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**FIRST 5 ALAMEDA COUNTY**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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**FIRST 5 ALAMEDA COUNTY  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2012**

**TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets	9
Statement of Activities	10
GOVERNMENTAL FUND STATEMENTS:	
Balance Sheet	11
Reconciliation of the Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	14
Notes to the Financial Statements	15-22
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule	23
SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenditures by Fund Source and Fund Balance of CCFC Funds for First 5 Programs	24
Schedule of Expenditures of Federal Awards	25
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 <i>GOVERNMENT AUDITING STANDARDS</i>	26-27
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	28-29
INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE	30-31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	32-33
STATUS OF PRIOR YEAR FINDINGS	34

**INDEPENDENT AUDITOR'S REPORT**

Board of Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the accompanying financial statements of the governmental activities, and major fund of First 5 Alameda County, as of and for the year ended June 30, 2012, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of First 5 Alameda County as of June 30, 2012, and the respective changes in financial position 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 27, 2012, on our consideration of the 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States

of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise First 5 Alameda County's financial statements. The schedule of revenues and expenditures by fund source and fund balance of CCFC and the schedule of expenditures of federal awards, as required by office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and expenditures by fund source and fund balance of CCFC funds and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

*PricewaterhouseCoopers*  
Oakland, California  
September 27, 2012

**FIRST 5 ALAMEDA COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

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, 2012. 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 9).

**FINANCIAL HIGHLIGHTS**

- At the end of the Fiscal Year (FY) 2011-2012, First 5 Alameda County had assets of \$42.8 million and liabilities of \$3.2 million. The assets consist primarily of \$39.2 million in cash and investments. Net assets of \$39.6 million are available to meet First 5 Alameda County's ongoing operating expenses.
- During 2011-12, First 5 Alameda County revenues totaled nearly \$18 million, an increase of \$1 million over the prior year. Total expenditure was \$18.6 million, a decrease of \$5 million from the prior year.
- Revenue from the Proposition 10 tobacco tax measure was \$14.5 million, an increase of \$0.3 million over 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. Notes to the financial statements are also included.

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 divisions.

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.

**STATEMENT OF NET ASSETS**

The net assets of First 5 Alameda County increased by \$22.9 million from the prior year. The composition of net assets as of June 30, 2012 and 2011 is shown in the following table:

(All Amounts in \$000s)	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Cash and investments	\$ 39,191	\$ 39,773	\$ (582)
Receivables	3,404	4,101	(697)
Prepaid expenses	52	32	20
Capital assets	185	94	91
	<hr/>	<hr/>	<hr/>
Total assets	42,832	44,000	(1,168)
	<hr/>	<hr/>	<hr/>
Accrued payroll	165	208	(43)
Other accrued liabilities	3,010	3,495	(485)
Due to State under AB99	-0-	23,579	(23,579)
	<hr/>	<hr/>	<hr/>
Total liabilities	3,175	27,282	(24,107)
	<hr/>	<hr/>	<hr/>
Net assets	\$ 39,657	\$ 16,718	\$ 22,939
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Net Assets increased mainly because the \$23.5 million liability owed to the State of California under AB 99, was put back into fund balance from where it came. The decrease in First 5 Alameda County’s Cash and Investments was mostly as a result of the spending of Sustainability Funds as budgeted, to support operations during the fiscal year.

Fiscal year 2011-2012 is the sixth 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 million initial investment to a fair market value of \$36.5 million as of June 30, 2012. During FY 2011-2012 fees charged by money managers and custodial services totaled \$36,305, compared to \$51,055 in the prior year, a decrease of \$14,750. Recent economic indicators show that the economic recovery has slowed and that the unemployment rate is unlikely to decrease significantly. This uniquely challenging economic environment may affect the future performance of the portfolio. Investment Earnings decreased from \$679,203 in 2010-2011 to \$303,972 in 2011-2012, a decrease of \$375,231 due to the prevailing low interest rate climate and high cash position during most of the year.

Receivables primarily consist of Prop 10 tobacco taxes for May and June 2012, that were received after the end of the fiscal year. Receivables decreased because the other revenue sources came in before the end of the fiscal year and the accruals were smaller. The decrease in accrued liabilities is primarily due to the timing of payments to contractors that bill on a quarterly basis.

