State of California obligations
- Local agency obligations
- Any other obligation that does not bear the full faith and credit of the U.S. government or which is not fully collateralized or insured.

No more than 70% of the total portfolio may be invested in all the foregoing instruments at any time.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. First 5 Alameda County's investment policy limits the amount that may be invested in the securities of any one issuer to five percent of the portfolio, except for securities of the U.S. Treasury.

First 5 Alameda County has \$6,706,215 invested in the County of Alameda Treasurer's investment pool at June 30, 2009. 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, 2009 was approximately 10 months. 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 are presented in the notes of the County's basic financial statements.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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 \$3,045,172 at June 30, 2009 and the bank balance was \$4,244,578. Of the bank balance, \$250,000 was federally insured and the remainder was collateralized with securities held by the pledging financial institution’s trust department in First 5 Alameda County’s name.

NOTE 3: CAPITAL ASSETS

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

		<u>July 1, 2008</u>		<u>Additions</u>		<u>June 30, 2009</u>
Capital assets – furniture and equipment	\$	48,307	\$		\$	48,307
Less accumulated depreciation		<u>(27,556)</u>		<u>(8,775)</u>		<u>(36,331)</u>
Governmental activities capital assets, net	\$	<u>20,751</u>	\$	<u>(8,775)</u>	\$	<u>11,976</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 auditor’s report and the December 31, 2008 financial statements may be obtained by writing to Alameda County Employees’ Retirement Association, 475 14th Street, Suite 1000, Oakland, CA 94612.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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, 2009 and 2008 were \$544,724 and \$577,789, respectively; and employee contributions for the years ended June 30, 2009 and 2008 were \$330,570 and \$315,056, 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 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, 2009.

FIRST 5 ALAMEDA COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2009

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:

2010	\$	618,197
2011		627,277
2012		646,149
2013		<u>551,828</u>
Total minimum future rental payments	\$	<u><u>2,443,451</u></u>

NOTE 6: PROGRAM EVALUATION COSTS

First 5 Alameda County spent \$1,636,059 on program evaluation during year ended June 30, 2009.

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, 2009

	<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>		
REVENUE:						
Retention Incentives - Child Development Corps	\$		\$	388,314	\$	1,941,570
School Readiness		1,537,045		1,537,045		
Total Revenues		<u>1,537,045</u>		<u>388,314</u>		<u>1,941,570</u>
EXPENDITURES - Current:						
Salaries and Employee Benefits		815,163		574,800		84,852
Contracts		700,000		259,363		156,600
Grants		177,691		642,882		
Grants (for Stipends)				146,862		734,311
Training Expense		41,500		60,000		
Total Expenditures		<u>1,734,354</u>		<u>1,537,045</u>		<u>388,314</u>
(Deficiency) of revenues over expenditures		(197,309)				
Beginning fund balance		<u>197,309</u>				
Ending fund balance	\$	<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, 2009, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 16, 2009. 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.

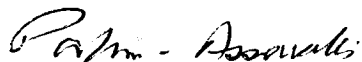
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by First 5 Alameda County's internal control.

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 16, 2009

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, 2009, which collectively comprise First 5 Alameda County’s basic financial statements and have issued our report thereon, dated September 16, 2009.

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 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>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-range Financial Plans	2	Yes
Financial Condition of First 5 Alameda County	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 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. However, this report is a matter of public record and its distribution is not limited.

Parkin Associates
Oakland, California
September 16, 2009

**FIRST 5 ALAMEDA COUNTY
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2009**

There were no findings reported in the prior year.