**STATEMENT OF ACTIVITIES**

During the year ended June 30, 2012, First 5 Alameda County’s net assets increased by \$22.9 million from the prior year. This change in net assets is shown in the following table:

(All Amounts In \$000s)	<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>
Total program revenues	\$ 3,077	\$ 2,084	\$ 993
Total program expenses	<u>18,633</u>	<u>23,674</u>	<u>(5,041)</u>
Program loss	(15,556)	(21,590)	6,034
Transfer to State AB99	23,579	(23,579)	47,158
General revenues	<u>14,916</u>	<u>14,960</u>	<u>(44)</u>
Change in net assets	22,939	(30,209)	53,148
Net assets, beginning of year	<u>16,718</u>	<u>46,927</u>	<u>(30,209)</u>
Net assets, end of year	<u>\$ 39,657</u>	<u>\$ 16,718</u>	<u>\$ 22,939</u>

Total Program Revenues refer to revenues that are restricted for specific program use, such as MediCal Administrative Activities (MAA). The increase in Program Revenues was primarily due to an increase of approximately \$496,000 in interagency income and approximately \$415,000 increase in total grant revenues. MAA revenues in FY 2011-2012 were \$737,148 and are marginally lower than the \$757,725 received in the prior year.

The 2011-2012 Total Program Expenses decreased by nearly \$5 million from the prior year. This was largely due to the reorganization in July 2011 that resulted in a decrease in personnel costs and program expenditures.

Total General Revenues decreased marginally by \$44,000. This was mainly due to lower investment income which declined by more than 50% from the prior year, as a result of the combination of low interest rates and high cash holdings set aside in the investment portfolio, to pay for the AB 99 liability. These shortcomings however were partially offset by higher than expected Tobacco Tax revenues this year. The recent trend has been an average decline of about 2.5% - 3.5% year-over-year and this trend is expected to continue for the foreseeable future. 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.

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

The Commission authorized an increase of \$745,000 to the adopted budget at mid-year, resulting in a final budget of \$21,415,000.

## COMPARISON OF BUDGET TO ACTUAL

The following table presents a budget to actuals comparison of revenues and expenditures for the current fiscal year.

(All Amounts in \$000s)	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Prop 10 Tobacco tax	\$ 14,010	\$ 14,572	\$ 562
Sustainability fund	4,091	776	(3,315)
Interagency income	1,013	1,651	638
Grants	1,101	689	(412)
Fiscal leveraging	700	737	37
Investment income	500	304	(196)
Miscellaneous income	-0-	39	39
Total revenues	<u>\$ 21,415</u>	<u>\$ 18,768</u>	<u>\$ (2,647)</u>
Expenditures			
Personnel	\$ 6,584	\$ 6,431	153
Program contracts/grants/MOUs	13,156	10,766	2,390
Operating expenses	629	435	194
General expenses	1,046	1,137	(91)
Total expenditures	<u>\$ 21,415</u>	<u>\$ 18,768</u>	<u>\$ 2,647</u>
(Deficiency) of revenues over expenditures	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The final budget anticipated a drawdown of nearly \$4 million from the Sustainability Fund for FY 2011-2012. In fact however, largely due to savings in expenditures, the actual amount used from Sustainability was much less. The Sustainability Fund is First 5 Alameda County's reserve fund which was set aside to cover expenditures and future costs as the expected decline of tobacco tax revenue occurs. In FY 2011-2012, \$23.5 million was set aside from Sustainability, to be transferred to the State of California under AB99 in June 2012. Due to a legal challenge to the law this did not occur, and the full amount was put back into the Sustainability Fund. This is the fourth year that funds budgeted from the Sustainability Fund have actually been needed and used.

Fiscal leveraging of \$737,148 reflects MAA (MediCal Administrative Activities) revenue in FY 2011-2012.

Investment revenue was budgeted at \$500,000 and \$303,972 was reported, a difference of \$196,028 under budget. See further discussion of investments on page 2.

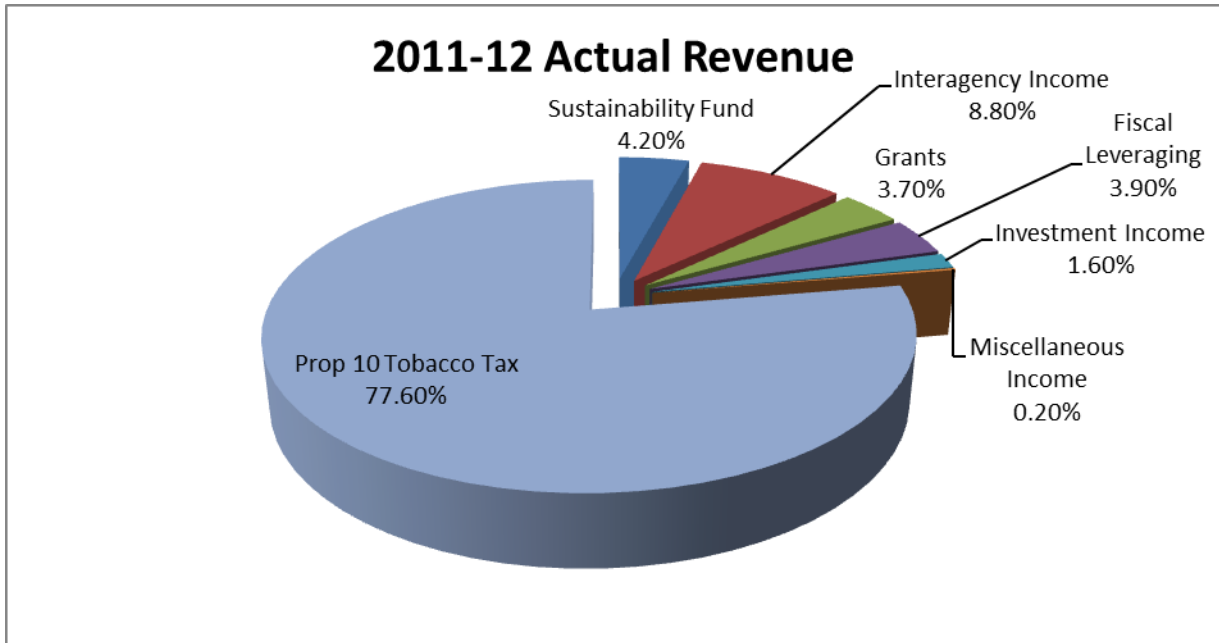
Personnel Salary and Benefits were budgeted at \$6.58 million and actual expenses were \$6.44 million, a saving of nearly \$153,000, or about 2.3 % below projections. This was primarily due to the reorganization that resulted in reduced staffing in several divisions, most notably Early Care and Education, Support Strategies and Administration.

Program Contracts/Grants/MOUs were budgeted at \$13.1 million whereas actual expenses were \$10.7 million, a difference of \$2.4 million, or 18% below projections. This was mainly due to federal grants and non-tobacco tax appropriations being under spent.

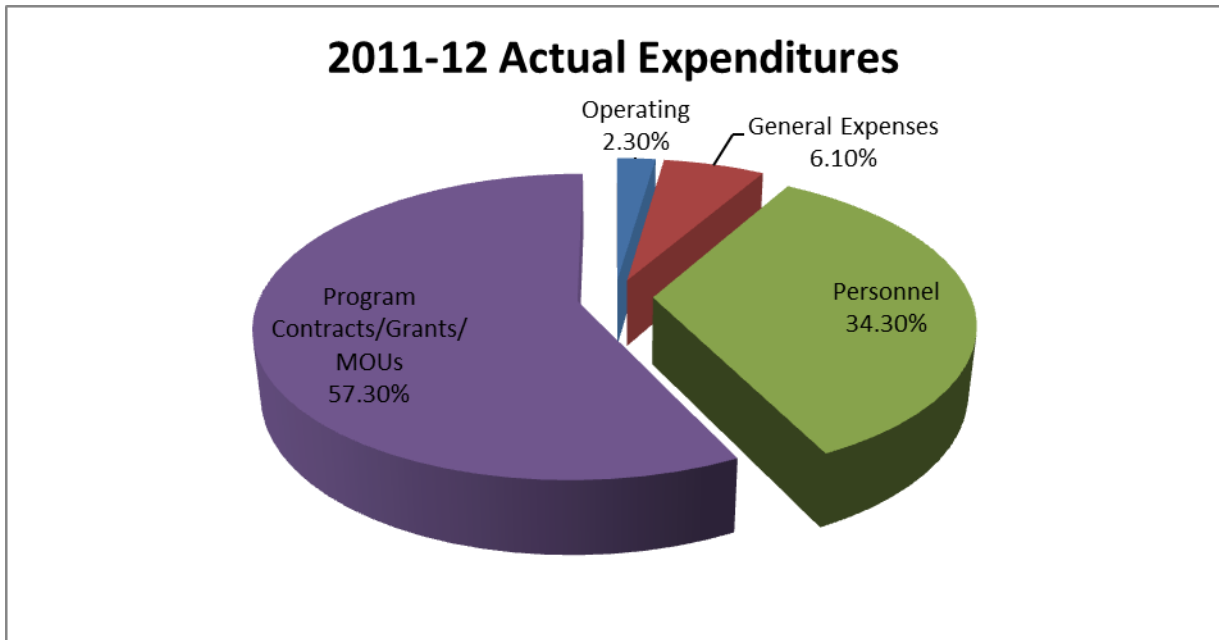
Following are graphs of First 5 Alameda County's revenue by source and expenditures by category for 2011-2012



## REVENUES BY SOURCES



## EXPENDITURES BY CATEGORIES



**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:

- The California Board of Equalization reports that overall tobacco tax revenue for fiscal year 2009-2010 declined 8.1%, the steepest drop since a decline of 11.2% in 1999-2000. This steep decline was attributable to a new \$.62 per pack of cigarette federal State Children’s Health Insurance Program (SCHIP) and the ongoing recession. FY 2010-2011 Prop 10 tobacco tax receipts for First 5 Alameda County were 2% below the FY 2009-2010 levels. The State of California Department of Finance projects tobacco tax revenues to continue to decline at an annual average rate of nearly 3.5% over the 2009-2013 time frame.
- An increase in Alameda County Employees’ Retirement Association employer contribution rate has resulted in an increase in First 5 Alameda County benefits expenses as well as continued increase in employee health insurance premiums.
- First 5 Alameda County began a four year strategic plan in July of 2009. The 2009-2013 Strategic Plan includes seven core strategies that integrate the many different services and supports focused on specific target populations and outcomes. Due to the projected decline in tobacco tax revenues, program reductions were instituted in July of 2011.
- All of the above factors were considered in preparing First 5 Alameda County’s budget for fiscal year 2012-2013.

**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:

<b>Mark Friedman</b> <b>Chief Executive Officer</b>
First 5 Alameda County 1100 San Leandro Blvd. Suite 120 San Leandro, CA 94577

**FIRST 5 ALAMEDA COUNTY  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Assets:**

Cash and investments (Note 2)	\$ 39,191,419
Tobacco taxes receivable	2,568,121
Other receivables	679,610
Interest receivable	155,862
Prepaid expenses	52,248
Capital assets, net (Note 3)	<u>185,067</u>
Total assets	<u>42,832,327</u>

**Liabilities:**

Accrued payroll	164,828
Employee benefits payable	156,234
Accrued vacation	295,939
Accounts payable and accrued liabilities	<u>2,557,874</u>
Total liabilities	<u>3,174,875</u>

**Net assets:**

Invested in capital assets	185,067
Unrestricted	<u>39,472,385</u>
Total net assets	<u>\$ 39,657,452</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net</u> <u>Expenses</u>
Governmental activities:			
Continuum of Care & Linkages	\$ 8,809,005	\$ 2,250,175	\$ (6,558,830)
Provider Capacity Building	7,480,030	656,329	(6,823,701)
Policy, Advocacy & Communications	205,994		(205,994)
Evaluation and Technology	929,715	155,789	(773,926)
Administration	<u>1,208,354</u>	<u>14,743</u>	<u>(1,193,611)</u>
Total governmental activities	<u>\$ 18,633,098</u>	<u>\$ 3,077,036</u>	<u>(15,556,062)</u>
General revenues:			
Tobacco tax			14,572,161
Investment earnings			303,972
Miscellaneous			<u>39,527</u>
Total general revenues			<u>14,915,660</u>
Change in net assets			(640,402)
Extraordinary item:			
Extinguishment of AB 99 liability			<u>23,579,000</u>
Net change in net assets			22,938,598
Net assets - beginning			<u>16,718,854</u>
Net assets - ending			<u>\$ 39,657,452</u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY  
BALANCE SHEET  
JUNE 30, 2012**

**Assets:**

Cash and investments	\$ 39,191,419
Tobacco taxes receivable	2,568,121
Interest receivable	155,862
Other receivables	679,610
Prepaid expenses	<u>52,248</u>
 Total assets	 \$ <u><u>42,647,260</u></u>

**Liabilities:**

Accrued payroll	\$ 164,828
Payroll taxes and employee benefits payable	156,234
Accounts payable and accrued liabilities	<u>2,557,874</u>
 Total liabilities	 <u>2,878,936</u>

**Fund balance:**

Nonspendable:	
Non-spendable	52,248
Committed:	
Program contracts	34,716,076
Assigned	<u>5,000,000</u>
 Total fund balance	 <u>39,768,324</u>
 Total liabilities and fund balance	 \$ <u><u>42,647,260</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 ALAMEDA COUNTY**  
**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

Total governmental fund balance	\$ 39,768,324
Amounts reported in governmental activities in the statement of net assets are different because:	
Accrued vacation not treated as an expenditure in governmental funds	(295,939)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>185,067</u>
Total net assets - governmental activities	<u>\$ 39,657,452</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, 2012**

**REVENUES:**

Prop 10 Tobacco tax	\$ 14,572,161
Interagency income	1,650,795
Grants:	
Federal	66,767
State	295,426
Private	326,900
Fiscal Leveraging:	
Medi-Cal Administrative Activities (MAA)	737,148
Investment income	303,972
Miscellaneous income	<u>39,527</u>
Total revenues	<u>17,992,696</u>

**EXPENDITURES:**

Personnel:	
Salaries	4,340,561
Benefits	<u>2,090,299</u>
Sub-total	<u>6,430,860</u>
Program Contracts/Grants/MOU's:	
Contracts	8,670,665
Grants	1,852,923
Child Development Corps Stipends	95,800
Professional services contracts	86,242
Training stipends	<u>60,061</u>
Sub-total	<u>10,765,691</u>
Training expenses:	
Copy/printing	19,008
Equipment	
Food/hospitality	32,393
Equipment rental	16,112
Honoraria	57,807
Postage	6,469
Professional services	71,322
Space rental	
Supplies	150,808
Travel	55,324
Staff development/training	13,332
Employee cell phone	<u>12,365</u>
Sub-total	<u>434,940</u>
General expenses:	
Communications	20,634
Copying/printing	17,437
Equipment leases/rentals/maintenance	3,037
Equipment purchase	35,887
Insurance	53,407
Membership and dues	20,780
Building purchase (Note 8)	117,430
Professional services	156,019
Space rental	<u>685,534</u>
Sub-total	<u>1,110,165</u>
Total expenditures	<u>18,741,656</u>
Deficiency of revenues over expenditures	(748,960)
Extraordinary item:	
Extinguishment of AB 99 liability	<u>23,579,000</u>
Net change in fund balance	22,830,040
Fund balance - beginning of year	<u>16,938,284</u>
Fund balance - end of year	<u>\$ 39,768,324</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, 2012**

Net change in governmental fund balance	\$ 22,830,040
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.	90,669
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>17,889</u>
Change in net assets of governmental activities	<u>\$ 22,938,598</u>

The accompanying notes are an integral part of these financial statements



**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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 source include 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, 2012**

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

**Fund Equity** – Following is a description of the Commission’s fund balance classifications:

- **Nonspendable** – Includes amounts that cannot be spent because they are either (a) not in spendable form (inventories, prepaid amounts, etc.) or (b) legally or contractually required to be maintained intact (such as the corpus of principal of a permanent fund).
- **Restricted** – Includes amounts with constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of First 5 Alameda County Board. Those committed amounts cannot be used for any other purpose unless First 5 Alameda County Board removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance) it employed to previously commit those amounts. First 5 Alameda County establishes grants allocation amounts for specific program and/or recipient by formal Commission Board vote.
- **Assigned** – Includes amounts First 5 Alameda County intends to be used for specific purposes that are neither restricted nor committed.

First 5 Alameda County applies restricted resources first when an expense is incurred for purposes for which both restricted and other funds are available, then First 5 Alameda County applies amounts to the committed fund balance followed by assigned and then unassigned amounts.

**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.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2: CASH AND INVESTMENTS**

The following is a summary of deposits and investments as of June 30, 2012:

	<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:	\$	\$	\$ <u>2,684,351</u>	Not rated	6.8%
Investments:					
Investment in County pool	1,113,404		1,113,404	Not rated	2.8%
Money market mutual funds	493,606		493,606	Not rated	1.3%
Commercial papers	5,296,689		5,296,689	See below	13.5%
Time deposits	315,028		315,028	P-1	0.8%
U.S. Treasury obligations	2,161,133	2,026,640	4,187,773	Aaa	10.7%
Federal agency securities	1,458,159	15,089,261	16,547,420	Aaa	42.2%
Corporate bonds and notes	<u>1,590,144</u>	<u>6,963,004</u>	<u>8,553,148</u>	See below	<u>21.9%</u>
Total investments	<u>\$12,428,163</u>	<u>\$24,078,905</u>	<u>36,507,068</u>		<u>93.2%</u>
Total cash and investments			<u>\$ 39,191,419</u>		<u>100%</u>

The commercial papers were rated by Moody's at June 30, 2012 as follows:

Aa2	\$	544,762
Aaa		499,730
P1		2,252,797
Not rated		<u>1,999,400</u>
	<u>\$</u>	<u>5,296,689</u>

The corporate bonds and notes were rated by Moody's at June 30, 2012 as follows:

A1	\$	223,300
A2		415,445
Aa-		1,452,510
Aa+		2,026,170
Aa1		258,477
Aa2		591,075
Aa3		1,098,811
Aaa		<u>2,487,360</u>
	<u>\$</u>	<u>8,553,148</u>

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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 (including notes issued by corporations under the Federal Deposit Insurance Corporation’s Temporary Liquidity Guarantee Program) and (c) securities that, at the time of purchase, are rated or collateralized 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 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.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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 \$1,113,404 invested in the County of Alameda Treasurer’s investment pool at June 30, 2012. The County’s investment policy limits the investment pool’s maximum average maturity to two years. 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. Pursuant to rules issued by Federal Deposit Insurance Corporation (FDIC) in November 2010, beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The bank balance of First 5 Alameda County’s bank deposit was \$3,346,630 at June 30, 2012, all of which was fully insured by FDIC.

**NOTE 3: CAPITAL ASSETS**

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

	<u>July 1, 2011</u>	<u>Additions</u>	<u>June 30, 2012</u>
Capital assets – furniture and equipment	\$ 166,992	\$ 117,430	\$ 284,422
Less accumulated depreciation	<u>(72,594)</u>	<u>(26,761)</u>	<u>(99,355)</u>
Governmental activities capital assets, net	<u>\$ 94,398</u>	<u>\$ 90,669</u>	<u>\$ 185,067</u>

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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, 2011 financial statements may be obtained by writing to Alameda County Employees' Retirement Association, 475 14<sup>th</sup> Street, Suite 1000, Oakland, CA 94612.

*Plan Membership.* All full-time regular First 5 Alameda County employees are required by statute to become members of ACERA. Safety membership includes employees who are in active law enforcement, probation officers and juvenile hall counselors. General membership includes all other eligible classifications. As of June 30, 2012, 62 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, 2012 and 2011 were \$664,425 and \$661,104, respectively; and employee contributions for the years ended June 30, 2012 and 2011 were \$316,963 and \$353,177, respectively.

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**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, 2012.

**NOTE 6: PROGRAM EVALUATION COSTS**

First 5 Alameda County spent \$929,715 program evaluation during year ended June 30, 2012.

**NOTE 7: LIABILITY UNDER AB99**

On January 10, 2011, with an amendment on March 14, 2011, the California Legislature enacted Assembly Bill No. 99. With this bill, the State of California established the *Children and Families Health and Human Services Fund* in the State Treasury. The bill, effective immediately, establishes a legal obligation for First 5 Alameda County to pay into this fund, by June 30, 2012, 50% of First 5 Alameda County's recorded fund balance as of June, 30, 2010. First 5 Alameda County has recorded \$23,579,000 as a liability for this legal obligation.

A lawsuit had been filed by several First 5 Commissions against the State (Children & Families Commission of Fresno County vs Brown Case No. 11CECG01077) challenging that the bill violates the intent of Proposition 10. In November 2011, Superior Court ruled in favor of the First 5 Commissions by reversing the Bill.

The Commission has removed the liability of \$23,579,000 and shown this as an extraordinary item

**FIRST 5 ALAMEDA COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 8: NEW BUILDING PURCHASE**

First 5 Alameda County leases office space under operating leases. The current lease will expire in May 2013. The Commission indicated a preference for the option of purchasing an existing building. First 5 Alameda County incurred \$117,430 of expenses for the potential purchase during the year ended June 30, 2012.

**NOTE 9: RELATED PARTY TRANSACTIONS**

The legally required composition of First 5 Alameda County includes a County Supervisor, Directors of County agencies and representatives of agencies and constituencies concerned with children. Many of the programs funded by the Commission are operated by organizations represented by Commissioners. Commissioners must abstain from voting on issues and participating in discussions directly related to their respective organizations. The following table shows those contracts awarded for the fiscal year 2011-12 to agencies represented by Commissioners:

<u>Contracts</u>	<u>Contract Amount</u>
Children’s Hospital & Research Center at Oakland	\$ 1,472,181
4Cs of Alameda County	397,174
Asian Health Services	82,000
Alameda County Health Care Services Agency	<u>1,137,304</u>
	<u>\$ 3,088,659</u>

**NOTE 10: EVALUATION OF SUBSEQUENT EVENTS**

The management of First 5 Alameda County reviewed the results of operations for the period of time from its year end June 30, 2012 through September 27, 2012, the date the financial statements were available to be issued and have determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.



**REQUIRED SUPPLEMENTARY INFORMATION**

**FIRST 5 ALAMEDA COUNTY  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Prop 10 Tobacco tax	\$ 13,510,000	\$ 14,010,000	\$ 14,572,161	\$ 562,161
Sustainability fund	3,846,262	4,091,262		(4,091,262)
Interagency income	1,013,421	1,013,421	1,650,795	637,374
Grants:				
Federal	500,000	500,000	66,767	(433,233)
State	272,000	272,000	295,426	23,426
Private	328,317	328,317	326,900	(1,417)
Sub-total	<u>1,100,317</u>	<u>1,100,317</u>	<u>689,093</u>	<u>(411,224)</u>
Fiscal Leveraging:				
Medi-Cal Administrative Activities (MAA)	<u>700,000</u>	<u>700,000</u>	<u>737,148</u>	<u>37,148</u>
Sub-total	<u>700,000</u>	<u>700,000</u>	<u>737,148</u>	<u>37,148</u>
Investment income	500,000	500,000	303,972	(196,028)
Miscellaneous income			<u>39,527</u>	<u>39,527</u>
Total revenues	<u>20,670,000</u>	<u>21,415,000</u>	<u>17,992,696</u>	<u>(3,422,304)</u>
<b>EXPENDITURES:</b>				
Personnel:				
Salaries	4,213,430	4,470,097	4,340,561	129,536
Benefits	<u>2,075,215</u>	<u>2,113,548</u>	<u>2,090,299</u>	<u>23,249</u>
Sub-total	<u>6,288,645</u>	<u>6,583,645</u>	<u>6,430,860</u>	<u>152,785</u>
Program Contracts/Grants/MOU's:				
Contracts	10,121,990	10,571,990	8,670,665	1,901,325
Grants	2,338,822	2,338,822	2,008,784	330,038
Professional services contracts	<u>245,250</u>	<u>245,250</u>	<u>86,242</u>	<u>159,008</u>
Sub-total	<u>12,706,062</u>	<u>13,156,062</u>	<u>10,765,691</u>	<u>2,390,371</u>
Training expenses:				
Copy/printing	50,300	50,300	19,008	31,292
Equipment	1,250	1,250	16,112	(14,862)
Food/Hospitality	48,950	48,950	32,393	16,557
Honoraria	61,180	61,180	57,807	3,373
Postage	12,000	12,000	6,469	5,531
Professional services	67,200	67,200	71,322	(4,122)
Space rental	3,000	3,000		3,000
Supplies	272,500	262,500	150,808	111,692
Travel	78,245	78,245	55,324	22,921
Employee cell phone	18,000	18,000	12,365	5,635
Staff development/training	<u>26,150</u>	<u>26,150</u>	<u>13,332</u>	<u>12,818</u>
Sub-total	<u>638,775</u>	<u>628,775</u>	<u>434,940</u>	<u>193,835</u>
General expenses:				
Communications	30,000	30,000	20,634	9,366
Copying/printing	30,000	30,000	17,437	12,563
Equipment leases/rentals/maintenance	3,000	3,000	3,037	(37)
Equipment purchase	36,000	36,000	35,887	113
Insurance	85,000	85,000	53,407	31,593
Membership and dues	22,000	22,000	20,780	1,220
Professional services	148,000	158,000	156,019	1,981
Space rental	660,000	660,000	685,534	(25,534)
Depreciation	<u>22,518</u>	<u>22,518</u>	<u>26,761</u>	<u>(4,243)</u>
Sub-total	<u>1,036,518</u>	<u>1,046,518</u>	<u>1,136,926</u>	<u>(90,408)</u>
Total expenditures	<u>20,670,000</u>	<u>21,415,000</u>	<u>18,768,417</u>	<u>2,646,583</u>
Excess of revenues over/(under) expenditures			(775,721)	(775,721)
Extraordinary item:				
Extinguishment of AB 99 liability			<u>23,579,000</u>	<u>23,579,000</u>
Net change in fund balance			22,803,279	22,803,279
Depreciation			<u>26,761</u>	<u>26,761</u>
Net change in fund balance - GAAP basis	<u>\$</u>	<u>\$</u>	<u>\$ 22,830,040</u>	<u>\$ 22,830,040</u>

The accompanying notes are an integral part of these financial statements

**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, 2012**

	<u>CARES PLUS</u>
	<u>CCFC Funds</u>
<b>REVENUE:</b>	
Retention Incentives - Child Development Corps	\$ <u>295,426</u>
Total revenues	<u>295,426</u>
<b>EXPENDITURES - Current:</b>	
Salaries and employee benefits	
Salaries and employee benefits	69,191
Other	<u>226,235</u>
Total expenditures	<u>295,426</u>
Excess of revenues over expenditures	
Beginning fund balance	<u>                    </u>
Ending fund balance	\$ <u><u>                    </u></u>

**FIRST 5 ALAMEDA COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012**

<b><u>Federal Grantor/ Pass-Through Grantor Program or Cluster Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Entity Identifying Number</u></b>	<b><u>Program Expenditures</u></b>
<b>Department of Health &amp; Human Services:</b>			
Direct Program:			
The Alameda County SART System (Earmark)	93.647	90XP0378/01	\$ <u>66,767</u>
Pass-Through Programs From:			
Alameda County Health Care Services Agency - Medi-Cal Administrative Activities (MAA)	93.778	08-85116	737,148
Alameda County Behavioral Health Care Services - Early Connections	93.104	C-6133	377,482
Abt Associates, Inc. Project LAUNCH Special Study	93.unknown	29001	12,650
Alameda County Public Health Department - SART Linkage Line	93.991	C-6619	142,524
Project LAUNCH	93.243	C-5196	<u>859,630</u>
Total Department of Health and Human Services			<u>2,196,201</u>
<b>Department of Education:</b>			
Pass-Through Program From:			
California Department of Education Race to the Top Early Learning Challenge	84.412	N/A	<u>46,949</u>
Total Department of Education			<u>46,949</u>
Total Expenditures of Federal Awards			\$ <u><u>2,243,150</u></u>

N/A: Not Available

Note 1. Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of First 5 Alameda County and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**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**

Board of Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the financial statements of the governmental activities, and major fund of First 5 Alameda County as of and for the year ended June 30, 2012, which collectively comprise First 5 Alameda County's basic financial statements and have issued our report thereon dated September 27, 2012. 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**

Management of First 5 Alameda County is responsible for establishing and maintaining effective 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 opinions 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 deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously.

### 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 or other matters that are 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, the County Commission, the State Commission, the State Controller's Office, federal awarding agencies and pass-through entities 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.

*Perini & Associates*  
Oakland, California  
September 27, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners  
First 5 Alameda County  
San Leandro, California

**Compliance**

We have audited First 5 Alameda County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of First 5 Alameda County's major federal programs for the year ended June 30, 2012. First 5 Alameda County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on First 5 Alameda County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about First 5 Alameda County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of First 5 Alameda County's compliance with those requirements.

In our opinion, First 5 Alameda County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



## Internal Control Over Compliance

Management of First 5 Alameda County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered First 5 Alameda County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of First 5 Alameda County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Patricia A. Andrews*

Oakland, California  
September 27, 2012

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

Board of Commissioners  
First 5 Alameda County  
San Leandro, California

We have audited the basic financial statements of First 5 Alameda County (the Commission), as of and for the year ended June 30, 2012 and have issued our report thereon dated September 27, 2012. 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. We have also audited First 5 Alameda County's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of First 5 Alameda County's management. Our responsibility is to express an opinion on First 5 Alameda County's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; 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 Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about First 5 Alameda County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of First 5 Alameda County's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the First 5 Alameda County's compliance with the 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 the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

In our opinion, First 5 Alameda County complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2012.

This report is intended solely for the information of the management, the County Board of Supervisors, the County Commission, the State Commission, 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.

*Perini & Associates*  
 Oakland, California  
 September 27, 2012

**FIRST 5 ALAMEDA COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.243	Project LAUNCH
93.104	Early Connections
93.991	SART Linkage Line

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**FIRST 5 ALAMEDA COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

*State Awards*

Internal control over state programs:

Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on State compliance:	Unqualified

**SECTION II - FINANCIAL STATEMENT FINDINGS**

There were no findings.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings.

**SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings.

**FIRST 5 ALAMEDA COUNTY  
STATUS OF PRIOR YEAR FINDINGS  
YEAR ENDED JUNE 30, 2012**

There were no findings reported in the prior year.